

NETWORK CN INC  
Form 10-Q  
November 13, 2008

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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number 000-30264

NETWORK CN INC.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

90-0370486  
(I.R.S. Employer  
Identification Number)

21/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong  
(Address of principal executive offices)

(852) 2833-2186

(Registrant's Telephone Number, Including International Code and Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

As of November 5, 2008, 71,641,608 shares of the Registrant's common stock, par value \$0.001 per share, were outstanding.



NETWORK CN INC. AND SUBSIDIARIES  
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All financial information in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 ("Quarterly Report") is in United States dollars, referred to as "U.S. Dollars" or "\$".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (“Quarterly Report”) contains forward-looking statements about our business, financial condition and prospects based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance and achievements to be materially different from or worse than our expectations. These risks, uncertainties and other factors include those listed under Part I- Item 3 “Quantitative and Qualitative Disclosure About Market Risk” and Part II - Item 1A “Risk Factors” and elsewhere in this Quarterly Report, and some of which we may not know. Forward-looking statements are all statements that concern plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact, including, but not limited to, those that are identified by the use of terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", "continue" or the negative of these terms or other comparable terminology.

Unless otherwise required by law, we assume no obligation to update or otherwise revise the forward-looking statements in this Quarterly Report, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report. You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report completely and with the understanding that future results could differ materially from those contemplated by the forward-looking statements.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

NETWORK CN INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | Note      | As of<br>September 30,<br>2008<br>(Unaudited) | As of<br>December 31,<br>2007<br>(Audited)<br>(Restated)(1) |
|---|-----------|---|---|
| <b>ASSETS</b>   |           |   |   |
| <b>Current Assets</b>   |           |   |   |
| Cash  |           | \$ 10,041,572                                 | \$ 2,233,528  |
| Accounts receivable, net  |           | 1,397,952                                     | 1,093,142   |
| Prepayments for advertising operating rights, net               | 7         | 4,971,254                                     | 13,636,178  |
| Prepaid expenses and other current assets                       |           | 6,566,043                                     | 3,101,699   |
| <b>Total Current Assets</b>                                     |           | <b>22,976,821</b>                             | <b>20,064,547</b>   |
| Equipment, Net  |           | 5,702,498                                     | 257,403   |
| Intangible Assets, Net  | 8         | 7,860,451                                     | 6,114,550   |
| Deferred Charges, Net   |           | 1,357,494                                     | 670,843   |
| <b>TOTAL ASSETS</b>   |           | <b>\$ 37,897,264</b>                          | <b>\$ 27,107,343</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                     |           |   |   |
| <b>Current Liabilities</b>                                      |           |   |   |
| Accounts payable, accrued expenses and other payables           |           | \$ 5,630,078                                  | \$ 3,490,586  |
| Current liabilities from discontinued operations                |           | 3,655   | 3,655   |
| 12% convertible promissory note, net                            | 9         | -   | 4,740,796   |
| <b>Total Current Liabilities</b>                                |           | <b>5,633,733</b>                              | <b>8,235,037</b>  |
| 3% Convertible Promissory Notes Due 2011, Net                   | 9         | 29,463,745                                    | 7,885,496   |
| <b>TOTAL LIABILITIES</b>  |           | <b>35,097,478</b>                             | <b>16,120,533</b>   |
| <b>COMMITMENTS AND CONTINGENCIES</b>                            | <b>10</b> |   |   |
| <b>MINORITY INTERESTS</b>                                       |           | <b>133,388</b>                                | <b>347,874</b>  |
| <b>STOCKHOLDERS' EQUITY</b>                                     |           |   |   |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized |           |   |   |
| None issued and outstanding                                     |           | -   | -   |
|   |           | 71,612  | 69,152  |

Common stock, \$0.001 par value,  
 800,000,000 shares authorized  
 Issued and outstanding: 71,611,608 and  
 69,151,608 as of  
 September 30, 2008 and December 31, 2007  
 respectively

|  |    |                      |                      |
|--|----|----------------------|----------------------|
| Additional paid-in capital             | 11 | 58,725,898           | 35,673,586           |
| Accumulated deficit                    |    | (57,903,100)         | (25,169,099)         |
| Accumulated other comprehensive income |    | 1,771,988            | 65,297               |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>      |    | <b>2,666,398</b>     | <b>10,638,936</b>    |
| <b>TOTAL LIABILITIES AND</b>           |    |                      |                      |
| <b>STOCKHOLDERS' EQUITY</b>            |    | <b>\$ 37,897,264</b> | <b>\$ 27,107,343</b> |

(1) See Note 4 – Restatement and Reclassification

The accompanying notes are an integral part of the condensed consolidated financial statements.

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NETWORK CN INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE  
LOSS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
(Unaudited)

|  | Note | For the Three Months ended<br>September<br>30,<br>2008 | September<br>30,<br>2007 | For the Nine Months ended<br>September<br>30,<br>2008 | September<br>30,<br>2007 |
|--|------|--|--------------------------|---|--------------------------|
| <b>REVENUES</b>  |      |  |                          |   |                          |
| Advertising services   |      | \$ 2,520,474   | \$ 466,071               | \$ 4,158,529  | \$ 96,000                |
| <b>OTHER REVENUES</b>  |      |  |                          |   |                          |
| From advertising services  |      | 5,651,467  | 350,325                  | 14,258,071  | 70,000                   |
| <b>OPERATING INCOME (LOSS) PROFIT</b>  |      |  |                          |   |                          |
|  |      | (3,130,993)  | 115,746                  | (10,099,542)  | 25,000                   |
| <b>OPERATING EXPENSES</b>  |      |  |                          |   |                          |
| Advertising and marketing  |      | 656,114  | 105,847                  | 2,120,397   | 22,000                   |
| General and administrative   |      | 4,408,534  | 3,215,893                | 9,929,559   | 8,500                    |
| Cash impairment charges  | 7    | 5,671,782  | -                        | 5,671,782   | -                        |
| Total Operating Expenses   |      | 10,736,430   | 3,321,740                | 17,721,738  | 8,720                    |
| <b>LOSS FROM OPERATIONS</b>  |      |  |                          |   |                          |
|  |      | (13,867,423)   | (3,205,994)              | (27,821,280)  | (8,460)                  |
| <b>OTHER INCOME</b>  |      |  |                          |   |                          |
| Net income   |      | 21,257   | 2,989                    | 61,412  | 1,000                    |
| Other income   |      | -  | -                        | 4   | -                        |
| Total Other Income   |      | 21,257   | 2,989                    | 61,416  | 1,000                    |
| <b>INTEREST EXPENSE</b>  |      |  |                          |   |                          |
| Amortization of deferred charges and debt discount                                   | 9    | 1,392,116  | -                        | 4,091,104   | -                        |
| Interest expense   |      | 383,334  | -                        | 1,109,125   | -                        |
| Total Interest Expense   |      | 1,775,450  | -                        | 5,200,229   | -                        |
| <b>LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS</b>                               |      |  |                          |   |                          |
|  |      | (15,621,616)   | (3,203,005)              | (32,960,093)  | (8,460)                  |
| Income taxes   |      | -  | -                        | -   | -                        |
| Minority interests   |      | 75,209   | (4,014)                  | 183,452   | -                        |
| <b>LOSS FROM CONTINUING OPERATIONS</b>   |      |  |                          |   |                          |
|  |      | (15,546,407)   | (3,207,019)              | (32,776,641)  | (8,460)                  |
| <b>DISCONTINUED OPERATIONS</b>   |      |  |                          |   |                          |
| Gain (loss) from discontinued operations, net of income taxes and minority interests | 14   | 5,956  | 3,025                    | (23,445)  | (12,000)                 |
| Gain from disposal of discontinued operations  | 14   | 66,085   | -                        | 66,085  | -                        |
| <b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>                                    |      |  |                          |   |                          |
|  |      | 72,041   | 3,025                    | 42,640  | (12,000)                 |
| <b>LOSS</b>  |      |  |                          |   |                          |
|  |      | \$ (15,474,366)  | \$ (3,203,994)           | \$ (32,734,001)                                       | \$ (8,580)               |
| <b>OTHER COMPREHENSIVE INCOME</b>  |      |  |                          |   |                          |

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|   |    |                 |                |                 |                |
|---|----|-----------------|----------------|-----------------|----------------|
| Change in currency translation gain (loss)                  |    | 78,276          | (10,517)       | 1,706,691       |                |
| COMPREHENSIVE LOSS  |    | \$ (15,396,090) | \$ (3,214,511) | \$ (31,027,310) | \$ (8,570,000) |
| <b>INCOME (LOSS) PER COMMON SHARE – BASIC AND DILUTED</b>   |    |                 |                |                 |                |
| Income per common share from continuing operations          | 13 | \$ (0.22)       | \$ (0.05)      | \$ (0.46)       | \$ (0.46)      |
| Income (loss) per common share from discontinued operations | 13 | 0.00            | 0.00           | 0.00            | 0.00           |
| Income per common share – basic and diluted                 | 13 | \$ (0.22)       | \$ (0.05)      | \$ (0.46)       | \$ (0.46)      |
| WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED     | 13 | 71,597,478      | 68,947,906     | 71,563,688      | 68,350,000     |

The accompanying notes are an integral part of the condensed consolidated financial statements.



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NETWORK CN INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
(Unaudited)

|   | For the Nine Months Ended |                          |
|---|---------------------------|--------------------------|
|   | September<br>30,<br>2008  | September<br>30,<br>2007 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  | \$                        | \$                       |
| Net loss from continuing operations   | (32,776,641)              | (8,459,050)              |
| Net income (loss) from discontinued operations  | 42,640                    | (121,869)                |
| Net loss  | (32,734,001)              | (8,580,919)              |
| <b>Adjustments to reconcile net loss to net cash used in operating activities, including discontinued operations:</b> |                           |                          |
| Depreciation and amortization:  |                           |                          |
| Equipment and intangible assets   | 1,427,317                 | 321,278                  |
| Deferred charges and debt discount  | 4,091,105                 | -                        |
| Stock-based compensation for service  | 2,476,469                 | 4,477,566                |
| Loss on disposal of equipment   | 88,340                    | -                        |
| Allowance for doubtful debt for other receivables   | 1,411,287                 | 10,716                   |
| Non-cash impairment charges   | 5,671,782                 | -                        |
| Minority interests  | (122,723)                 | 3,147                    |
| Gain from disposal of discontinued operations   | (66,085)                  | -                        |
| <b>Changes in operating assets and liabilities, net of effects from acquisitions:</b>                                 |                           |                          |
| Accounts receivable   | (1,346,591)               | (842,149)                |
| Prepayments for advertising operating rights  | 2,288,156                 | -                        |
| Prepaid expenses and other current assets   | (2,316,952)               | (2,445,651)              |
| Accounts payable, accrued expenses and other payables   | 3,121,568                 | 5,051,781                |
| Net cash used in operating activities   | (16,010,328)              | (2,004,231)              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                           |                          |
| Purchase of equipment   | (3,469,003)               | (58,491)                 |
| Proceeds from sales of equipment  | 1,789                     | -                        |
| Net cash used in acquisition of subsidiaries, net   | (2,708,928)               | (318,156)                |
| Proceeds from disposal of discontinued operations, net of cash disposed of  | (472,827)                 | -                        |
| Net cash used in investing activities   | (6,648,969)               | (376,647)                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                           |                          |
| Proceeds from issuance of 3% convertible promissory note, net of costs  | 33,900,000                | -                        |
| Repayment of 12% convertible promissory note  | (5,000,000)               | -                        |
| Stock issued in placement for cash, net of costs  | -                         | 1,500,000                |
| Warrant issued for services   | -                         | 22,500                   |
| Repayment of capital lease obligation   | -                         | (3,120)                  |
| Net cash provided by financing activities   | 28,900,000                | 1,519,380                |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>  | <b>1,567,341</b>          | <b>(1,978)</b>           |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>7,808,044</b>          | <b>(863,476)</b>         |

|                           |           |           |
|---------------------------|-----------|-----------|
| CASH, BEGINNING OF PERIOD | 2,233,528 | 2,898,523 |
|---------------------------|-----------|-----------|

|                     |               |              |
|---------------------|---------------|--------------|
| CASH, END OF PERIOD | \$ 10,041,572 | \$ 2,035,047 |
|---------------------|---------------|--------------|

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the period for:

|   |           |        |
|---|-----------|--------|
| Income taxes                                      | \$ -      | \$ -   |
| Interest paid for 12% convertible promissory note | \$ 69,041 | \$ -   |
| Interest paid for capital lease arrangement       | \$ -      | \$ 423 |

Non-cash activities:

|   |              |      |
|---|--------------|------|
| Issuance of common stock for acquisition of subsidiaries (Note 6) | \$ 3,738,000 | \$ - |
|---|--------------|------|

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:**

In January 2008, the Company acquired 100% equity interest of Cityhorizon Limited (“Cityhorizon BVI”), a British Virgin Islands company. The Company issued 1,500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$3,738,000 as part of the consideration.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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NETWORK CN INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENT

The accompanying unaudited condensed consolidated financial statements of Network CN Inc., its subsidiaries and variable interest entities (collectively “NCN” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of our financial position and results of operations.

The condensed consolidated financial statements for the three and nine months ended September 30, 2008 and 2007 were not audited. It is management’s opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-KSB, Form 10-KSB/A (Amendment No. 1) and Form 10-KSB/A (Amendment No. 2) for the fiscal year ended December 31, 2007, previously filed with the Securities and Exchange Commission on March 24, 2008, August 11, 2008 and October 22, 2008 respectively.

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

Network CN Inc., originally incorporated on September 10, 1993, is a Delaware corporation with headquarters in the Hong Kong Special Administrative Region, the People’s Republic of China (the “PRC” or “China”). The Company is focused on building a nationwide media network in China.

During the three months ended September 30, 2008, the Company disposed of its entire travel network. Accordingly, such business has been classified as discontinued operations for all periods presented. (See Note 14 – Discontinued Operations for details).

Details of the Company’s principal subsidiaries and variable interest entities as of September 30, 2008 are described in Note 5 – Subsidiaries and Variable Interest Entities.

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NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Preparation

These financial statements were prepared on a going concern basis. The Company has determined that the going concern basis of preparation is appropriate based on its estimates and judgments of future performance of the Company, future events and projected cash flows. At each balance sheet date, the Company evaluates its estimates and judgments as part of its going concern assessment. Based on its assessment, the Company believes there are sufficient financial and cash resources to finance the Company as a going concern in the next twelve months. Accordingly, management has prepared the financial statements on a going concern basis.

(B) Principles of Consolidation

The condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities. Variable interest entities are those entities in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the Company is the primary beneficiary of these entities. In accordance with FASB Interpretation No. 46R Consolidation of Variable Interest Entities ("FIN 46R"), the primary beneficiary is required to consolidate the variable interest entities for financial reporting purposes. All significant intercompany transactions and balances have been eliminated upon consolidation.

(C) Use of Estimates

In preparing condensed consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known and are disclosed to the extent they are material to the condensed consolidated financial statements taken as a whole.

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of September 30, 2008 and 2007, the Company had no cash equivalents.

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(E) Allowance for Doubtful Accounts

Allowance for doubtful accounts is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such allowance. The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, the credit quality of its customers, current economic conditions, and other factors that may affect customers' ability to pay to determine the level of allowance required.

(F) Prepayments for Advertising Operating Rights

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are in general charged to the consolidated statements of operations on a straight-line basis over the operating period. All the costs expected to be amortized after 12 months of the balance sheet date are classified as non-current assets.

An impairment loss is recognized when the carrying amount of the prepayments for advertising operating rights exceeds the sum of the undiscounted cash flows expected to be generated from the advertising operating right's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(G) Equipment, Net

Equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life as follows:

|                         |                                |
|-------------------------|--------------------------------|
| Media display equipment | 5 - 7 years                    |
| Office equipment        | 3 - 5 years                    |
| Furniture and fixtures  | 3 - 5 years                    |
| Leasehold improvements  | Over the unexpired lease terms |

Construction in progress is carried at cost less impairment losses, if any. It relates to construction of media display equipment. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use.

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When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in the statement of operations. Repairs and maintenance costs on equipment are expensed as incurred.

### (H) Intangible Assets, Net

Intangible assets are stated at cost less accumulated amortization and provision for impairment loss. Intangible assets that have indefinite useful lives are not amortized. Other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives of 16 months to 20 years. The amortization methods and estimated useful lives of intangible assets are reviewed regularly.

### (I) Impairment of Long-Lived Assets

Long-lived assets, including intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An intangible asset that is not subject to amortization is reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset and intangible asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

### (J) Deferred Charges, Net

Deferred charges are fees and expenses directly related to the issuance of convertible promissory notes, including placement agents' fee. Deferred charges are capitalized and amortized over the life of the convertible promissory notes using the effective yield method. Amortization of deferred charges is included in interest expense on the consolidated statement of operations while the unamortized balance is included in deferred charges on the consolidated balance sheet.

### (K) Convertible Promissory Notes and Warrants

In 2007, the Company issued 12% convertible promissory note and warrants and 3% convertible promissory notes and warrants. In 2008, the Company issued additional 3% convertible promissory notes and warrants. As of September 30, 2008 and December 31, 2007, the warrants and embedded conversion feature were classified as equity under Emerging Issues Task Force ("EITF") Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and met the other criteria in paragraph 11(a) of Statement of Financial Accounting Standards ("SFAS") No.133 "Accounting for Derivative Instruments and Hedging Activities". Such classification will be reassessed at each balance sheet date. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments".



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The portion of debt discount resulting from the allocation of proceeds to the financial instruments related to warrants associated with convertible promissory notes is being amortized to interest expense over the life of the convertible promissory notes, using the effective yield method. For the portion of debt discount resulting from the allocation of proceeds to the beneficial conversion feature, it is amortized to interest expense over the term of the notes from the respective dates of issuance, using the effective yield method.

(L) Early Redemption of Convertible Promissory Notes

Should early redemption of convertible promissory notes occur, the unamortized portion of the associated deferred charges and debt discount would be fully written off and any early redemption premium will be recognized as expense upon its occurrence. All related charges, if material, would be aggregated and included in a separate line “charges on early redemption of convertible promissory notes”. Such an expense would be included in ordinary activities on the consolidated statement of operations as required by SFAS No.145 “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections”.

Pursuant to the provisions of agreements in connection with the 3% convertible promissory notes, in the event of a default, or if the Company’s actual EPS in any fiscal year is less than 80% of the respective EPS target, certain investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. The Company accounts for such potential liability of 20% internal rate of return on the then outstanding principal amount in accordance with SFAS No. 5 “Accounting for Contingencies”.



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(M) Revenue Recognition

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with EITF Issue No. 99-17, "Accounting for Advertising Barter Transactions", which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions. The amounts included in advertising services revenue and general and administrative for barter transactions were approximately \$41,000 and \$nil for the three and nine months ended September 30, 2008 and 2007 respectively.

For hotel management services, the Company recognizes revenue in the period when the services are rendered and collection is reasonably assured.

For tour services, the Company recognizes services-based revenue when the services have been performed. Guangdong Tianma International Travel Service Co., Ltd. ("Tianma") offers independent leisure travelers bundled packaged-tour products which include both air-ticketing and hotel reservations. Tianma's packaged-tour products cover a variety of domestic and international destinations.

Tianma organizes inbound and outbound tour and travel packages which can incorporate, among other things, air and land transportation, hotels, restaurants and tickets to tourist destinations and other excursions. Tianma books all elements of such packages with third-party service providers such as airlines, car rental companies and hotels, or through other tour package providers and then resells such packages to its clients. A typical sale of tour services is as follows:

1. Tianma, in consultation with sub-agents, organizes a tour or travel package, including making reservations for blocks of tickets, rooms, etc. with third-party service providers. Tianma may be required to make deposits, pay all or part of the ultimate fees charged by such service providers or make legally binding commitments to pay such fees. For air-tickets, Tianma normally books a block of air tickets with airlines in advance and pays the full amount of the tickets to reserve seats before any tours are formed. The air tickets are usually valid for a certain period of time. If the pre-packaged tours do not materialize and are eventually not formed, Tianma will resell the air tickets to other travel agents or customers. For hotels, meals and transportation, Tianma usually pays an upfront deposit of 50-60% of the total cost. The remaining balance is then settled after completion of the tours.
2. Tianma, through its sub-agents, advertises tour and travel packages at prices set by Tianma and sub-agents.
3. Customers approach Tianma or its appointed sub-agents to book an advertised packaged tour.

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4. The customers pay a deposit to Tianma directly or through its appointed sub-agents.
5. When the minimum required number of customers (which number is different for each tour based on the elements and costs of the tour) for a particular tour is reached, Tianma will contact the customers for tour confirmation and request full payment. All payments received by the appointed sub-agents are paid to Tianma prior to the commencement of the tours.
6. Tianma will then make or finalize corresponding bookings with outside service providers such as airlines, bus operators, hotels, restaurants, etc. and pay any unpaid fees or deposits to such providers.

Tianma is the principal in such transactions and the primary obligor to the third-party providers regardless of whether it has received full payment from its customers. In addition, Tianma is also liable to the customers for any claims relating to the tours such as accidents or tour services. Tianma has adequate insurance coverage for accidental loss arising during the tours. The Company utilizes a network of sub-agents who operate strictly in Tianma's name and can only advertise and promote the business of Tianma with the prior approval of Tianma.

(N) Stock-based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "Share-Based Payment", a revision to SFAS No. 123 "Accounting for Stock-Based Compensation", and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. Effective January 1, 2006, the Company adopted SFAS No. 123R, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. SFAS No. 123R requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized in expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value, as required by SFAS No. 123R, which is measured as of the date required by EITF Issue 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". In accordance with EITF 96-18, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached ("performance commitment date") or the date at which performance is complete ("performance completion date"). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

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(O) Income Taxes

The Company accounts for income taxes under SFAS No. 109 “Accounting for Income Taxes”. Under SFAS No. 109, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

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 reversed. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(P) Comprehensive Income (Loss)

The Company follows SFAS No. 130 “Reporting Comprehensive Income” for the reporting and display of its comprehensive income (loss) and related components in the financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in both the consolidated statement of operations and comprehensive loss and the consolidated statement of stockholders’ equity.

(Q) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed in accordance with SFAS No. 128 “Earnings Per Share” by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

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The diluted net loss per share is the same as the basic net loss per share for the three and nine months ended September 30, 2008 and 2007 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

(R) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease period.

(S) Foreign Currency Translation

The assets and liabilities of the Company's subsidiaries denominated in currencies other than United States ("U.S.") dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For statement of operations' items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the consolidated statements of operations.

(T) Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, which consist of cash, accounts receivables, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, approximates fair value due to the short-term maturities.

The carrying value of the Company's financial instruments related to warrants associated with convertible promissory notes issued in 2007 is stated at a value being equal to the allocated proceeds of convertible promissory notes based on the relative fair value of notes and warrants. In the measurement of the fair value of these instruments, the Black-Scholes option pricing model is utilized, which is consistent with the Company's historical valuation techniques. These derived fair value estimates are significantly affected by the assumptions used. The allocated value of the financial instruments related to warrants associated with convertible promissory notes is recorded as an equity, which does not require to mark-to-market as of each subsequent reporting period.

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(U) Concentration of Credit Risk

The Company places its cash with various financial institutions. The Company believes that no significant credit risk exists as these cash investments are made with high-credit-quality financial institutions.

All the revenue of the Company and a significant portion of the Company's assets are generated and located in China. The Company's business activities and accounts receivables are mainly from tour services and advertising services. Deposits are usually collected from customers in advance and the Company performs ongoing credit evaluation of its customers. The Company believes that no significant credit risk exists as credit loss.

(V) Segmental Reporting

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company's operating segments are organized internally primarily by the type of services rendered. It is the management's view that the services rendered by the Company are of three operating segments: Media Network, Travel Network and Investment Holding. During the three months ended September 30, 2008, the Company disposed of one of the operating segments, Travel Network which was included in discontinued operation accordingly.

(W) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". SFAS No. 157 defined fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. In February 2008, the FASB released FASB Staff Position No. FAS 157-2 "Effective Date of FASB Statement No. 157", which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement did not have a material effect on the Company's future reported financial position or results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157 "Fair Value Measurements". The adoption of this statement did not have a material effect on the Company's financial statements.

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In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised), “Business Combinations” (“SFAS No. 141 (R)”), replacing SFAS No. 141, “Business Combinations” (“SFAS No. 141”), and SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”. SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require; the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the impact of adopting SFAS No. 141 (R) and SFAS No. 160 on its financial statements and related disclosures.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS No. 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS 133 “Accounting for Derivative Instruments and Hedging Activities” (SFAS No.133) as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No. 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently assessing the impact of adopting SFAS No. 161 on its financial statements and related disclosures.

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In May 2008, the FASB issued SFAS No. 162 “The Hierarchy of Generally Accepted Accounting Principles.” SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used. Any effect of applying the provisions of this statement will be reported as a change in accounting principle in accordance with SFAS No. 154 “Accounting Changes and Error Corrections”. SFAS No. 162 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60.” The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”. This Statement will not have any impact on the Company’s consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1 “Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion”. APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer’s nonconvertible debt borrowing rate. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The Company is currently evaluating the impact of the adoption of this position could have on its financial condition, results of operations and cash flows.

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In June 2008, the FASB issued Emerging Issues Task Force Issue No. 07-5 “Determining whether an Instrument (or Embedded Feature) is indexed to an Entity’s Own Stock” (“EITF No. 07-5”). This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of Statement of Financial Accounting Standard No 133 “Accounting for Derivatives and Hedging Activities” (“SFAS No.133”) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. EITF No.07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the SFAS No.133 paragraph 11(a) scope exception. The Company is currently evaluating the impact of adoption of EITF No. 07-5 on its financial statements and related disclosures.

In June 2008, FASB issued EITF Issue No. 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5 (“EITF No. 08-4)”. The objective of EITF No.08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible notes and related warrants transactions.

NOTE 4.                RESTATEMENT AND RECLASSIFICATION

(a)                                        Restatement of Financial Results

On October 10, 2008, we filed a Current Report on Form 8-K to announce that our Board of Directors, based upon the consideration of issues addressed in the SEC review and the recommendation of the Audit Committee, determined that we should restate our previously issued condensed consolidated financial statements for quarterly periods ended March 31, 2008 and June 30, 2008 and consolidated financial statements for the year ended December 31, 2007.

The restatement adjustments corrected the accounting errors arising from our misapplication of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. The Company initially amortized the discount according to EITF Issue No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio”, which stated that discount resulting from allocation of proceeds to the beneficial conversion feature should be recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion. As the notes are convertible at the date of issuance, the Company fully amortized such discount through interest expense at the date of issuance accordingly. However, according to Issue 6 of EITF Issue No. 00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments”, EITF Issues No. 98-5 should be modified to require the discount related to the beneficial conversion feature to be accreted from the date of issuance to the stated redemption date regardless of when the earliest conversion date occurs using the effective interest method. The restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27.



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The aggregate net effect of the restatement was to (1) increase stockholders' equity by approximately \$14.3 million, \$15.1 million and \$4.7 million as of June 30, 2008, March 31, 2008 and December 31, 2007 respectively; (2) increase both non-cash interest expense and net loss for the three months ended June 30, 2008 by approximately \$0.8 million and decrease both non-cash interest expense and net loss for the three months ended March 31, 2008 and for the year ended December 31, 2008 by approximately \$10.4 million and \$4.7 million respectively. Accordingly, the net loss per common share (basic and diluted) for the three months ended June 30, 2008 and March 31, 2008 increased from \$0.11 to \$0.12 and decreased from \$0.26 to \$0.12 respectively while for the year ended December 31, 2008 decreased from \$0.28 to \$0.21.

(b) **Reclassification**

To better present the results of the Company, the "by function of expense" method for the presentation of the statements of operations and comprehensive loss has been adopted. Comparative amounts for prior periods have been reclassified in order to achieve a consistent presentation.

In addition, the Company completed the disposal of travel network during the three months ended September 30, 2008. As a result of the disposal, the condensed consolidated financial statements of the Company reflect travel network operation as discontinued operations for all presented periods. Accordingly, revenues and costs and expenses of travel network have been excluded from the respective accounts in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes and minority interests, as "Income (Loss) from Discontinued Operations, Net of Income Taxes and Minority Interests". For details, please refer to Note 14 – Discontinued Operations.

The above reclassification does not have an effect on net loss and net loss per share.

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## NOTE 5. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal consolidated subsidiaries and variable interest entities as of September 30, 2008 were as follows:

| Name  | Place of incorporation | Ownership interest attributable to the Company | Principal activities                                |
|---|------------------------|--|---|
| NCN Group Limited   | British Virgin Islands | 100%   | Investment holding                                  |
| NCN Media Services Limited                                  | British Virgin Islands | 100%   | Investment holding                                  |
| Crown Winner International Limited                          | Hong Kong              | 100%   | Investment holding                                  |
| Cityhorizon Limited   | Hong Kong              | 100%   | Investment holding                                  |
| NCN Group Management Limited                                | Hong Kong              | 100%   | Provision of administrative and management services |
| NCN Huamin Management Consultancy (Beijing) Company Limited | The PRC                | 100%   | Provision of administrative and management services |
| Shanghai Quo Advertising Company Limited                    | The PRC                | 100%   | Provision of advertising services                   |
| Xuancaiye (Beijing) Advertising Company Limited             | The PRC                | 51%  | Provision of advertising services                   |
| Teda (Beijing) Hotels Management Limited                    | The PRC                | 100%   | Dormant; undergoing liquidation process             |
| NCN Asset Management Services Limited                       | British Virgin Islands | 100%   | Dormant   |
| NCN Travel Services Limited                                 | British Virgin Islands | 100%   | Dormant   |
| NCN Financial Services Limited                              | British Virgin Islands | 100%   | Dormant   |
| Linkrich Enterprise Advertising and Investment Limited      | Hong Kong              | 100%   | Dormant   |
| Cityhorizon Limited (Note 6)                                | British Virgin Islands | 100%   | Investment holding                                  |
| Huizhong Lianhe Media Technology Co., Ltd (Note 6)          | The PRC                | 100%   | Provision of high-tech services                     |
| Beijing Huizhong Bona Media Advertising Co., Ltd. (Note 6)  | The PRC                | 100%   | Provision of advertising services                   |

|   |           |      |                                   |
|---|-----------|------|-----------------------------------|
| Huizhi Botong Media Advertising Beijing Co., Ltd (Note 6) | The PRC   | 100% | Provision of advertising services |
| Crown Eagle Investment Limited                            | Hong Kong | 100% | Dormant                           |
| Profit Wave Investment Limited                            | Hong Kong | 100% | Dormant                           |
| Qingdao Zhongan Boyang Advertising Co., Ltd.              | The PRC   | 60%  | Provision of advertising services |

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Remarks :

- 1)The Company established its wholly-owned subsidiaries, namely, Crown Eagle Investment Limited and Profit Wave Investment Limited in January 2008.
- 2) The Company established its subsidiary Qingdao Zhongan Boyang Advertising Co., Ltd. in March 2008.
- 3)The Company disposed of all its travel network related subsidiaries and variable interest entity, namely, NCN Management Services Limited, NCN Hotels Investment Limited, NCN Pacific Hotels Limited, Tianma, NCN Landmark International Hotel Group Limited and Beijing NCN Landmark Hotel Management Limited in September 2008. See Note 14 – Discontinued Operations for details.

NOTE 6. BUSINESS COMBINATIONS

(a) Acquisition of Cityhorizon BVI

On January 1, 2008, the Company and its wholly owned subsidiary Cityhorizon Limited (“Cityhorizon Hong Kong”), a Hong Kong company, entered into a Share Purchase Agreement with Cityhorizon BVI, Huizhong Lianhe Media Technology Co., Ltd. (“Lianhe”), a wholly owned subsidiary of Cityhorizon BVI, Beijing Huizhong Bona Media Advertising Co., Ltd. (“Bona”), a wholly owned subsidiary of Cityhorizon BVI, and Liu Man Ling, an individual and sole shareholder of Cityhorizon BVI pursuant to which the Company, through its subsidiary Cityhorizon Hong Kong, acquired 100% of the issued and outstanding shares of Cityhorizon BVI from Liu Man Ling. Pursuant to the Share Purchase Agreement, the Company in January 2008 paid the Liu Man Ling US\$5,000,000 in cash and issued Liu Man Ling 1,500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$3,738,000. The total purchase consideration was \$8,738,000. The purpose of the acquisition was to strengthen the Company’s Media Network in China.

The acquisition has been accounted for using the purchase method of accounting and the results of operations of Cityhorizon BVI, Lianhe and Bona have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 1, 2008.

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The allocation of the purchase price is as follows:

|  |              |
|--|--------------|
| Cash   | \$ 2,427,598 |
| Prepayments for advertising operating rights | 2,450,794    |
| Prepayments and other current assets         | 170,347      |
| Equipment, net                               | 1,995,702    |
| Intangible assets, net                       | 1,973,865    |
| Liabilities assumed                          | (280,306)    |
| Total purchase price                         | \$ 8,738,000 |

Intangible assets represent the acquired application systems developed internally by Lianhe for controlling LED activities. Based on a valuation performed by an independent valuer, the fair value of the acquired application systems as of the date of acquisition amounted to RMB31,000,000 (equivalent to US\$4,252,564). This fair value, after deducting negative goodwill of \$2,278,699 arising from business combination with Cityhorizon BVI, Lianhe and Bona, equaled to \$1,973,865. Such net amount was amortized over the useful lives of the application systems.

(b) Consolidation of variable interest entity - Botong

On January 1, 2008, the Company caused its subsidiary, Lianhe, to enter into a series of commercial agreements with Huizhi Botong Media Advertising Beijing Co., Ltd (“Botong”), a company organized under the laws of the PRC, and their respective registered shareholders, pursuant to which Lianhe provides exclusive technology and management consulting services to Botong in exchange for service fees amounting to substantially all of the net income of Botong. Each of the registered PRC shareholders of Botong also entered into equity pledge agreements and option agreements with Lianhe which cannot be amended or terminated except by written consent of all parties. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged such shareholder’s interest in Botong for the performance of such Botong’s payment obligations under its respective exclusive technology and management consulting services agreements. In addition, Lianhe has been assigned all voting rights by the shareholders of Botong and has the option to acquire the equity interests of Botong at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders.

In addition, as of January 1, 2008, Lianhe committed to extend loan totaling US\$137,179 to the registered shareholders of Botong for the purpose of financing such shareholders’ investment in Botong. Through the above contractual arrangements, Lianhe becomes the primary beneficiary of Botong which is a variable interest entity as defined under FIN 46 (Revised) “Consolidation of Variable Interest Entities”. The results of operations of Botong have been included in the Company's consolidated statement of operations since January 1, 2008.

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On January 1, 2008, the net assets of Botong were as follows:

|   |    |             |
|---|----|-------------|
| Cash                                      | \$ | 653         |
| Prepaid expenses and other current assets |    | 102,154     |
| Equipment, net                            |    | 599,348     |
| Intangible asset                          |    | 551,031     |
| Liabilities assumed                       |    | (1,116,007) |
| Net assets                                | \$ | 137,179     |

Identifiable intangible asset with a fair value of \$551,031 as of the effective date of Lianhe and Botong entering into the above contractual arrangements is amortized over the remaining contract period of Botong's advertising right.

## NOTE 7. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS

Prepayments for advertising operating rights as of September 30, 2008 and December 31, 2007 were as follows:

|   | As of<br>September 30,<br>2008<br>(Unaudited) | As of<br>December 31,<br>2007<br>(Audited) |
|---|---|--|
| Gross carrying amount                             | \$ 25,139,969                                 | 14,676,513                                 |
| Less: accumulated amortization                    | (14,496,933)                                  | (1,040,335)                                |
| Less: provision for impairment                    | (5,671,782)                                   | --   |
| Prepayments for advertising operating rights, net | \$ 4,971,254                                  | 13,636,178                                 |

Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended September 30, 2008 and 2007 were \$4,992,495 and \$nil respectively while for the nine months ended September 30, 2008 and 2007 amounted to \$12,977,200 and \$nil respectively.

## Provision for impairment

As the Company recorded a continuous net loss, the Company performed an impairment review of its prepayments for advertising operating rights during the quarter ended September 30, 2008. The Company compared the carrying amount of the prepayments for advertising operating rights of each project to the sum of the undiscounted cash flows expected to be generated. For those projects with carrying values exceeding undiscounted cash flows, the Company determined their fair values using a discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$5,671,782 for the three and nine months ended September 30, 2008 in relation to the prepayments for certain advertising operating rights projects. The impairment loss was included as non-cash impairment charges in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2008.

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## NOTE 8. INTANGIBLE ASSETS, NET

Intangible assets as of September 30, 2008 and December 31, 2007 were as follows:

|   | As of<br>September 30,<br>2008<br>(Unaudited) | As of<br>December 31,<br>2007<br>(Audited) |
|---|---|--|
| Amortized intangible rights                 |   |  |
| Gross carrying amount                       | \$ 7,137,097                                  | 7,825,267                                  |
| Less: accumulated amortization              | (1,102,470)                                   | (999,106)                                  |
| Less: provision for impairment loss         | -   | (711,611)                                  |
| Amortized intangible rights, net            | 6,034,627                                     | 6,114,550                                  |
| Unamortized intangible rights               |   |  |
| Gross carrying amount                       | -   | 815,902                                    |
| Less: provision for impairment              | -   | (815,902)                                  |
| Unamortized intangible rights, net          | -   | -  |
| Amortized acquired application systems      |   |  |
| Gross carrying amount                       | \$ 1,973,865                                  | -  |
| Less: accumulated amortization              | (148,041)                                     | -  |
| Amortized acquired application systems, net | 1,825,824                                     | -  |
| Intangible assets, net                      | \$ 7,860,451                                  | 6,114,550                                  |

During the three months ended June 30, 2008, the Company wrote-off all the intangible rights to which provision for impairment were fully provided in fiscal 2007. Total amortization expense of intangible assets of the Company for the three months ended September 30, 2008 and 2007 were \$259,665 and \$118,336 respectively while for the nine months ended September 30, 2008 and 2007 amounted to \$778,995 and \$279,514 respectively.

## NOTE 9. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

## (a) 12% Convertible Promissory Note and Warrants

On November 12, 2007, the Company entered into a 12% Note and Warrant Purchase Agreement with Wei An Developments Limited (“Wei An”) with respect to the purchase by Wei An a convertible promissory note in the principal amount of \$5,000,000 at interest rate of 12% per annum (the “12% Convertible Promissory Note”). The 12% Convertible Promissory Note is convertible into the Company’s common stock at the conversion price of \$2.40 per share. Pursuant to the agreement, the Company is subject to a commitment fee of 2% of the principal amount of the 12% Convertible Promissory Note. The term of the 12% Convertible Promissory Note is six months and the Company has the option to extend the 12% Convertible Promissory Note by an additional six-month period at an interest rate of 14% per annum and be subject to an additional commitment fee of 2% of the principal amount of the note. However, the Company has the right to prepay all or any portion of the amounts due under the note at any time without penalty or premium. In addition, pursuant to the Warrant Purchase Agreement, the Company issued warrants to purchase up to 250,000 shares of the Company’s common stock at the exercise price of \$2.30 per share, which are exercisable for a period of two years.





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On February 13, 2008, the Company fully redeemed 12% Convertible Promissory Note due May 2008 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. No penalty or premium was charged for such early redemption. The Company recognized the unamortized portion of the associated deferred charges and debt discount as expenses included in amortization of deferred charges and debt discount on the consolidated statements of operation during the period of extinguishment.

(b) 3% Convertible Promissory Notes and warrants

On November 19, 2007, the Company, Quo Advertising and certain Designated Holders, entered into a 3% Note and Warrant Purchase Agreement (the "Purchase Agreement") with affiliated investment funds of Och-Ziff Capital Management Group (the "Investors"). Pursuant to the Purchase Agreement, the Company agreed to issue 3% Senior Secured Convertible Notes due June 30, 2011 in the aggregate principal amount of up to \$50,000,000 (the "3% Convertible Promissory Notes") and warrants to acquire an aggregate amount of 34,285,715 shares of common stock of the Company (the "Warrants").

The 3% Convertible Promissory Notes and Warrants are issued in three tranches:

- 1) On November 19, 2007, Convertible Notes in the aggregate principal amount of \$6,000,000, Warrants exercisable for 2,400,000 shares at \$2.50 per share and Warrants exercisable for 1,714,285 shares at \$3.50 per share were issued;
- 2) On November 28, 2007, Convertible Notes in the aggregate principal amount of \$9,000,000, Warrants exercisable for 3,600,000 shares at \$2.50 per share and Warrants exercisable for 2,571,430 shares at \$3.50 per share were issued; and
- 3) On January 31, 2008, Convertible Notes in the aggregate principal amount of \$35,000,000, Warrants exercisable for 14,000,000 shares at \$2.50 per share and Warrants exercisable for 10,000,000 shares at \$3.50 per share were issued.

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The 3% Convertible Promissory Notes, maturing on June 30, 2011, bear interest at 3% per annum payable semi-annually in arrears. The 3% Convertible Promissory Notes are convertible into shares of common stock at an initial conversion price of \$1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price will be adjusted downward on an annual basis if the Company should fail to meet certain annual earnings per share (“EPS”) targets described in the Purchase Agreement. The EPS targets for fiscal 2008, 2009 and 2010 are \$0.081, \$0.453, and \$0.699 respectively. In the event of a default, or if the Company’s actual EPS as defined in the Purchase Agreement for any fiscal year is less than 80% of the respective EPS target, certain Investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount.. The Warrants grant the holders the right to acquire shares of common stock at \$2.50 and \$3.50 per share, subject to customary anti-dilution adjustments. The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward in accordance with the provisions of the Purchase Agreement. The warrants shall expire on June 30, 2011, pursuant to the Purchase Agreement.

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. Concurrent with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its directly wholly owned subsidiary, NCN Group Limited (“NCN Group”), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the “NCN Group Note”). The Company entered into a Security Agreement, dated January 31, 2008, pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company’s indirectly wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.

As of September 30, 2008, none of the conversion options and warrants associated with the above convertible promissory notes was exercised.

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The following table details the accounting treatment of the convertible promissory notes:

|   | 12%<br>Convertible<br>Promissory<br>Note | 3%<br>Convertible<br>Promissory<br>Notes (first<br>and second<br>tranches) | 3%<br>Convertible<br>Promissory<br>Notes (third<br>tranche) | Total         |
|---|--|--|---|---------------|
| Proceeds of convertible promissory notes                                    | \$ 5,000,000                             | \$ 15,000,000  | \$ 35,000,000   | \$ 55,000,000 |
| Allocation of proceeds:   |  |  |   |               |
| Allocated relative fair value of warrants                                   | (333,670)                                | (2,490,000)  | (5,810,000)   | (8,633,670)   |
| Allocated intrinsic value of beneficial conversion feature                  | -  | (4,727,272)  | (11,030,303)  | (15,757,575)  |
| Total net proceeds of the convertible promissory notes                      | 4,666,330                                | 7,782,728  | 18,159,697  | 30,608,755    |
| Repayment of convertible promissory note                                    | (5,000,000)                              | -  | -   | (5,000,000)   |
| Amortization of debt discount   | 333,670                                  | 1,196,551  | 2,324,769   | 3,854,990     |
| Net carrying value of convertible promissory notes as of September 30, 2008 | \$ -                                     | \$ 8,979,279   | \$ 20,484,466   | \$ 29,463,745 |

## Warrants and Beneficial Conversion Features

The fair values of the financial instruments associated with warrants of both 12% convertible promissory note and 3% convertible promissory notes were determined utilizing Black-Scholes option pricing model, which is consistent with the Company's historical valuation methods. The following assumptions and estimates were used in the Black-Scholes option pricing model: (1) 12% convertible promissory note: volatility of 182%; an average risk-free interest rate of 3.52%; dividend yield of 0%; and an expected life of 2 years, (2) 3% convertible promissory notes: volatility of 47%; an average risk-free interest rate of 3.30%; dividend yield of 0%; and an expected life of 3.5 years.

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Both the warrants and embedded conversion features issued in connection with 12% convertible promissory note and 3% convertible promissory notes meet the criteria of EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" for equity classification and also met the other criteria in paragraph 11(a) of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". Accordingly, the conversion features do not require derivative accounting. The intrinsic value of beneficial conversion feature is calculated according to EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments". For 3% convertible promissory note, as the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature while for the 12% convertible promissory note, no beneficial conversion feature existed. The value of beneficial conversion feature is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As the 3% convertible promissory notes has stated redemption date, the respective debt discount being equal to the value of beneficial conversion feature of \$15,757,575 is amortized over the term of the notes from the respective date of issuance using the effective yield method.

## Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended September 30, 2008 was as follows:

|                                 | Warrants   | Conversion Features | Deferred Charges | Total        |
|---------------------------------|------------|---------------------|------------------|--------------|
| 12% convertible promissory note | \$ -       | \$ -                | \$ -             | \$ -         |
| 3% convertible promissory notes | 443,478    | 841,944             | 106,694          | 1,392,116    |
| Total                           | \$ 443,478 | \$ 841,944          | \$ 106,694       | \$ 1,392,116 |

The amortization of deferred charges and debt discount for the nine months ended September 30, 2008 was as follows:

|                                 | Warrants     | Conversion Features | Deferred Charges | Total        |
|---------------------------------|--------------|---------------------|------------------|--------------|
| 12% convertible promissory note | \$ 259,204   | \$ -                | \$ 80,700        | \$ 339,904   |
| 3% convertible promissory notes | 1,179,420    | 2,239,132           | 332,648          | 3,751,200    |
| Total                           | \$ 1,438,624 | \$ 2,239,132        | \$ 413,348       | \$ 4,091,104 |

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## NOTE 10. COMMITMENTS AND CONTINGENCIES

## (a) Commitments

## 1. Rental Lease Commitment

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of September 30, 2008:

|                                      |              |
|--------------------------------------|--------------|
| Three months ending December 31,2008 | \$ 256,530   |
| Fiscal years ending December 31,     |              |
| 2008                                 | \$ 256,530   |
| 2009                                 | 971,561      |
| 2010                                 | 843,241      |
| 2011                                 | 197,474      |
| Total                                | \$ 2,268,806 |

## 2. Annual Advertising Operating Rights Fee Commitment

Since November 2006, the Company, through its subsidiaries NCN Media Services Limited, Quo Advertising , Xuancai yi, Bona and Botong has acquired advertising rights from third parties to operate different types of advertising panels for periods ranging from 1 year to 20 years.

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of 1,864 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels that the Company held as of September 30, 2008:

|                                      |               |
|--------------------------------------|---------------|
|                                      | (In millions) |
| Three months ending December 31,2008 | \$ 13.06      |
| Fiscal years ending December 31,     |               |
| 2008                                 | \$ 13.06      |
| 2009                                 | 14.61         |
| 2010                                 | 4.04          |
| 2011                                 | 4.06          |
| 2012                                 | 3.97          |
| Thereafter                           | 25.42         |
| Total                                | \$ 65.16      |

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3. Capital commitments

As of September 30, 2008, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$97,000.

(b) Contingencies

The Company accounts for loss contingencies in accordance with SFAS No. 5, "Accounting for Loss Contingencies" and other related guidelines. Set forth below is a description of certain loss contingencies as of September 30, 2008 and management's opinion as to the likelihood of loss in respect of loss contingency.

1. Tianma litigation

Guangdong Tianma International Travel Service Co., Ltd, ("Tianma) of which the Company owned 55% interest through trust was involved in a legal litigation associated with a car accident in 2005. The Company was indemnified for any future liability by the previous owners when it acquired Tianma in June 2006. As of September 1, 2008, the Company entered into a stock purchase agreement to dispose of its 55% interest in Tianma. For details, please refer to Note 14 – Discontinued Operations. There were no provisions in the stock purchase agreement requiring the Company to indemnify the buyer for any future liability arising from transactions incurred prior to September 1, 2008. Accordingly, the Company considers that it has no loss contingencies in relation to Tianma as of September 30, 2008.

2. Early Redemption of 3% Convertible Promissory Notes

In the event of a default, or if the Company's actual EPS as defined in the Purchase Agreement for any fiscal year is less than 80% of the respective EPS target, certain investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. As the Company recorded a continuous net loss as of September 30, 2008, management anticipates that the Company is unlikely to achieve the EPS target or 80% of the EPS target in fiscal year 2008. The Company is in the process of re-negotiating with the investors in the hope of revising certain terms of the Purchase Agreement.

In the event of early redemption of 3 % convertible promissory notes, the Company has to redeem its outstanding principal amount of \$50 million as of September 30, 2008, plus accrued and unpaid interest of \$1,084,083 as of September 30, 2008 and penalties of approximately \$7 million which represented 20% internal rate of return on the outstanding principal balance of \$50 million.

The Company considers that the likelihood of the investors calling for early redemption is between remote and reasonably possible. Accordingly, the Company is only disclosing the loss contingencies and made no accrual for any penalties arising from early redemption.

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## NOTE 11. STOCKHOLDERS' EQUITY

## (a) Stock, Options and Warrants Issued for Services

1. In February 2006, the Company issued an option to purchase up to 225,000 shares of common stock to its legal counsel at an exercise price of \$0.10 per share. So long as the counsel's relationship with the Company continues, one-twelfth of the shares underlying the option vested and became exercisable each month from the date of issuance. The option was exercisable for 120 days after termination of the relationship. The fair market value of the option was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 147%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of an option recognized for the three months ended September 30, 2008 and 2007 were \$nil while during the nine months ended September 30, 2008 and 2007 were \$nil and \$1,317 respectively. The option was exercised in April 2007.

2. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price \$0.70 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value recognized for the three months ended September 30, 2008 and 2007 were approximately \$nil and \$6,201 respectively while during the nine months ended September 30, 2008 and 2007 were \$nil and \$26,604 respectively.

3. In April 2007, the Company issued 45,000 S-8 shares of common stock of par value of \$0.001 each, totaling \$18,000 to its legal counsel for services rendered.

4. In April 2007, the Company issued 377,260 S-8 shares of common stock of par value of \$0.001 each, totaling \$85,353 to its directors and officers for services rendered.

5. In July 2007, NCN Group Management Limited entered into Executive Employment Agreements (the "Agreements") with Godfrey Hui, Chief Executive Officer, Daniel So, Managing Director, Daley Mok, Chief Financial Officer, Benedict Fung, the President, and Stanley Chu, General Manager. Pursuant to the Agreements, each executive was granted shares of the Company's common stock subject to annual vesting over five years in the following amounts: Mr. Hui, 2,000,000 shares; Mr. So, 2,000,000 shares; Dr. Mok 1,500,000 shares; Mr. Fung 1,200,000 shares and Mr. Chu, 1,000,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$699,300 and \$854,700 included in general and administrative expenses on the consolidated statement of operations for the three months ended September 30, 2008 and 2007 respectively while during the nine months ended September 30, 2008 and 2007 were \$2,097,900 and \$854,700 respectively. Out of the total shares granted under the Agreements, on January 2, 2008, an aggregate of 660,000 S-8 shares with par value of \$0.001 each were vested and issued to the concerned executives.

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6. In August 2007, the Company issued 173,630 shares of restricted common stock of par value of \$0.001 each, totaling \$424,004 to a consultant for services rendered. The value of stock grant is fully amortized and recognized during the six months ended December 31, 2007.

7. In August 2007, the Company issued 230,000 S-8 shares of common stock of par value of \$0.001 each, totaling \$69,500 to its directors and officers for services rendered.

8. In September, 2007, the Company entered into a service agreement with independent directors, Peter Mak, Gerd Jakob, Edward Lu, Ronglie Xu and Joachim Burger. Pursuant to the service agreements, each independent director was granted shares of the Company's common stock subject to a vesting period of ten months in the following amounts: Peter Mak:15,000 shares; Ronglie Xu:15,000 shares; Joachim Burger:15,000 shares, Gerd Jakob:10,000 shares and Edward Lu:10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized \$nil and \$14,495 of non-cash stock-based compensation included in Payroll on the consolidated statement of operation for the three months ended September 30, 2008 and 2007 respectively while during the nine months ended September 30, 2008 and 2007 were \$86,970 and \$14,495 respectively. On July 21, 2008, an aggregate of 65,000 S-8 shares of common stock of par value of \$0.001 each were vested and issued to the independent directors.

9. In November 2007, the Company was obligated to issue a warrant to purchase up to 300,000 shares of restricted common stock to a placement agent for provision of agency services in connection with the issuance of 3% convertible promissory notes as mentioned in Note 9 – Convertible Promissory Notes and Warrants at an exercise price \$3.0 per share which are exercisable for a period of two years. The fair value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 182 %, a risk-free rate of 4.05 % and an expected life of two (2) year. The value of the warrant recognized for the three months ended September 30, 2008 and 2007 were \$31,959 and \$nil respectively while during the nine months ended September 30, 2008 and 2007 were \$95,875 and \$nil respectively.



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10. In December 2007, the Company committed to grant 235,000 S-8 shares of common stock to certain employees of the Company for their services rendered during the year ended December 31, 2007. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$611,000 in Payroll on the consolidated statement of operation for the year ended December 31, 2007. Such 235,000 S-8 shares of par value of \$0.001 each were issued on January 2, 2008. In addition, the Company committed to grant certain shares of common stock to an employee pursuant to his employment contract for service rendered. Accordingly, the Company recognized the non-cash stock-based compensation of \$6,375 and \$nil for the three months ended September 30, 2008 and 2007 while \$76,500 and \$nil for the nine months ended September 30, 2008 and 2007. In October 2008, an aggregate of 30,000 S-8 shares of common stock of par value of \$0.001 each were vested and issued to an employee.

11. In June 2008, the Board of Directors resolved to grant 110,000 shares of common stock to the board of directors, Peter Mak, Gerd Jakob, Edward Lu, Ronglie Xu, Joachim Burger, Godfrey Hui, Daniel So, Daley Mok and Stanley Chu, as part of their directors' fee. Each director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak:15,000 shares; Ronglie Xu:15,000 shares; Joachim Burger:15,000 shares; Gerd Jakob:10,000 shares; Edward Lu:10,000 shares; Godfrey Hui: 15,000 shares; Daniel So: 10,000 shares; Daley Mok: 10,000 shares and Stanley Chu:10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized \$54,999 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the consolidated statement of operations for the three months and nine months ended September 30, 2008 and 2007 respectively.

12. In July 2008, the Company committed to grant 170,000 S-8 shares of common stock to certain employees of the Company for their services rendered. Accordingly, the Company recognized the non-cash stock-based compensation of \$43,283 and \$nil for the three months ended September 30, 2008 and 2007 while \$43,283 and \$nil for the nine months ended September 30, 2008 and 2007.

13. In August 2008, the Company committed to grant 100,000 S-8 shares of common stock to a consultant for services rendered. The value of stock grant recognized for the three months and nine months ended September 30, 2008 and 2007 were \$20,941 and \$nil respectively.

(b) Stock Issued for Acquisition

1. In January 2007, in connection with the acquisition of Quo Advertising, the Company issued 300,000 shares of restricted common stock of par value of \$0.001 each, totaling \$843,600.

2. In January 2008, in connection with the acquisition of Cityhorizon BVI, the Company issued 1,500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$3,738,000 as part of consideration.

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(c) Stock Issued for Private Placement

In April 2007, the Company issued and sold 500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$1,500,000 in a private placement. No investment banking fees were incurred as a result of this transaction.

(d) Conversion Option and Stock Warrants Issued in Notes Activities

On November 12, 2007, pursuant to the 12% Note and Warrant Purchase Agreement of \$5,000,000, the Company issued warrants to purchase up to 250,000 shares of the Company's common stock at the exercise price of \$2.30 per share, which are exercisable for a period of two years to Wei An. The allocated proceeds to the warrants of \$333,670 based on the relative fair value of 12% Convertible Promissory Notes and warrants were recorded as reduction in the carrying value of the note against additional-paid in capital. As the effective conversion price is higher than the Company's market price of common stock at commitment date, no beneficial conversion existed. Please refer to Note 9 – Convertible Promissory Note and Warrant for details.

On November 19, 2007, pursuant to the 3% Note and Warrant purchase Agreement, the Company issued warrants to purchase up to 2,400,000 shares of the Company's common stock at the exercise price of \$2.5 per share and 1,714,285 shares of the Company's common stock at the exercise price of \$3.5 per share associated with the convertible notes of \$6,000,000 in the first closing. On November 28, 2007, the Company also issued warrants to purchase up to 3,600,000 shares of the Company's common stock at the exercise price of \$2.5 per share and 2,571,430 shares of the Company's common stock at the exercise price of \$3.5 per share. The allocated proceeds to these warrants were \$2,490,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$4,727,272 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 9 – Convertible Promissory Note and Warrant for details.

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company's common stock at \$2.50 per share and warrants to purchase 10,000,000 shares of the Company's common stock at \$3.50 per share. Concurrently with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its direct wholly owned subsidiary, NCN Group Limited ("NCN Group"), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the "NCN Group Note"). The Company entered into a Security Agreement, dated as of January 31, 2008 pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company's indirect wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations. The allocated proceeds to these warrants were \$5,810,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$11,030,303 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 9 – Convertible Promissory Note and Warrant for details.

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## NOTE 12. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2008 and 2007, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

## NOTE 13. NET INCOME (LOSS) PER COMMON SHARE

Net loss per share information for the three and nine months ended September 30, 2008 and 2007 was as follows:

|   | For the three<br>months<br>ended<br>September<br>30,<br>2008 | For the three<br>months<br>ended<br>September<br>30,<br>2007 | For the nine<br>months<br>ended<br>September<br>30,<br>2008 | For the nine<br>months<br>ended<br>September<br>30,<br>2007 |
|---|--|--|---|---|
| Numerator:  |  |  |   |   |
| Net loss from continuing operations                       | (15,546,407)   | (3,207,019)  | (32,776,641)  | (8,459,050)   |
| Net income (loss) from discontinued operations            | 72,041   | 3,025  | 42,640  | (121,869)   |
| Net loss attributable to stockholders                     | \$ (15,474,366)  | \$ (3,203,994)   | \$ (32,734,001)   | \$ (8,580,919)  |
| Denominator:  |  |  |   |   |
| Weighted average number of shares outstanding,<br>basic   | 71,597,478   | 68,947,906   | 71,563,688  | 68,355,391  |
| Effect of dilutive securities                             |  |  |   |   |
| Options and warrants                                      | -  | -  | -   | -   |
| Weighted average number of shares outstanding,<br>diluted | 71,597,478   | 68,947,906   | 71,563,688  | 68,355,391  |
| Net income (loss) per common share – basic and<br>diluted |  |  |   |   |
| Continuing operations                                     | (0.22)   | (0.05)   | (0.46)  | (0.12)  |
| Discontinued operations                                   | 0.00   | 0.00   | 0.00  | (0.00)  |
| Net loss per common share – basic and diluted             | \$ (0.22)  | \$ (0.05)  | \$ (0.46)   | \$ (0.13)   |

The diluted net loss per common share is the same as the basic net loss per common share for the three and nine months ended September 30, 2008 and 2007 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per common share. The securities that could potentially dilute basic net income (loss) per common share in the future that were not included in the computation of diluted net income (loss) per common share because of anti-dilutive effect as of September 30, 2008 and 2007 were summarized as follows:

|  | For the<br>three<br>months<br>ended<br>September<br>30, | For the<br>three<br>months<br>ended<br>September<br>30, | For the nine<br>months<br>ended<br>September<br>30,<br>2008 | For the<br>nine<br>months<br>ended<br>September<br>30, |
|--|---|---|---|--|
|--|---|---|---|--|

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|   | 2008       | 2007    |            | 2007    |
|---|------------|---------|------------|---------|
| Potential common equivalent shares:   |            |         |            |         |
| Stock options for services  | -          | -       | -          | -       |
| Stock warrants for services (1)   | 61,430     | 141,308 | 61,430     | 141,308 |
| Conversion feature associated with convertible promissory notes to common stock                             | 30,303,030 | -       | 30,303,030 | -       |
| Common stock to be granted to directors executives and employees for services (including non-vested shares) | 7,070,000  | -       | 7,135,000  | -       |
| Total   | 37,434,460 | 141,308 | 37,499,460 | 141,308 |

Remarks:

(1)As of September 30, 2008, the number of potential common equivalent shares associated with warrants issued for services was 61,430 which was related to a warrant to purchase 100,000 common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of \$0.70, which expired in August 2016.

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## NOTE 14. DISCONTINUED OPERATIONS

During the three months ended September 30, 2008, the Company disposed of its entire travel network which was classified as one of the Company's business segments in order to focus on its media business. Accordingly, the Company entered into stock purchase agreements to dispose of its entire travel network.

On September 1, 2008, the Company completed the sale of all its interests in NCN Management Services Limited ("NCN Management Services") to Zhanpeng Wang ("Zhanpeng"), an individual for a consideration of HK\$1,350,000, or approximately US\$173,000, in cash. Zhanpeng acquired NCN Management Services along with its subsidiaries, which include 100% interest in NCN Hotels Investment Limited, 100% interest in NCN Pacific Hotels Limited and 55% interest (through trust) in Tianma. The Company reported a gain on the sale, net of income taxes and minority interests of \$61,570. The carrying amount of the assets and liabilities included in the relevant disposal group as of the disposal date of September 1, 2008 were as follows:

|   |             |
|---|-------------|
| Cash                                      | \$ 662,515  |
| Accounts receivable                       | 1,041,781   |
| Prepaid expenses and other current assets | 860,036     |
| Equipment, net                            | 17,464      |
| Minority interest                         | (99,423)    |
| Liabilities assumed                       | (2,370,866) |
| Net assets                                | \$ 111,507  |

On September 30, 2008, the Company completed the sale of its 99.9% interests in NCN Landmark International Hotel Group Limited ("NCN Landmark") to Ngar Yee Tsang ("Ngar"), an individual for a cash consideration of \$20,000. Ngar acquired NCN Landmark along with its subsidiary, Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes and minority interests of \$4,515. The carrying amount of the assets and liabilities included in the relevant disposal group as of the disposal date of September 30, 2008 were as follows:

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|   |    |         |
|---|----|---------|
| Cash                                      | \$ | 3,389   |
| Prepaid expenses and other current assets |    | 9,566   |
| Equipment, net                            |    | 10,053  |
| Liabilities assumed                       |    | (7,523) |
| Net assets                                | \$ | 15,485  |

The Company treated the sale of NCN Management Services along with its subsidiaries and variable interest entity and NCN Landmark along with its subsidiary as discontinued operations. Accordingly, revenues, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes and minority interests, as "Income (Loss) from Discontinued Operations, Net of Income Taxes and Minority Interests".

Summary operating results for the discontinued operations for travel network were as follows:

|   | For the Three Months<br>ended |                          | For the Nine Months Ended |                          |
|---|-------------------------------|--------------------------|---------------------------|--------------------------|
|   | September<br>30,<br>2008      | September<br>30,<br>2007 | September<br>30,<br>2008  | September<br>30,<br>2007 |
| Revenues  | 6,342,479                     | 8,018,734                | 24,528,096                | 15,432,761               |
| Cost of revenues  | (6,242,465)                   | (7,926,043)              | (24,172,537)              | (15,221,181)             |
| Gross profit  | 100,014                       | 92,691                   | 355,599                   | 211,580                  |
| Operating expenses  | (156,864)                     | (91,597)                 | (477,481)                 | (345,600)                |
| Other income  | 58,027                        | 5,322                    | 98,838                    | 9,209                    |
| Interest income   | 72                            | 871                      | 2,040                     | 2,075                    |
| Minority interest   | 4,707                         | (4,262)                  | (2,401)                   | 867                      |
| Income (loss) from discontinued operations, net of<br>income taxes and minority interests | 5,956                         | 3,025                    | (23,445)                  | (121,869)                |

## NOTE 15. BUSINESS SEGMENTS FROM CONTINUING OPERATIONS

The Company has changed their operating segments in 2007 as a result of change of internal organization structure by management. As the Company disposed of its entire Travel Network in September 2008, the Company's continuing operations are classified into two primary business segments accordingly, which operate exclusively: 1) Media Network segment provides marketing communications consultancy services to customers in China and 2) Investment Holding segment represents the companies which provide administrative and management services to its subsidiaries or fellow subsidiaries. The accounting policies of the segments are the same as described in the summary of significant accounting policies. There were no inter-segment sales.

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| For the Three Months Ended                            |               | Investment |              |
|---|---------------|------------|--------------|
| September 30, 2008                                    | Media Network | Holding    | Total        |
| Revenues  | \$ 2,520,474  | \$ -       | \$ 2,520,474 |
| Net loss from continuing operations                   | 11,956,600    | 3,589,807  | 15,546,407   |
| Depreciation and amortization                         |               |            |              |
| - Equipment and intangible assets                     | 448,865       | 92,666     | 541,531      |
| - Deferred charges and debt discount                  | -             | 1,392,116  | 1,392,116    |
| Interest expense                                      | -             | 383,334    | 383,334      |
| Allowance for doubtful debt for other receivables (1) | 1,411,287     | -          | 1,411,287    |
| Non-cash impairment charges                           | 5,671,782     | -          | 5,671,782    |
| Assets  | 36,278,980    | 8,245,851  | 44,524,831   |
| Capital Expenditures                                  | 205,712       | -          | 205,712      |

| For the Three Months Ended          |               | Investment |            |
|-------------------------------------|---------------|------------|------------|
| September 30, 2007                  | Media Network | Holding    | Total      |
| Revenues                            | \$ 466,071    | \$ -       | \$ 466,071 |
| Net loss from continuing operations | 118,248       | 3,088,771  | 3,207,019  |
| Depreciation and amortization       |               |            |            |
| - Equipment and intangible assets   | 55,309        | 74,897     | 130,206    |
| Assets                              | 3,211,071     | 8,526,429  | 11,737,500 |
| Capital Expenditures                | -             | 41,532     | 41,532     |

| For the Nine Months Ended                             |               | Investment |              |
|---|---------------|------------|--------------|
| September 30, 2008                                    | Media Network | Holding    | Total        |
| Revenues  | \$ 4,158,529  | \$ -       | \$ 4,158,529 |
| Net loss from continuing operations                   | 21,937,422    | 10,839,219 | 32,776,641   |
| Depreciation and amortization                         |               |            |              |
| - Equipment and intangible assets                     | 1,297,961     | 121,839    | 1,419,800    |
| - Deferred charges and debt discount                  | -             | 4,091,104  | 4,091,104    |
| Allowance for doubtful debt for other receivables (1) | 1,411,287     | -          | 1,411,287    |
| Non-cash impairment charges                           | 5,918,467     | -          | 5,918,467    |
| Interest expense                                      | -             | 1,109,125  | 1,109,125    |
| Assets  | 36,278,980    | 8,245,851  | 44,524,831   |
| Capital Expenditures                                  | 3,338,300     | 119,051    | 3,457,351    |

| For the Nine Months Ended           |               | Investment |            |
|-------------------------------------|---------------|------------|------------|
| September 30, 2007                  | Media Network | Holding    | Total      |
| Revenues                            | \$ 965,995    | \$ -       | \$ 965,995 |
| Net loss from continuing operations | 144,714       | 8,314,336  | 8,459,050  |
| Depreciation and amortization       |               |            |            |
| -Equipment and intangible assets    | 64,834        | 250,919    | 315,753    |
| Assets                              | 3,211,071     | 8,566,429  | 11,777,500 |
| Capital Expenditures                | 3,330         | 54,119     | 57,449     |

## Remarks :

(1) The Company recorded a one-time doubtful debt provision of \$1,411,287 for other receivables during the three months ended September 30, 2008. Such provision was included in general and administrative expenses on the consolidated statements of operations for the three and nine months ended September 30, 2008.





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

CAUTIONARY STATEMENTS

The following management’s discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the Company’s condensed consolidated financial statements and the notes thereto included in “Part I — Financial Information, Item 1. Financial Statement”. All amounts are expressed in U.S. dollars.

OVERVIEW

Network CN Inc. (“we” or “the Company”), originally incorporated on September 10, 1993, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the People’s Republic of China (“the PRC” or “China”). It was operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. The most recent former name was Teda Travel Group, Inc. On August 1, 2006, the Company changed its name to “Network CN Inc.” in order to better reflect the Company’s vision under its new and expanded management team.

Our business plan in early 2006 was to build a nationwide information and entertainment network in the PRC. To achieve this goal, we established two business divisions: the Media Business division and the Non-Media Business division. During the latter half of 2006, we adjusted our primary focus away from the Non-Media Business to our Media Business and began building a media network with the goal of becoming a nationwide leader in out-of-home, digital display advertising, roadside LED digital video panels and mega-size video billboards.

With the completion of \$50 million financing in three tranches from November 2007 to January 2008, the Company’s original plan was to secure advertising rights and install a nationwide digital network up to 20 mega-size panels and 2,000 roadside panels. With the support of the investors in the financing, however, substantial amount of funds in the aggregate amount of approximately US\$15 million were re-allocated to two major projects, namely, Terminal 3 Beijing Airport Project (the “T3 Project”) and the Co-operation Project with Beijing All Media Culture Group (the “BAMC Project”) from which the Company expected to generate substantial revenues with the 2008 Beijing Olympics. The T3 Project covers an exclusive right to operate 98 freestanding multimedia advertisement light boxes in designated locations within the newly-built Terminal 3 of the Beijing International Airport, while the BAMC Project covers an exclusive right to operate 11,000 in-building LCD screens in governmental and office buildings, banks, hotels, hospitals, Olympic venues and other locations in Beijing.

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Disposal of Non-Media Business

The Board of Directors of the Company resolved in June 2008 that it was in the best interests of the Company to focus on developing its media business and to explore ways of divesting its travel business. During the quarter, the Company successfully sold its entire travel network.

The Company believed that it was in the best interests of the Company to dispose of its non-core business in order to focus on developing its media business.

Market Conditions

The Company's results of operations during the nine months ended September 30, 2008 were negatively affected by a variety of factors including:

- The rising costs to acquire advertising rights due to competition among bidders for those rights;
- Delays in obtaining government approvals for panel installation due to the government's focus on fighting snow storms in different provinces in the early months of the year;
  - Slower than expected consumer acceptance of the digital form of advertising media;
  - Strong competition from other media companies;
- The provision of free advertising time to air earthquake information, government recovery efforts and donation-related information for the 8.0 magnitude earthquake in the Sichuan Province;
  - Various administrative delays and restrictions of the Beijing Olympic Committee limiting advertisements during the Olympic period in Olympic-related panels to official Olympic sponsors only. Non-Olympic sponsors with which the Company had negotiated were forced to pull out; and
- Slowing demand due to the worldwide financial crisis and deteriorating economic conditions in China, leading many customers to cut their advertising budget. The impact of the reduction in the pace of advertising spending is expected to be more significant on our new digital form of media than traditional advertising platforms.

In addition to the above market factors, one of our key projects, the T3 Project, also encounters the following issues:

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T3 Project

In November 2007, the Company obtained an exclusive right to operate 98 freestanding multimedia advertisement light boxes to be situated in designated locations within Beijing International Airport in China for a 3-year period. Terminal 3 is the new international terminal which was scheduled to open in January 2008 but the opening date was delayed to late March 2008. The commencement date to operate our advertisement light boxes, originally planned to operate in January 2008, was therefore delayed to late March 2008.

During the 2008 Olympics, as required by the Olympic Organizing Committee, all the advertising contracts had to be signed among three parties, namely, the Beijing International Airport Authority, the authority party with advertising rights directly granted by the Beijing International Airport Authority (the "Authority Party"), and the customer. The authority party had the right to receive the relevant payment from customers on behalf of the Company. In July 2008, in view of the market situation, the Company started re-negotiating certain terms of the concession right contract with the Authority Party. Subsequently in August 2008, the Company received a unilateral termination letter regarding the exclusive right from the authority party. During September 2008, the Authority Party received a total of \$1,411,287 from customers on behalf of the Company without paying back to the Company. Currently, the Company is evaluating its ability to take legal action against the authority party for the withheld payment and all other associated losses. No assurance can be given that the Company will be able to recover the fees due to it and has conservatively treated the withheld payment as uncollectible in the financial statements. Accordingly, allowance for doubtful debt of \$1,411,287 was provided for such receivable during the three months ended September 30, 2008.

For more information relating to the Company's business, please see the section entitled "Description of Business" in the Annual Report on Form 10-KSB as filed by Network CN Inc. with the United States Securities and Exchange Commission on March 24, 2008.

RESTATEMENTS OF CONSOLIDATED FINANCIAL STATEMENTS

On October 10, 2008, we filed a Current Report on Form 8-K to announce that our Board of Directors, based upon the consideration of issues addressed in the SEC review and the recommendation of the Audit Committee, determined that we should restate our previously issued condensed consolidated financial statements for quarterly periods ended March 31, 2008 and June 30, 2008 and consolidated financial statements for the year ended December 31, 2007.

The restatement adjustments corrected the accounting errors arising from our misapplication of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. The Company initially amortized the discount according to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio", which stated that discount resulting from allocation of proceeds to the beneficial conversion feature should be recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion. As the notes are convertible at the date of issuance, the Company fully amortized such discount through interest expense at the date of issuance accordingly. However, according to Issue 6 of EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", EITF Issues No. 98-5 should be modified to require the discount related to the beneficial conversion feature to be accreted from the date of issuance to the stated redemption date regardless of when the earliest conversion date occurs using the effective interest method. The restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27.

The aggregate net effect of the restatement was to (1) increase stockholders' equity by approximately \$14.3 million, \$15.1 million and \$4.7 million as of June 30, 2008, March 31, 2008 and December 31, 2007 respectively; (2) increase both non-cash interest expense and net loss for the three months ended June 30, 2008 by approximately \$0.8 million and decrease both non-cash interest expense and net loss for the three months ended March 31, 2008 and for the year

ended December 31, 2008 by approximately \$10.4 million and \$4.7 million respectively. Accordingly, the net loss per common share (basic and diluted) for the three months ended June 30, 2008 and March 31, 2008 increased from \$0.11 to \$0.12 and decreased from \$0.26 to \$0.12 respectively while for the year ended December 31, 2008 decreased from \$0.28 to \$0.21.

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CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including but not limited to those related to income taxes and impairment of long-lived assets. We base our estimates on historical experience and on various other assumptions and factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Based on our ongoing review, we plan to adjust to our judgments and estimates where facts and circumstances dictate. Actual results could differ from our estimates.

We believe the following critical accounting policies are important to the portrayal of our financial condition and results and require our management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain.

(1) Principles of Consolidation

The condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities. Variable interest entities are those entities in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the Company is the primary beneficiary of these entities. In accordance with Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"), the primary beneficiary is required to consolidate the variable interest entities for financial reporting purposes. All significant intercompany transactions and balances have been eliminated upon consolidation.

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## (2) Prepayments for advertising operating rights

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are in general charged to the consolidated statements of operations on a straight-line basis over the operating period. All the costs expected to be amortized after 12 months of the balance sheet date are classified as non-current assets.

An impairment loss is recognized when the carrying amount of the prepayments for advertising operating rights exceeds the sum of the undiscounted cash flows expected to be generated from the advertising operating right's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

## (3) Equipment, Net

Equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life as follows:

|                         |                                |
|-------------------------|--------------------------------|
| Media display equipment | 5 - 7 years                    |
| Office equipment        | 3 - 5 years                    |
| Furniture and fixtures  | 3- 5 years                     |
| Leasehold improvements  | Over the unexpired lease terms |

Construction in progress is carried at cost less impairment losses, if any. It relates to construction of media display equipment. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use.

When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in the statement of operations. Repairs and maintenance costs on equipment are expensed as incurred.

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(4) Intangible Assets, Net

Intangible assets are stated at cost less accumulated amortization and provision for impairment loss. Intangible assets that have indefinite useful lives are not amortized. Other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives of 16 months to 20 years. The amortization methods and estimated useful lives of intangible assets are reviewed regularly.

(5) Impairment of Long-Lived Assets

Long-lived assets, including intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An intangible asset that is not subject to amortization is reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset and intangible asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(6) Convertible Promissory Notes and Warrants

In 2007, the Company issued 12% convertible promissory note and warrants and 3% convertible promissory notes and warrants. In 2008, the Company issued additional 3% convertible promissory notes and warrants. As of June 30, 2008 and December 31, 2007, the warrants and embedded conversion feature were classified as equity under Emerging Issues Task Force ("EITF") Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and met the other criteria in paragraph 11(a) of Statement of Financial Accounting Standards ("SFAS") No.133 "Accounting for Derivative Instruments and Hedging Activities". Such classification will be reassessed at each balance sheet date. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments".

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The portion of debt discount resulting from the allocation of proceeds to the financial instruments related to warrants associated with convertible promissory notes is being amortized to interest expense over the life of the convertible promissory notes, using the effective yield method. For the portion of debt discount resulting from the allocation of proceeds to the beneficial conversion feature, it is amortized to interest expense over the term of the notes from the respective dates of issuance, using the effective yield method.

(7) Early Redemption of Convertible Promissory Notes

Should early redemption of convertible promissory notes occur, the unamortized portion of the associated deferred charges and debt discount would be fully written off and any early redemption premium will be recognized as expense upon its occurrence. All related charges, if material, would be aggregated and included in a separate line "charges on early redemption of convertible promissory notes". Such an expense would be included in ordinary activities on the consolidated statement of operations as required by SFAS No.145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections".

Pursuant to the provisions of agreements in connection with the 3% convertible promissory notes, in the event of a default, or if the Company's actual EPS in any fiscal year is less than 80% of the respective EPS target, certain investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. The Company accounts for such potential liability of 20% internal rate of return on the then outstanding principal amount in accordance with SFAS No. 5 "Accounting for Contingencies".

(8) Revenue Recognition

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with EITF Issue No. 99-17, "Accounting for Advertising Barter Transactions", which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions. The amounts included in advertising services revenue and general and administrative for barter transactions were approximately \$41,000 and \$nil for the three and nine months ended September 30, 2008 and 2007 respectively.

For hotel management services, the Company recognizes revenue in the period when the services are rendered and collection is reasonably assured.



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For tour services, the Company recognizes services-based revenue when the services have been performed. Guangdong Tianma International Travel Service Co., Ltd (“Tianma”) offers independent leisure travelers bundled packaged-tour products which include both air-ticketing and hotel reservations. Tianma’s packaged-tour products cover a variety of domestic and international destinations.

Tianma organizes inbound and outbound tour and travel packages which can incorporate, among other things, air and land transportation, hotels, restaurants and tickets to tourist destinations and other excursions. Tianma books all elements of such packages with third-party service providers such as airlines, car rental companies and hotels, or through other tour package providers and then resells such packages to its clients. A typical sale of tour services is as follows:

1. Tianma, in consultation with sub-agents, organizes a tour or travel package, including making reservations for blocks of tickets, rooms, etc. with third-party service providers. Tianma may be required to make deposits, pay all or part of the ultimate fees charged by such service providers or make legally binding commitments to pay such fees. For air-tickets, Tianma normally books a block of air tickets with airlines in advance and pays the full amount of the tickets to reserve seats before any tours are formed. The air tickets are usually valid for a certain period of time. If the pre-packaged tours do not materialize and are eventually not formed, Tianma will resell the air tickets to other travel agents or customers. For hotels, meals and transportation, Tianma usually pays an upfront deposit of 50-60% of the total cost. The remaining balance is then settled after completion of the tours.
2. Tianma, through its sub-agents, advertises tour and travel packages at prices set by Tianma and sub-agents.
3. Customers approach Tianma or its appointed sub-agents to book an advertised packaged tour.
4. The customers pay a deposit to Tianma directly or through its appointed sub-agents.
5. When the minimum required number of customers (which number is different for each tour based on the elements and costs of the tour) for a particular tour is reached, Tianma will contact the customers for tour confirmation and request full payment. All payments received by the appointed sub-agents are paid to Tianma prior to the commencement of the tours.
6. Tianma will then make or finalize corresponding bookings with outside service providers such as airlines, bus operators, hotels, restaurants, etc. and pay any unpaid fees or deposits to such providers.

Tianma is the principal in such transactions and the primary obligor to the third-party providers regardless of whether it has received full payment from its customers. In addition, Tianma is also liable to the customers for any claims relating to the tours such as accidents or tour services. Tianma has adequate insurance coverage for accidental loss arising during the tours. The Company utilizes a network of sub-agents who operate strictly in Tianma’s name and can only advertise and promote the business of Tianma with the prior approval of Tianma.

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(9) Stock-based Compensation

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R “Share-Based Payment”, a revision to SFAS No. 123 “Accounting for Stock-Based Compensation”, and superseding APB Opinion No. 25 “Accounting for Stock Issued to Employees” and its related implementation guidance. Effective January 1, 2006, the Company adopted SFAS No. 123R, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. SFAS No. 123R requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized in expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value, as required by SFAS No. 123R, which is measured as of the date required by EITF Issue 96-18 “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services”. In accordance with EITF 96-18, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached (“performance commitment date”) or the date at which performance is complete (“performance completion date”). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

(10) Income Taxes

The Company accounts for income taxes under SFAS No. 109 “Accounting for Income Taxes”. Under SFAS No. 109, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

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 reversed. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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(11) Foreign Currency Translation

The assets and liabilities of the Company's subsidiaries denominated in currencies other than United States ("U.S.") dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For statement of operations' items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the consolidated statements of operations.

(12) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". SFAS No. 157 defined fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. In February 2008, the FASB released FASB Staff Position No. FAS 157-2 "Effective Date of FASB Statement No. 157", which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement did not have a material effect on the Company's future reported financial position or results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157 "Fair Value Measurements". The adoption of this statement did not have a material effect on the Company's financial statements.

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In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised), “Business Combinations” (“SFAS No. 141 (R)”), replacing SFAS No. 141, “Business Combinations” (“SFAS No. 141”), and SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”. SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require; the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the impact of adopting SFAS No. 141 (R) and SFAS No. 160 on its financial statements and related disclosures.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS No.133 “Accounting for Derivative Instruments and Hedging Activities” (SFAS No. 133) as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No.161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently assessing the impact of adopting SFAS No. 161 on its financial statements and related disclosures.

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In May 2008, the FASB issued SFAS No. 162 “The Hierarchy of Generally Accepted Accounting Principles”. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used. Any effect of applying the provisions of this statement will be reported as a change in accounting principle in accordance with SFAS No. 154 “Accounting Changes and Error Corrections”. SFAS No. 162 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60”. The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”. This Statement will not have any impact on the Company’s consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1 “Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion”. APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer’s nonconvertible debt borrowing rate. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The Company is currently evaluating the impact of the adoption of this position could have on its financial condition, results of operations and cash flows.

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In June 2008, the FASB issued Emerging Issues Task Force Issue No. 07-5 “Determining whether an Instrument (or Embedded Feature) is indexed to an Entity’s Own Stock” (“EITF No. 07-5”). This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of SFAS No. 133 “Accounting for Derivatives and Hedging Activities” (“SFAS 133”) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. EITF No.07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The Company is currently evaluating the impact of adoption of EITF No. 07-5 on its financial statements and related disclosures.

In June 2008, FASB issued EITF Issue No. 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5 (“EITF No. 08-4”)”. The objective of EITF No.08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible notes and related warrants transactions.

RESULTS OF OPERATIONS

For the three months ended September 30, 2008 and 2007

Revenues

In the three months ended September 30, 2008 our revenues were derived from sale of advertising services. Revenues from advertising services for the three months ended September 30, 2008 were \$2,520,474 as compared to \$466,071 for the corresponding prior year period, an increase of 441%, the significant increase was due to the Company started to generate LED advertising revenue in late 2007.

Cost of Advertising Services

Cost of advertising services for the three months ended September 30, 2008 was \$5,651,467, an increase of 1513% compared to \$350,325 for the corresponding prior year period. The significant increase was attributable to the consolidation of Botong and Bona in 2008. In addition, there is an increase in amortization of advertising rights which were acquired in the later half of 2007 and early 2008 and depreciation of media display equipments which were placed into operation in early 2008.

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Selling and Marketing Expenses

Selling and marketing expenses for the three months ended September 30, 2008 increased by 520% to \$656,114 compared to \$105,847 for the corresponding prior year period, primarily due to increase in advertising services provided by the Company.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2008 increased by 37% to \$4,408,534 compared to \$3,215,893 for the corresponding prior year period. The increase was mainly due to the occurrence of a one-time allowance for doubtful debt of \$1,411,287 for other receivables during the three months ended September 30, 2008. Such other receivables represented the balance of payment from our customers being withheld by the Authority Party of T3 Project. In addition, the increase was also driven by the increase in staff costs, office rental expense and other miscellaneous administrative expense as a result of the Company's expansion in 2008, while offset by the decrease in the stock-based compensation expense. The decrease in the stock-based compensation was mainly due to less stock having been granted for services rendered in 2008.

Non-cash impairment charges

The Company recorded non-cash impairment charges of \$5,671,782 for the three months ended September 30, 2008 compared to \$nil for the corresponding prior year period. As the Company recorded a continuous net loss, it performed an impairment review of its prepayments for advertising operating rights during the quarter ended September 30, 2008. Accordingly, an impairment loss of \$3,473,468, \$1,737,991 and \$460,323 was recorded for prepayments for advertising operating rights associated with T3 Project, BAMC Project and certain roadside advertising panels' projects, respectively.

Interest Expenses

Interest expense for the three months ended September 30, 2008 was \$1,775,450, compared to \$nil for the corresponding prior year period. The increase was primarily due to the issuance of convertible promissory notes in late 2007 and early 2008.

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Net loss from Continuing Operations

The Company incurred a net loss from continuing operations of \$15,546,407 for the three months ended September 30, 2008, an increase of 385% compared to a net loss of \$3,207,019 for the corresponding prior year period. The increase in net loss was driven by several factors: (1) increase in cost of advertising services related to our media business as mention above, (2) increase in impairment loss of \$5,671,782 recorded for prepayments for advertising operating rights associated with T3 project, BAMC project and certain roadside advertising panels' projects, (3) increase in amortization of deferred charges and a debt discount associated with the issuance of convertible promissory notes in late 2007 and early 2008, (4) the increase in amortization charges of intangible assets of \$259,665 as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in January 2008, (5) occurrence of a one-time allowance for doubtful debt of \$1,411,287 for other receivables as mentioned above and (6) an increase in professional fees, payroll and other administrative expenses as a result of our rapid expansion.

For the nine months ended September 30, 2008 and 2007

Revenues

In the nine months ended September 30, 2008 our revenues were derived from the sale of advertising services. Revenues from advertising services for the nine months ended September 30, 2008 were \$4,158,529, as compared to \$965,995 for the corresponding prior year period, an increase of 330%. The significant increase was attributable to the Company beginning to generate LED advertising revenue in late 2007.

Cost of Advertising Services

Cost of advertising services for the nine months ended September 30, 2008 was \$14,258,071, an increase of 1917% compared to \$706,698 for the corresponding prior year period. The significant increase was attributable to the consolidation of Botong and Bona in 2008. In addition, there is an increase in amortization of advertising rights which acquired in the latter half of 2007 and in the early of 2008 and depreciation of media display equipment which were placed into operation in the early of 2008.

Selling and Marketing Expenses

Selling and marketing expenses for the nine months ended September 30, 2008 increased by 842% to \$2,120,397 compared to \$225,092 for the corresponding prior year period, primarily due to an increase in advertising services provided by the Company.



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General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2008 increased by 17% to \$9,929,559 compared to \$8,500,827 for the corresponding prior year period. The increase was mainly due to the occurrence of a one-time allowance for doubtful debt of \$1,411,287 for other receivables during the three months ended September 30, 2008. Such other receivables represented the balance of payment from our customers being withheld by the Authority Party of T3 Project. Besides, the increase was also driven by the increase in staff costs, office rental expense and other miscellaneous administrative expense as a result of the Company's expansion in 2008, while offset by the decrease in the stock-based compensation expense. The decrease in the stock-based compensation was mainly due to less stock having been granted for services rendered during the nine months ended September 30, 2008.

Non-cash impairment charges

The Company recorded non-cash impairment charges of \$5,671,782 for the nine months ended September 30, 2008 compared to \$nil for the corresponding prior year period. As the Company recorded a continuous net loss, it performed an impairment review of its prepayments for advertising operating rights during the quarter ended September 30, 2008. Accordingly, an impairment loss of \$3,473,468, \$1,737,991 and \$460,323 was recorded for prepayments for advertising operating rights associated with T3 Project, BAMC Project and certain roadside advertising panels' projects, respectively.

Interest expenses

Interest expense for the nine months ended September 30, 2008 were \$5,200,229 compared to \$421 for the corresponding prior year period. The significant increase was primarily due to the issuance of convertible promissory notes in 2007 and 2008.

Net loss from Continuing Operations

The Company incurred a net loss from continuing operations of \$32,776,641 for the nine months ended September 30, 2008, an increase of 287% compared to a net loss of \$8,459,050 for the corresponding prior year period. The increase in net loss was driven by several factors: (1) increase in cost of advertising services related to our media business as mention above, (2) increase in impairment loss of \$5,671,782 recorded for prepayments for advertising operating rights associated with T3 project, BAMC project and certain roadside advertising panels projects,, (3) the increase in amortization of deferred charges and a debt discount associated with the issuance of convertible promissory notes in late 2007 and early 2008, (4) the increase in amortization charges of intangible assets of \$778,995 as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in January 2008 (5) occurrence of a one-time allowance for doubtful debt of \$1,411,287 for other receivables as mentioned above and (6) an increase in professional fees, payroll and other administrative expenses as a result of our rapid expansion.

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## Discontinued Operations

As previously discussed, the Company sold its entire travel network during the three months ended September 30, 2008. The Company entered into stock purchase agreements to dispose of its entire travel network.

On September 1, 2008, the Company completed the sale of all its interests in NCN Management Services Limited (“NCN Management Services”) to Zhanpeng Wang (“Zhanpeng”), an individual for a consideration of HK\$1,350,000, or approximately US\$173,000, in cash. Zhanpeng acquired NCN Management Services along with its subsidiaries, which include 100% interest in NCN Hotels Investment Limited, 100% interest in NCN Pacific Hotels Limited and a 55% interest (through trust) in Tianma. The Company reported a gain on the sale, net of income taxes and minority interests of \$61,570.

On September 30, 2008, the Company completed the sale of its 99.9% interest in NCN Landmark International Hotel Group Limited (“NCN Landmark”) to Ngar Yee Tsang (“Ngar”), an individual for a cash consideration of \$20,000. Ngar acquired NCN Landmark along with its subsidiary, 100% interest in Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes and minority interests of \$4,515.

The Company treated the sales of NCN Management Services along with its subsidiaries and variable interest entity and NCN Landmark along with its subsidiary as discontinued operations. Accordingly, revenues, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. Summary operating results for the discontinued operations for travel network as follows:

|  | For the Three Months ended |             | For the Nine Months Ended |               |
|--|----------------------------|-------------|---------------------------|---------------|
|  | September                  | September   | September                 | September 30, |
|  | 30,                        | 30,         | 30,                       | September 30, |
|  | 2008                       | 2007        | 2008                      | 2007          |
| Revenues   | 6,342,479                  | 8,018,734   | 24,528,096                | 15,432,761    |
| Cost of revenues   | (6,242,465)                | (7,926,043) | (24,172,537)              | (15,221,181)  |
| Gross Profit   | 100,014                    | 92,691      | 355,599                   | 211,580       |
| Operating expenses   | (156,864)                  | (91,597)    | (477,481)                 | (345,600)     |
| Other income   | 58,027                     | -           | 98,838                    | 9,209         |
| Interest income  | 72                         | -           | 2,040                     | 2,075         |
| Minority interest  | 4,707                      | (4,262)     | (2,401)                   | 867           |
| Income (loss) from discontinued operations, net of income taxes and minority interests | 5,956                      | (3,168)     | (23,405)                  | (121,869)     |

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2008, the Company had cash of \$10,041,572 compared to \$2,233,528 as of December 31, 2007, representing an increase of \$7,808,044. The increase was attributable to the issuance of convertible promissory notes in late 2007 and early 2008.

Net cash utilized by operating activities for the nine months ended September 30, 2008 was \$16,012,039, as compared with \$2,004,231 for the corresponding prior year period. The increase in net cash used in operating activities was attributable to an increase in the payments for acquiring advertising operating right.

Net cash used in investing activities for the nine months ended September 30, 2008 was \$6,648,969, compared with net cash used in investing activities of \$376,647 for the corresponding prior year period. For the nine months ended September 30, 2008, the investing activities consisted primarily of the purchase of equipment related to our media business and costs associated with the acquisition of Cityhorizon BVI. Net cash used in investing activities in the nine months ended September 30, 2008 was also increased by the sale of the entire travel network in the quarter ended September 30, 2008, resulting a cash outflow of \$472,827 which represents the proceeds of disposals, net of cash disposed of.

Net cash provided by financing activities was \$28,900,000 for the nine months ended September 30, 2008, compared with net cash provided by financing activities of \$1,519,380 for the corresponding prior year period. The increase was primarily attributable to the issuance of \$35,000,000 in 3% Convertible Promissory Notes, offset by \$5,000,000 paid to redeem outstanding 12% convertible promissory note due May 2008. For the nine months ended September 30, 2007, the financing activities were attributable to a private placement that raised proceeds of \$1,500,000.

Capital Expenditures

We continue to seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions. During the nine months ended September 30, 2008, we acquired assets of \$3,761,165 which were financed through proceeds from the issuance of convertible promissory notes.

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## Commitments

## a) Rental Lease Commitment

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of September 30, 2008:

|                                      |              |
|--------------------------------------|--------------|
| Three months ending December 31,2008 | \$ 256,530   |
| Fiscal years ending December 31,     |              |
| 2008                                 | \$ 256,530   |
| 2009                                 | 971,561      |
| 2010                                 | 843,241      |
| 2011                                 | 197,474      |
| Total                                | \$ 2,268,806 |

## b) Annual Advertising Operating Rights Fee Commitment

Since November 2006, the Company, through its subsidiaries, NCN Media Services Limited, Quo Advertising, Xuancai yi, Bona and Botong, have acquired rights from third parties to operate 1,864 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels for periods ranging from 1 to 20 years.

A summary of the estimated future annual advertising operating rights fee commitments based on the 1,864 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels as of September 30, 2008 was as follows:

|                                      |               |
|--------------------------------------|---------------|
|                                      | (In millions) |
| Three months ending December 31,2008 | \$ 13.06      |
| Fiscal years ending December 31,     |               |
| 2008                                 | \$ 13.06      |
| 2009                                 | 14.61         |
| 2010                                 | 4.04          |
| 2011                                 | 4.06          |
| 2012                                 | 3.97          |
| Thereafter                           | 25.42         |
| Total                                | \$ 65.16      |

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Remarks :

1)The above 1,864 roadside advertising panels include 98 freestanding multimedia advertisement light boxes under T3 Project which the Company received a unilateral termination letter regarding the exclusive right from the Authority Party in August 2008. Currently, the Company is evaluating its ability to take legal action against the Authority Party.

2)The contract period for T3 Project was 3 years. As the termination of exclusive right from Authority Party was unilateral, the Company conservatively included the future annual advertising operating right fees in the above commitment table. Such future annual advertising operating rights fees of T3 Project were reflected in 2009 and 2010 with balance of \$8.9 million and \$9.9 million respectively.

c) Capital commitments

As of September 30, 2008, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$97,000.

Financing Activities

Due to the unexpected unfavorable market conditions described above, cash inflows from advertising revenues were less than we expected. The Company will have to raise additional funds in order to further expand its media network, though it should be able to satisfy its requirements during the next 12 months if it scales down its operations. Because we presently have only limited revenue from operations, we intend to continue to rely primarily on financing through the sale of our equity and debt securities to satisfy future capital requirements such that we will be able to finance ongoing operations. There can be no assurance that we will be able to enter into such agreements. Current global financial conditions and unfavorable conditions in our existing notes described below make securing a financing difficult to achieve. Failure to raise additional funds would have a material adverse effect on our financial condition. Furthermore, the issuance of equity or debt securities which are or may become convertible into equity securities in connection with such financing could result in substantial additional dilution to the stockholders.

To address our cash constraints, the Board of Directors has directed management to undergo drastic cost-cutting exercises including reduction of the Company's workforce, rentals, as well as selling and marketing expenses and other general and administrative expenses. Commencing in October, salary increases to the four executive directors during 2008 would be accrued but payments will be withheld. In addition, contractual share grants for 2008 to the top executives will be withheld until further notice. Management is re-assessing the commercial viability of each of the Company's concession rights, actively negotiating with the authority parties of concession rights to reduce rights fees and exploring ways to terminate commercially non-viable concession rights contracts. Impairment losses have been provided for T3 Project, BAMC Project and certain roadside advertising panels' projects during the three months ended September 30, 2008. Please refer to Note 7 - Prepayments for Advertising Operating Rights for details.

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3% Convertible Promissory Notes and Warrants

The Company's convertible promissory notes and warrants contain various provisions that protect the interests of the holders of these securities in a manner that may be adverse to our common stock holders. The 3% Convertible Promissory Notes bear interest at 3% per annum payable semi-annually in arrears and mature on June 30, 2011. The Warrants grant the holders the right to acquire shares of common stock at \$2.50 and \$3.50 per share.

The 3% Convertible Promissory Notes are convertible into shares of common stock at an initial conversion price of \$1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price will be adjusted downward on an annual basis if the Company should fail to meet certain annual earnings per share ("EPS") targets. The Company anticipates that it is unlikely to meet the 2008 EPS target and thus it is likely that the conversion price would be adjusted downward. The amount of the adjustment could potentially reduce the conversion price dramatically and result in substantial dilution to our stockholders.

The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward and thus it is likely that the exercise price would be adjusted downward as discussed above. The amount of the adjustment could potentially reduce the exercise price dramatically and result in substantial dilution to our stockholders.

In the event of a default, or if the Company's actual EPS for any fiscal year is less than 80% of the respective EPS target, the investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. If the Company were to receive EPS for 2008 at less than 80% of the target for 2008, the investors could require the Company to redeem the notes as discussed above. The Company currently does not have funds sufficient to pay the redemption amounts that would be owed if the investors elect to redeem the notes. There can be no assurance that the Company would be able to raise such funds in the event the investors choose to exercise their option to redeem the notes. Failure to pay the redemption amount would have a material adverse effect on our financial condition.

It is likely that the Company will not achieve 80% of its EPS target for 2008, thus giving the investors the right to call the notes for redemption as discussed above. The Company has been discussing its situation with the investors, and believed that the likelihood of the investors calling for early redemption is between remote and reasonably possible.

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Discontinued Operations

As previously discussed, the Company disposed of its entire travel network during the three months ended September 30, 2008 in order to focus on its media business. The Company believed that the impact of the absence of cash flows related to the discontinued operation of our travel network was immaterial to the Company's future liquidity and capital resources.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

The follow discussion about our market risk disclosures involves forward-looking statements. Actual results could differ from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest rate sensitivity – The Company has no significant interest-bearing assets, the Company’s income and operating cash flows are substantially independent of changes in market rates. The Company’s fair value interest-rate risk arises from convertible notes issued which issued at fixed rates.

Foreign currency exchange risk – We face exposure to adverse movements in foreign currency exchange rates. Because our financial results are denominated in U.S. dollars, our foreign currency exchange exposure is related to the fact that our operating business are currently conducted in China and substantially all of our revenues and expenses are denominated in Renminbi (“RMB”) and our funding are denominated in United States Dollars (“USD”), fluctuations in exchange rates between USD and RMB will affect our balance sheet and financial results. Our assets and liabilities related to RMB were related to accounts receivable and payables. Since July 2005, RMB has been no longer solely pegged with USD but is pegged against a basket of currencies as a whole in order to keep a more stable exchange rate for international trading. With the very strong economic growth in China in the last few years, RMB is facing a very high pressure to appreciate against USD. Such pressure would result in more fluctuations in exchange rates and in turn our business would suffer from higher foreign currency exchange rate risk. There are very limited hedging tools available in China to hedge our exposure in exchange rate fluctuations. They are also ineffective in the sense that these hedges cannot be performed in the PRC financial market, and more important, the frequent changes in PRC exchange control regulations would limit our hedging ability for RMB. As of September 30, 2008, we do not expect an increase or decrease in the foreign exchange rate for RMB will have a material impact on our financial position. We have not hedged against foreign currency fluctuations.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”). The purpose of this evaluation was to determine if, as of the Evaluation Date, our disclosure controls and procedures were operating effectively such that the information, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were operating effectively.



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(b)Changes in Internal Control over Financial Reporting.

There have been no significant changes in our internal controls over financial reporting that occurred during the third quarter of fiscal year 2008 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2008, we are not aware of any material, active or pending legal proceedings against the Company or its subsidiaries or variable interest entities, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings adverse to the Company in which any of our directors, officers or affiliates of the Company, any owner of record or beneficiary of more than 5% of any class of voting securities of the Company, or security holder is a party or has a material interest.

Item 1A. Risk Factors

1. Risks Related to Operating Our Business in China

All of our assets and revenues are derived from our operations located in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

The PRC's economic, political and social conditions, as well as governmental policies, could affect the financial markets in China, our liquidity and our ability to access to capital and to operate our business.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past several years, growth has been irregular, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Company. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970's emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, establishing monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to slow down specific segments of China's economy, which is believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and our ability to access to capital and to operate our business.

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China's central bank announced on 16 January 2008 that it will raise the required reserve ratio for commercial banks by half a percentage point as of 25 January 2008. As such, the ratio would be raised to 15 %, the highest since 1984. The intention of this action, together with other stringent monetary policies, is to reduce their lending power in an effort to cool down the economic overheating. Together with this action, the central bank raised the reserve ratio a total of 11 times and benchmark interest rates six times from last year. Since from last few years, excess liquidity is a major challenge for the China government as it results in bubbles and economic overheating. China's stock market benchmark Shanghai Composite Index almost doubled last year and the economy expanded 11.5 % in the first three quarters of 2007.

Such move is due to the fact that the PRC government has prime concern about Renminbi appreciation and accelerating inflation pressure. In January 2008, it is reported that China's macro data showed a slightly decrease in both the trade surplus and money supply from November. China's December trade surplus is US\$22.7 billion and it shows a jump of 48 % from a year earlier. Due to the export surplus, M2, the broadest measure of money supply, rises 16.7 % to US\$5.55 trillion from a year earlier. Along with the trade surplus growth, it helps push up foreign reserves to a total US\$1.53 trillion by the end of 2007. At the same time, economic growth is likely to continue accelerating. Inflation in China surges to 6.9 % in November 2007, the fastest since 1996.

It is expected that the PRC government will continue to institute further tightening measures to cool down the risk of the liquidity-fueled A-share bubble and hot property market. The interest rate and the reserve requirement ratio would likely go higher in this year. These actions, together with other actions and policies of the government, could materially affect our liquidity and operation in business.

Our operations in China may be adversely affected by changes in the policies of the PRC government.

The political environment in the PRC may adversely affect the Company's business operations. PRC has been operating as a socialist state since 1949 and is controlled by the Communist Party of China. In recent years, however, the government has introduced reforms aimed at creating a "socialist market economy" and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, foreign investment and so on. Since most of our operating assets and revenues are derived from our operations located in China, our business and financial condition, results of operations and prospects are closely subject to economic, political and legal developments in China. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increases of such disparities could affect the political or social stability of the PRC.

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Our business development in China may be affected by the introduction of Enterprise Income Tax Law (the EIT Law) effective from January 1, 2008.

The EIT Law was promulgated by the National People's Congress on March 16, 2007 to introduce a new uniform taxation regime in the PRC. Both resident and non-resident enterprises deriving income from the PRC will be subject to this EIT Law from January 1, 2008. It replaces the previous two different tax rates applied to foreign-invested enterprises and domestic enterprises by only one single income tax rate applied for all enterprises in the PRC. Under this EIT Law, except for some hi-tech enterprises which are subject to EIT rates of 15%, the general applicable EIT rate in the PRC is 25%. We may not enjoy tax incentives for our further established companies in the PRC and therefore our tax advantages over domestic enterprises may be diminished. As a result, our business development in China may be adversely affected.

The PRC government exerts substantial influence over the manner in which the Company must conduct its business activities.

Only recently has the PRC government permitted greater provincial and local economic autonomy and private economic activities. The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Accordingly, any decision not to continue to support recent economic reforms and to return to a more centrally planned economy, regional or local variations in the implementation of economic policies could have a significant effect on economic conditions in the PRC or particular regions. The Company may be requested to divest the interests it then holds in Chinese properties or joint ventures. Any such developments could have a material affect on the business, operations, financial condition and prospects of the Company.

Future inflation in China may inhibit economic activity and therefore affect our operations.

Recently, the Chinese economy has experienced periods of rapid expansion. During this period, there have been high rates of inflation. As a result, the PRC government adopted various corrective and cool-down measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has moderated since 1995, high inflation would cause the PRC government to impose controls on credit and/or prices, which could inhibit economic activity in China, and thereby affecting the Company's business operations and prospects in the PRC.

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We may be restricted from exchanging RMB to other currencies in a timely manner.

At the present time, Renminbi (“RMB”) is not an exchangeable currency. The Company receives nearly all of its revenue in RMB, which may need to be exchanged to other currencies, primarily U.S. dollars, and remitted outside of the PRC. Effective from July 1, 1996, foreign currency “current account” transactions by foreign investment enterprises, including Sino-foreign joint ventures, are no longer subject to the approval of State Administration of Foreign Exchange (“SAFE”, formerly, “State Administration of Exchange Control”), but need only a ministerial review, according to the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions promulgated in 1996 (the “FX regulations”). “Current account” items include international commercial transactions, which occur on a regular basis, such as those relating to trade and provision of services. Distributions to joint venture parties also are considered a “current account transaction”. Other non-current account items, known as “capital account” items, remain subject to SAFE approval. Under current regulations, the Company can obtain foreign currency in exchange for RMB from swap centers authorized by the government. The Company does not anticipate problems in obtaining foreign currency to satisfy its requirements; however, there is no assurance that foreign currency shortages or changes in currency exchange laws and regulations by the PRC government will not restrict the Company from exchanging RMB in a timely manner. If such shortages or changes in laws and regulations occur, the Company may accept RMB, which can be held or reinvested in other projects.

We may suffer from exchange rate risks that could result in foreign currency exchange loss.

Because our business transactions are denominated in RMB and our funding will be denominated in USD, fluctuations in exchange rates between USD and RMB will affect our balance sheet and financial results. Since July 2005, RMB has been no longer solely pegged with USD but is pegged against a basket of currencies as a whole in order to keep a more stable exchange rate for international trading. With the very strong economic growth in China in the last few years, RMB is facing a very high pressure to appreciate against USD. Such pressure would result in more fluctuations in exchange rates and in turn our business would suffer from higher foreign currency exchange rate risk.

There are very limited hedging tools available in China to hedge our exposure in exchange rate fluctuations. They are also ineffective in the sense that these hedges cannot be performed in the PRC financial market, and more important, the frequent changes in PRC exchange control regulations would limit our hedging ability for RMB.

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Due to our assets are located in PRC, stockholders may not receive distributions that they would otherwise be entitled to if we were declared bankruptcy or insolvency.

Due to the Company's assets are located in PRC, the assets of the Company may be outside of the jurisdiction of U.S. courts to administer if the Company was the subject of an insolvency or bankruptcy proceeding. As a result, if the Company was declared bankrupt or insolvent, the Company's stockholders may not be able to receive the distributions on liquidation that they are otherwise entitled to under U.S. bankruptcy law.

If any of our PRC companies becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy those assets, which could materially affect our business, ability to generate revenue and the market price of our common stock.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the advertising businesses, we currently conduct our operations in China through contractual arrangements with with shareholders of Quo Advertising, Lianhe, Bona and Botong. As part of these arrangements, these persons hold some of the assets that are important to the operation of our business. If any of these entities files for bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could affect our business, financial condition and results of operations.

Our acquisitions of Quo Advertising, Xuancaiye, Lianhe and Bona were structured to attempt to fully comply with PRC rules and regulations. However, such arrangements may be adjudicated by relevant PRC government agencies as not being in compliance with PRC governmental regulations on foreign investment in advertising industries and such structures may limit our control with respect to such entities.

Since 2005, the PRC government has allowed foreign investors to directly own 100% of an advertising business if the foreign investor has at least three years of direct operations in the advertising business outside of China or to own less than 100% if the foreign investor has at least two years of direct operations in the advertising industry outside of China. As we do not currently directly operate an advertising business outside of China, we are not entitled to own directly 100% of an advertising business in China.

Our advertising business was run through our contractual arrangements with our PRC operating subsidiary Quo Advertising. Quo Advertising was owned by two PRC citizens designated by us and directly operated our advertising network projects. In January 2008, we restructured our advertising business after further acquiring the media subsidiaries namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising, Bona and Botong. In addition, Lianhe also entered into an equity pledge agreement and an option purchase agreement with each of the shareholders of Quo Advertising, Bona and Botong pursuant to which these shareholders had pledged 100% of their shares to Lianhe and granted Lianhe the option to acquire their shares at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders. These commercial arrangements enable us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation.

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Since we believe that there is risk in our structural arrangement with advertising entities, we try to minimize this risk by consulting a local legal counsel in China. The local legal counsel critically analyzes and reviews the documents and agreements. Based on the advice given by the local legal counsel, we make amendments in our legal documents and, if necessary, and prepare additional legal document in order to improve our position for the case of any legal proceeding. Although the risk cannot be avoided totally, we believe that we performed our reasonable effort to reduce the risk arising from our contractual arrangement.

We have been and will continue to be dependent on these PRC operating companies to operate our advertising business in the near future. If our existing PRC operating subsidiaries are found to be in violation of any PRC laws or regulations and fail to obtain any of the required permits or approvals under any relevant PRC regulations, we could be penalized. It would have an effect on our ability to conduct business in these aspects.

The PRC government regulates the advertising industry. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on this industry, our business may be affected.

The PRC government regulates the advertising industry. We are required to obtain applicable permits or approvals from different regulatory authorities to conduct our business, including separate licenses for advertising activities. If we fail to obtain or maintain any of the required permits or approvals, we may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations. As a result, our financial condition and results of operations may be affected.

We have attempted to comply with the PRC government regulations regarding licensing requirements by entering into a series of agreements with our affiliated Chinese entities. If the PRC laws and regulations change, our business in China may be affected.

To comply with the PRC government regulations regarding licensing requirements, we have entered into a series of agreements with our affiliated Chinese entities to exert operational control and secure consulting fees and other payments from them. We have been advised by our PRC legal counsel that our arrangements with our affiliated Chinese entities are valid under current PRC laws and regulations. However, we cannot assure that we will not be required to restructure our organization structure and operations in China to comply with changing and new PRC laws and regulations. Restructuring of our operations may result in disruption of our business, diversion of management attention and the incurrence of substantial costs.

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The PRC legal system embodies uncertainties, which could limit law enforcement availability.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedence. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 28 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Each of our PRC operating subsidiaries and affiliates is subject to PRC laws and regulations. However, these laws and regulations change frequently and the interpretation and enforcement involve uncertainties. For instance, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be difficult to evaluate the outcome of administrative court proceedings and the level of law enforcement that we would receive in more developed legal systems. Such uncertainties, including the inability to enforce our contracts, could affect our business and operation. In addition, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the industries in which we operate, including the promulgation of new laws. This may include changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the availability of law enforcement, including our ability to enforce our agreements with Lianhe, Bona, Botong, and Quo Advertising with other foreign investors.

Recent PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activities. If our shareholders who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

The PRC National Development and Reform Commission, NDRC, and SAFE recently promulgated regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.



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Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file with the local branch of SAFE any material change involving capital variation. This would include an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest over the assets located in China. If any PRC shareholder fails to make the required SAFE registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company. The offshore parent company may be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We cannot guarantee that all of our shareholders who are PRC residents will comply with our request to obtain any registrations or approvals required under these regulations or other related legislation. Furthermore, as the regulations are relatively new, the PRC government has yet to publish implementing rules, and much uncertainty remains concerning the reconciliation of the new regulations with other approval requirements. It is unclear how the regulations concerning offshore or cross-border transactions will be implemented by the relevant government authorities. The failure or inability of our PRC resident shareholders to comply with these regulations may subject us to fines and legal sanctions, restrict our overseas or cross-border investment activities, limit our ability to inject additional capital into our PRC subsidiaries, and the ability of our PRC subsidiaries to make distributions or pay dividends, or affect our ownership structure. If any of the foregoing events occur, our acquisition strategy, business operations and ability to distribute profits to our investors could be affected.

The PRC tax authorities may require us to pay additional taxes in connection with our acquisitions of offshore entities that conduct their PRC operations through their affiliates in China.

Our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For instance, in the case of some of our acquisitions of offshore entities that conducted their PRC operations through their affiliates in China, we cannot assure our investors that the PRC tax authorities will not require us to pay additional taxes in relation to such acquisitions, in particular where the PRC tax authorities take the view that the previous taxable income of the PRC affiliates of the acquired offshore entities needs to be adjusted and additional taxes be paid. In the event that the sellers failed to pay any taxes required under PRC laws in connection with these transactions, the PRC tax authorities might require us to pay the tax together with late-payment interest and penalties.

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We rely on our affiliated Chinese personnel to conduct travel and advertising businesses. If our contractual arrangements and commercial agreement arrangements with our affiliated Chinese personnel are violated, our related businesses will be damaged.

As mentioned earlier, we depend on commercial agreements and contractual arrangements to run our advertising and traveling businesses respectively in China. These agreements and contracts are governed by PRC laws and provide for the resolution of disputes through arbitration or litigation in the PRC. Upon arbitration or litigation, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could disable us to enforce these commercial agreements and contractual arrangements. Should such a situation occur, we may be unable to enforce these agreements and contracts, and unable to enforce our control over our operating subsidiaries to conduct our businesses.

We have limited business insurance coverage in China.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we have limited business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources and have an effect on our business and operating results.

Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We rely on dividends from our subsidiaries in China and consulting and other fees paid to us by our affiliated Chinese entities. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Further, if our subsidiaries and affiliated Chinese entities in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

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2. Risks Related to Our Media Business

In early 2007, we have entered into a contract to acquire Quo Advertising to expand our business operations in the media business. Since the acquisition, we have successfully entered into several material business agreements in Beijing, Shanghai, Nanjing, Wuhan and so on to manage and operate LED outdoor advertising video panels and mega-size digital video billboards. In January 2008, we restructured our advertising business after further acquiring the media companies namely Lianhe and Bona. We anticipate that we would enter into agreements in other major cities to strengthen our position in the out-of-home media business in China. In addition to the risks described above in “Risks Related to Operating a Business in China”, we are subject to additional risks related to our media business.

The media and advertising industries are sensitive to changes in economic conditions and advertising trends.

The advertisers’ spending to advertise is highly depends on the changes in general economic conditions and advertising trends. A deterioration of economic conditions would lead to a decrease in demand for advertising, the advertisers would reduce the advertising expenditures and significantly affect our revenue.

The media and advertising industries are highly competitive and we will compete with companies that are larger and better capitalized.

We have to compete with other advertising companies in the out-of-home advertising market. We compete for advertising clients primarily in terms of network size and coverage, locations of our LED panels and billboards, pricing, and range of services that we can offer. We also face competition from advertisers in other forms of media such as out-of-home television advertising network in commercial buildings, hotels, restaurants, supermarkets and convenience chain stores. We expect that the competition will be more severe in the near future. The relatively low fixed costs and the practice of non-exclusive arrangement with advertising clients would provide a very low barrier for new entrants in this market segment. Moreover, international advertising media companies have been allowed to operate in China since 2005, exposing us to even greater competition.

Moreover, it becomes more difficult to increase the number of desirable locations in major cities because most of the locations have already been occupied by our competitors and limitation by municipal zoning and planning policies. In other cities, although we could increase the locations, they would only generate less economic return to the Company. Anyway, we anticipate the economic return would increase with the pace of economic development of these cities. If we are unable to increase the placement of our out-of-home advertising market, we may be unable to expand our client base to sell advertising time slots on our network or increase the rates we charge for time slots. As a consequence of this, our operating margins and profitability may be reduced, and may result in a loss of market share. Since we are a new entrant to this market segment, we have less competitive advantages than the existing competitors in terms of experience, expertise, and marketing force. The Company is tackling these problems by further acquisition of well-established advertising company like Quo Advertising, Lianhe and Bona. We cannot guarantee that we will be able to compete against new or existing competitors to generate profit.

Moreover, due to the less desirable locations currently the Company has, we can only charge the advertisers for at a lower rates. If the Company is unable to continuously secure more desirable locations for deployment of our advertising poster frames, we may be unable or need to lower our rates to attract advertisers to purchase time slots from us to generate satisfactory profit.

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If we cannot enter into further agreements for roadside LED video panels and mega-size digital video billboards in other major cities in China, we may be unable to grow our revenue base and hence unable to generate higher levels of revenue.

The Company continues geographic expansion in media network by entering into business cooperation agreements with local advertising companies to operate and manage our roadside LED video panels and mega-size digital video billboards in China. We have concluded several major agreements and are currently searching for more opportunities. Nevertheless, many of the most desirable locations in the major cities have been occupied by our competitors. If we are unable to or need to pay extra considerations in order to enter into any new agreements, it may highly increase our costs of sales and may be unable to convince our advertisers to purchase more advertising time and generate our satisfactory profits.

If we are unable to attract advertisers to advertise on our networks, we will be unable to grow our revenue base to generate revenues.

We charge our advertisers based on the time that is used on our roadside LED video panels and mega-size digital video billboards. The desire of advertisers to advertise on our out-of-home media networks depends on the size and coverage of the networks, the desirability of the locations of the LED panels and billboards, our brand name and charging rate. If we fail to increase the number of locations, displays and billboards in our networks to provide the advertising services to suit the needs of our advertisers, we may be unable to attract them to purchase our advertising time to generate revenues.

If the public does not accept our out-of-home advertising media, we will be unable to generate revenue.

The out-of-home advertising network that we are developing is a rather new concept in China. It is too early to conclude whether the public accept this advertising means or not. In case the public finds any element like audio or video features in our media network to be disruptive or intrusive, advertisers may withdraw their requests for purchasing time slots from us and to advertise on other networks. On the contrary, if the viewing public is receptive toward our advertising network, our advertisers will continue to purchase the time from us. As such, together with other uncertainties like locations coverage, acceptance by public etc, we may be unable to generate satisfactory revenue in our media network business.

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We may be subject to government regulations in installing our out-of-home roadside LED video panels and mega-size digital video billboards advertising network.

The placement and installation of LED panels and billboards are subject to municipal zoning requirements and governmental approvals. It is necessary to obtain approvals for construction permits from the relevant supervisory departments of the PRC government for each installation of roadside LED video panel and mega-size digital video billboard. However, we cannot provide any guarantee that we can obtain all the relevant government approvals for all of our installations in China. If such approvals are not granted, we will be unable to install LED panels or billboards on schedule, or may incur more installation costs.

If we are unable to adapt to changing advertising trends and the technology needs of advertisers and consumers, we will not be able to compete effectively and we will be unable to increase or maintain our revenues, which may affect our business prospects and revenues.

The market for out-of-home advertising requires us to research new advertising trends and the technology needs of advertisers and consumers, which may require us to develop new features and enhancements for our advertising network. The majority of our displays use medium-size roadside LED video panels. We also use mega-size LED digital video billboards. We are currently researching ways that we may be able to utilize other technology such as cable or broadband networking, advanced audio technologies and high-definition panel technology. Development and acquisition costs may have to be incurred in order to keep pace with new technology needs but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. Furthermore, we may fail to respond to these changing technology needs. For instance, if the use of wireless or broadband networking capabilities on our advertising network becomes a commercially viable alternative and meets all applicable PRC legal and regulatory requirements, and we fail to implement such changes on our out-of-home network and in-store network or fail to do so in a timely manner, our competitors or future entrants into the market who do take advantage of such initiatives could gain a competitive advantage over us. If we cannot succeed in developing and introducing new features on a timely and cost-effective basis, advertiser demand for our advertising networks may decrease and we may not be able to compete effectively or attract advertising clients, which would have an effect on our business prospects and revenues.

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3. Risks Related To Regulation of Our Business and Our Structure

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties.

Our media operations are conducted by Lianhe, Botong, Bona and Quo Advertising through commercial agreements arrangement.

PRC regulations require any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Beginning December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry. We do not directly operate an advertising business outside of China and cannot qualify under PRC regulations any earlier than two or three years after we commence any such operations outside of China or until we acquire a company that has directly operated an advertising business outside of China for the required period. Accordingly, our PRC operating subsidiaries are currently unable to apply for the required licenses for providing advertising services in China. Before 2008, all of our advertising business is run through Quo Advertising, which is owned by two PRC citizens designated by us. Quo Advertising holds the requisite licenses to provide advertising services in China. We have entered into contractual agreements with the shareholders of Quo Advertising, which provide us with the substantial ability to control Quo Advertising and its subsidiaries.

In January 2008, we restructured our advertising business after further acquiring the media companies namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising, Bona and Botong. In addition, we entered into an equity pledge agreement and an option agreement with each of the shareholders of Quo Advertising, Bona and Botong and pursuant to which these shareholders had pledged 100% of their shares to Lianhe and granted Lianhe the option to acquire their shares at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders. These commercial arrangements enable us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation.

If we, our existing or future PRC operating subsidiaries and affiliates are found to be in violation of any PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce (SAIC), would have broad discretion in dealing with such violations, including:

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- revoking the business and operating licenses of our PRC subsidiaries and affiliates;
- discontinuing or restricting our PRC subsidiaries' and affiliates' operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply;
- requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements and commercial agreement arrangement with our PRC operating companies and their shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.

In the past, the Company has relied on contractual arrangements with the shareholders of Quo Advertising to operate our advertising business. In January 2008, we restructure our advertising business after further acquiring the media companies namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into a series of commercial agreements with each of Quo Advertising, Bona and Botong and their respective registered shareholders. It enables us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation. These contractual arrangements and commercial agreement arrangements may not be as effective in providing us with control over media subsidiaries as direct ownership. If our PRC operating subsidiaries or any of their subsidiaries and shareholders fails to perform their respective obligations under these contractual arrangements and commercial agreement arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law. This would also include seeking specific performance or injunctive relief, and claiming damages, which we cannot guarantee to be effective.

Many of these contractual arrangements and commercial agreement arrangements are governed by PRC laws and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements and commercial agreements, we may not be able to exert effective control over our operating entities, and our ability to conduct our business may be negatively affected.

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Contractual arrangements and commercial agreement arrangements we have entered into among our subsidiaries and affiliated entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.

Under PRC laws, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions we have entered into among our subsidiaries and affiliates are found not to be on an arm's length basis or result in a reduction in tax under PRC laws, the PRC tax authorities will disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties accordingly.

Our business operations may be affected by legislative or regulatory changes.

There are no formal PRC laws or regulations that define or regulate out-of-home advertising. It has been reported that the relevant PRC government authorities are currently considering adopting new regulations governing out-of-home advertising. We cannot predict the timing of establishing such regulations and their impacts on our Company. Changes in laws and regulations or the enactment of new laws and regulations governing placement or content of out-of-home advertising, may affect our business prospects and results of operations. For instance, the PRC government has promulgated regulations allowing foreign companies to hold a 100% equity interest in PRC advertising companies starting from December 10, 2005. We are not certain how the PRC government will implement this regulation or how it could affect our business and our organization structure.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from raising finance to make loans or additional capital contributions to our PRC operating subsidiaries and affiliates.

As an offshore holding company of our PRC operating subsidiaries and affiliates, we may make loans to our PRC subsidiaries and consolidated PRC affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries or consolidated PRC affiliated entities are subject to PRC regulations and approvals.

We may also decide to finance advertising subsidiaries by means of capital contributions. These capital contributions to advertising subsidiaries must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot guarantee that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our operating subsidiaries. If we fail to receive such registrations or approvals, these would adversely affect the liquidity of our operating subsidiaries and our ability to expand the business.



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4. Risks Related to Corporate and Stock Matters

The loss of key management personnel could harm our business and prospects.

We depend on key personnel who may not continue to work for us. Our success substantially depends on the continued employment of certain executive officers and key employees, particularly Godfrey Hui who is our founder, Chairman and Chief Executive Officer, and Daniel So, our Vice Chairman and Managing Director. Not only do we rely on their expertise and experience in our business, we also need their business vision, management skills, and good relationships with our employees and major shareholders to achieve our business targets.

The loss of services of these or other key officers or employees could harm our business. If any of these individuals were to leave our company, our business and growth prospects may be severely disrupted. We would face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience.

The market for the Company's common stock is illiquid.

The Company's common stock is traded on the Over-the-Counter Bulletin Board. It is thinly traded compared to larger and more widely known companies in its industry. Thinly traded common stock can be more volatile than stock trading in an active public market. The Company cannot predict the extent of an active public market for its common stock.

We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.

The Company has a limited operating history and is still in the development stage. Our Company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves or operate on a profitable basis. We are in the development stage and potential investors should be aware of the difficulties encountered. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investments in our Company.

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Our acquisitions of Quo Advertising, Xuancai yi, Lianhe, Bona and any future acquisitions may expose us to potential risks and have an affect on our ability to manage our business.

It is our strategy to expand our business through acquisitions like that of Quo Advertising, Xuancai yi, Lianhe and Bona. We would keep on searching for appropriate opportunities to acquire more businesses or to form joint ventures, etc. that are complementary to our core business. For each acquisition, our management encounters whatever difficulties during the integration of new operations, services and personnel with our existing operations. We may also expose ourselves to other potential risks like unforeseen or hidden liabilities of the acquired companies, the allocation of resources from our existing business to the new operations, uncertainties in generating expected revenue, employee relationships and governing by new regulations after integration. The occurrence of any of these unfavorable events in our recent acquisitions or possible future acquisitions could have an effect on our business, financial condition and results of operations.

There may be unknown risks inherent in our acquisitions of Quo Advertising, Xuancai yi, Lianhe and Bona.

Although we had conducted due diligence with respect to the acquisition of Quo Advertising, Xuancai yi, Lianhe and Bona, there is no assurance that all risks associated with the companies have been revealed. To protect us from associated liabilities, we have received guarantees of indemnification from the original owners. However, if we were to enforce such guarantees, it could be very costly and time consuming. The possibility of unknown risks in those acquisitions could affect our business, financial condition and results of operations.

All of our directors and officers are outside the United States. It may be difficult for investors to enforce judgments obtained against officers or directors of the Company.

All of our directors and officers are nationals and/or residents of countries other than the United States, and all their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on our directors or officers, or enforce within the United States or Canada any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be prevented from pursuing remedies under U.S. federal securities laws against them. In addition, investors may not be able to commence an action in a Canadian court predicated upon the civil liability provisions of the securities laws of the United States. The foregoing risks also apply to those experts identified in this Annual Report that are not residents of the United States.

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Our substantial indebtedness and related interest payments could adversely affect our operations.

Since November 2007, we have issued convertible promissory notes with warrants. Our related interest payments on such convertible promissory notes could impose financial burdens on us. If further new debt is added to our consolidated debt level, the related risks that we now face could intensify. Covenants in the convertible notes and warrants agreements governing our existing convertible notes, and debt we may incur in the future, may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments, and encumber or dispose of assets. In addition, financial covenants contained in agreements relating to our existing and future debt could lead to a default in the event our results of operations do not meet our plans and we are unable to amend such financial covenants prior to default. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us, our financial condition and our capital structure.

We need additional funds to expand our business through company and project acquisitions. If we are unable to raise additional funds, we would be restricted from further business expansion.

Since we are at the expansion stage of our business, we may require further funding for capital investment in acquiring target companies and projects. To raise funds, we may, upon having the consent from our investors, need to issue new equities or bonds which could result in additional dilution to our shareholders and in operating and financing covenants that would restrict our operations and strategy. If we are unable to raise additional funds, our business expansion would be hampered.

If we issue additional shares, this may result in dilution to our existing stockholders.

Our Certificate of Incorporation authorizes the issuance of 800,000,000 shares of common stock and 5,000,000 shares of preferred stock. Our Board of Directors has the authority to issue additional shares up to the authorized capital stated in the Certificate of Incorporation. Our Board of Directors may choose to issue shares to acquire one or more businesses or to provide additional financing in the future. The issuance of shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we issue additional shares, there may be a reduction in the proportionate ownership and voting power of all other stockholders. Further, any issuance may result in a change of control of the Company.

The authorized preferred stock constitutes what is commonly referred to as “blank check” preferred stock. This type of preferred stock allows the Board of Directors to designate the preferred stock into a series, and determine separately for each series any one or more relative rights and preferences. The Board of Directors may issue shares of any series without further stockholder approval. Preferred stock authorized in series allows our Board of Directors to hinder or discourage an attempt to gain control by a merger, tender offer at a control premium price, or proxy contest. Consequently, the preferred stock could entrench our management. In addition, the market price of our common stock could be affected by the existence of the preferred stock.

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If we or our independent registered public accountants cannot attest to our adequacy of the internal control measures over our financial reporting, as required by Section 404 of the U.S. Sarbanes-Oxley Act in future, we may be adversely affected.

As a public company, we are required to report our internal control structure and procedures for financial reporting in our Annual Report on Form 10-KSB under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 by the SEC. The report must contain an assessment by management about the effectiveness of our internal controls over financial reporting. Additionally, our independent registered public accounting firm will be required to issue reports on management's assessment of our internal control over financial reporting and their evaluation of the operating effectiveness of our internal control over financial reporting. Starting from 2008, the auditor's report is required for every financial year end.

The Company has paid attention to its internal control procedures. In 2007 we established an internal control working group to investigate and evaluate our operations and improve procedures wherever necessary. With the participation and guidance of management, we have evaluated our internal control systems such that our management can report on, and our independent public accounting firm can attest to our internal control system pursuant to the requirements under Section 404 of the Sarbanes-Oxley Act of 2002.

The Company believes that it has adequate internal control procedures in place. However, we are still exposed to potential risks from Section 404 of the Sarbanes-Oxley Act of 2002 that requiring companies to have high standard of internal control procedures. It may be possible that our management cannot attest to our effectiveness of internal controls over financial reporting. Furthermore, even if our management attests to our internal control measures to be effective, our independent registered public accountants may not be satisfied with our internal control structure and procedures. If our management cannot attest to our internal control measures at any time in the future, or if our independent registered public accounting firm are not satisfied with our internal control structure, it could result in an adverse impact on us in the financial marketplace due to the loss of investor confidence in the reliability of our financial statements, which could negatively impact our stock market price.

Trading may be restricted by the SEC, which may limit a stockholder's ability to buy and sell our stock.

The SEC has adopted Rule 15g-9, which generally defines "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share. Our securities are covered by rules that impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The rules require a broker-dealer, prior to a transaction in penny stock, to deliver a standardized risk disclosure document in a form prepared by the SEC. This provides information about the nature and level of risks in the penny stock market. The broker-dealer must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, these rules require that prior to a transaction in a penny stock not otherwise exempt from these rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investors' interest in and limit the marketability of our common stock.



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NASD sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, the National Association of Securities Dealers ("NASD") has adopted rules that require a broker-dealer, when providing investment recommendations, must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status and investment objectives. Under interpretations of these rules, the NASD believes that there is a high probability that low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend their customers buying our common stock, which may limit ability of our investors to buy and sell our stock and hence have an effect on the market for our shares.

Stockholders should have no expectation of any dividends.

The holders of our common stock are entitled to receive dividends, when, as and if declared by the Board of Directors out of funds of the Company legally available for the payment of dividends. To date, we have not declared nor paid any cash dividends. The Board of Directors does not intend to declare any dividends in the near future, but instead intends to retain all earnings, if any, for use in our business operations.

Certain terms of the Company's convertible promissory notes and Common Stock warrants could result in other security holders suffering potentially significant dilution.

The Company's convertible promissory notes and warrants, as well as the purchase agreement, contain various provisions that protect the interests of the holders of these securities in a manner that may be adverse to our Common Stock holders. The 3% Convertible Promissory Notes bear interest at 3% per annum payable semi-annually in arrears and mature on June 30, 2011. The 3% Convertible Promissory Notes are convertible into shares of common stock at an initial conversion price of \$1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price will be adjusted downward on an annual basis if the Company should fail to meet certain annual earnings per share ("EPS") targets described in the notes. In the event of a default, or if the Company's actual EPS for any fiscal year is less than 80% of the respective EPS target, certain Investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. The Warrants grant the holders the right to acquire shares of common stock at \$2.50 and \$3.50 per share, subject to customary anti-dilution adjustments. The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward in accordance with the provisions of the notes.

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

Not applicable.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Submission of Matters to a Vote of Security Holders

The following matters were presented for stockholder vote at the annual general meeting of stockholders held on August 30, 2008: (1) election of 9 members to our board of directors, each to serve until our annual meeting in 2009, and until their respective successors are qualified and elected or earlier resignation or removal; and (2) ratification of the appointment of the Company's independent registered public accounting firms for the fiscal year ended on December 31, 2008; The respective votes of each matter were indicated as follows:

## 1. Election of 9 members to our board of directors:

| Name of the directors | For        | Withhold Authority |
|-----------------------|------------|--------------------|
| Godfrey Hui           | 36,266,899 | -0-                |
| Daley Mok             | 36,266,899 | -0-                |
| Daniel So             | 36,266,899 | -0-                |
| Stanley Chu           | 36,266,899 | -0-                |
| Joachim Burger        | 36,266,893 | -6-                |
| Gerd Jakob            | 36,266,893 | -6-                |
| Edward Lu             | 36,266,893 | -6-                |
| Peter Mak             | 36,266,893 | 6                  |
| Ronglie Xu            | 36,266,899 | -0-                |

2. Ratification of the appointment of Jimmy C.H. Cheung & Co., independent registered public accounting firm, to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending December 31, 2008;

|                         | For        | Against | Abstain |
|-------------------------|------------|---------|---------|
| Jimmy C.H. Cheung & Co. | 36,266,899 | -0-     | -0-     |

There were no broker non-votes for any of the proposals.

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Item 5. Other information

Not applicable.

Item 6. Exhibits

EXHIBIT INDEX

| Exhibit No. | Description of Document   |
|-------------|---|
| 31.1        | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2        | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                |
| 32.2        | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                |

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SIGNATURES

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

NETWORK CN INC.

Date: November 13, 2008

By:

/s/ GODFREY HUI  
Godfrey Hui,  
Chief Executive Officer

Date: November 13, 2008

By:

/s/ DALEY MOK  
Daley Mok,  
Chief Financial Officer