

NETWORK CN INC  
Form 10-Q  
May 15, 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 March 31, 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)

11-3177042  
(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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of shares outstanding of the Registrant's Common Stock as of May 13, 2008 was 71,546,608 shares

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All financial information in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 ("Quarterly Report") is in United States dollars, referred to as "U.S. Dollars" or "\$".

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

On one or more occasions, we may make forward-looking statements in this Quarterly Report on Form 10-Q regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events.

Words or phrases such as “anticipates”, “may”, “will”, “should”, “believes”, “estimates”, “expects”, “intends”, “plans”, “predicts”, “targets”, “will likely result”, “will continue” or similar expressions identify forward-looking statements. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties, including, but not limited to those listed below and those business risks and factors described elsewhere in this report and our other Securities and Exchange Commission filings.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. We caution that while we make such statements in good faith and believe such statements are based on reasonable assumptions, including without limitation, management’s examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved. Factors that may cause such differences include but are not limited to:

- our ability to maintain normal terms with vendors and service providers;
- our ability to fund and execute our business plan;
- adverse changes in general economic and competitive conditions;
- potential additional adverse laws or regulations could have a material adverse affect on our liquidity, results of operations and financial condition; and
- our ability to maintain an effective internal control structure.

We have attempted to identify, in context, certain of the factors that we believe may cause actual future experience and results to differ materially from our current expectation regarding the relevant matter or subject area. In addition to the items specifically discussed above, our business and results of operations are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under “Part II — Other Information, Item 1A. Risk Factors” and elsewhere herein.

From time to time, oral or written forward-looking statements are also included in our reports on Forms 10-K, 10-Q and 8-K, Proxy Statements on Schedule 14A, press releases, analyst and investor conference calls, and other communications released to the public. Although we believe that at the time made, the expectations reflected in all of these forward-looking statements are and will be reasonable, any or all of the forward-looking statements in this Quarterly Report, our reports on Forms 10-K and 8-K, our Proxy Statements on Schedule 14A and any other public statements that are made by us may prove to be incorrect.

This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Quarterly Report on Form 10-Q, certain of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Quarterly Report or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent annual and periodic reports filed with the SEC on Forms 10-K, 10-Q and 8-K and Proxy Statements on Schedule 14A.

Unless the context requires otherwise, references to “we”, “us”, “our” and the “Company” refer specifically to Network CN Inc. and its subsidiaries.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

NETWORK CN INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | As of<br>March 31,<br>2008<br>(Unaudited) | As of<br>December<br>31,<br>2007<br>(Audited) |
|---|---|---|
| <b>ASSETS</b>   |   |   |
| <b>Current Assets</b>   |   |   |
| Cash  | \$ 17,384,582                             | \$ 2,233,528                                  |
| Accounts receivable, net  | 1,222,706                                 | 1,093,142                                     |
| Prepayments for advertising operating rights  | 16,322,662                                | 13,636,178                                    |
| Prepaid expenses and other current assets   | 7,156,117                                 | 3,101,699                                     |
| <b>Total Current Assets</b>   | <b>42,086,067</b>                         | <b>20,064,547</b>                             |
| Equipment, Net  | 5,386,824                                 | 257,403                                       |
| Intangible Assets, Net (Note 7)   | 8,379,781                                 | 6,114,550                                     |
| Deferred Charges, Net   | 1,579,567                                 | 670,843                                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 57,432,239</b>                      | <b>\$ 27,107,343</b>                          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |   |   |
| <b>Current Liabilities</b>  |   |   |
| Accounts payable, accrued expenses and other payables   | \$ 5,977,331                              | \$ 3,490,586                                  |
| Current liabilities from discontinued operations  | 3,655                                     | 3,655   |
| 12% convertible promissory note, net (Note 8)   | -   | 4,740,796                                     |
| <b>Total Current Liabilities</b>  | <b>5,980,986</b>                          | <b>8,235,037</b>                              |
| 3% Convertible Promissory Notes Due 2011, Net (Note 8)  | 42,045,203                                | 12,545,456                                    |
| <b>TOTAL LIABILITIES</b>  | <b>48,026,189</b>                         | <b>20,780,493</b>                             |
| <b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>   |   |   |
| <b>MINORITY INTERESTS</b>   | <b>278,470</b>                            | <b>347,874</b>                                |
| <b>STOCKHOLDERS' EQUITY (Note 10)</b>   |   |   |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized<br>none issued and outstanding  | --  | --  |
| Common stock, \$0.001 par value, 800,000,000 shares authorized<br>Issued and outstanding: 71,546,608 and 69,152,000 as of March 31, 2008 and<br>December 31, 2007, respectively | 71,547                                    | 69,152  |
| Additional paid-in capital  | 57,024,237                                | 35,673,586                                    |
| Accumulated deficit   | (48,642,819)                              | (29,829,059)                                  |

|  |               |               |
|--|---------------|---------------|
| Accumulated other comprehensive income     | 674,615       | 65,297        |
| TOTAL STOCKHOLDERS' EQUITY                 | 9,127,580     | 5,978,976     |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 57,432,239 | \$ 27,107,343 |

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

NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE  
LOSS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007  
(Unaudited)

|  | For the Three Months<br>Ended |                       |
|--|-------------------------------|-----------------------|
|  | March 31,<br>2008             | March 31,<br>2007     |
| <b>REVENUES</b>  |                               |                       |
| Travel services  | \$ 8,458,482                  | \$ 2,375,828          |
| Advertising services   | 584,167                       | 393,899               |
| <b>Total Revenues</b>  | <b>9,042,649</b>              | <b>2,769,727</b>      |
| <b>COSTS AND EXPENSES</b>  |                               |                       |
| Cost of travel services  | 8,301,823                     | 2,364,924             |
| Cost of advertising services   | 3,437,630                     | 246,682               |
| Professional fees  | 1,221,303                     | 2,776,490             |
| Payroll  | 1,609,487                     | 337,394               |
| Other selling, general & administrative                                  | 1,250,730                     | 281,084               |
| <b>Total Costs and Expenses</b>  | <b>15,820,973</b>             | <b>6,006,574</b>      |
| <b>LOSS FROM OPERATIONS</b>  | <b>(6,778,324)</b>            | <b>(3,236,847)</b>    |
| <b>OTHER INCOME</b>  |                               |                       |
| Interest income  | 10,645                        | 5,516                 |
| Other income   | 17,738                        | 2,642                 |
| <b>Total Other Income</b>  | <b>28,383</b>                 | <b>8,158</b>          |
| <b>INTEREST EXPENSE</b>  |                               |                       |
| Amortization of deferred charges and debt discount (Note 8)              | 11,790,530                    | -                     |
| Interest expense   | 346,625                       | 317                   |
| <b>Total Interest Expense</b>  | <b>12,137,155</b>             | <b>317</b>            |
| <b>NET LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS</b>               | <b>(18,887,096)</b>           | <b>(3,229,006)</b>    |
| Income taxes   | -                             | -                     |
| Minority interests   | 73,336                        | 14,611                |
| <b>NET LOSS</b>  | <b>(18,813,760)</b>           | <b>(3,214,395)</b>    |
| <b>OTHER COMPREHENSIVE GAIN (LOSS)</b>                                   |                               |                       |
| Foreign currency translation gain (loss)                                 | 609,318                       | (6,892)               |
| <b>COMPREHENSIVE LOSS</b>  | <b>\$ (18,204,442)</b>        | <b>\$ (3,221,287)</b> |
| <b>NET LOSS PER COMMON SHARE – BASIC AND DILUTED</b>                     |                               |                       |
| Net loss per common share – Basic and Diluted (Note 12)                  | \$ (0.26)                     | \$ (0.05)             |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED (Note 12)</b> | <b>71,418,201</b>             | <b>67,520,718</b>     |

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





NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007  
(Unaudited)

|  | For the Three Months Ended |                   |
|--|----------------------------|-------------------|
|  | March 31,<br>2008          | March 31,<br>2007 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                            |                   |
| Net loss   | \$ (18,813,760)            | \$ (3,214,395)    |
| Adjustments to reconcile net loss to net cash used in operating activities:    |                            |                   |
| Depreciation and amortization:   |                            |                   |
| Equipment and intangible assets  | 441,958                    | 90,193            |
| Deferred charges and debt discount   | 11,790,530                 | -                 |
| Stock-based compensation for service   | 774,743                    | 1,230,212         |
| Minority interests   | (73,336)                   | (14,611)          |
| Changes in operating assets and liabilities, net of effects from acquisitions: |                            |                   |
| Accounts receivable  | (129,564)                  | (65,970)          |
| Prepayments for advertising operating rights                                   | (235,690)                  | -                 |
| Prepaid expenses and other current assets                                      | (3,781,917)                | (145,429)         |
| Accounts payable, accrued expenses and other payables                          | 953,253                    | 355,767           |
| Net cash used in operating activities  | (9,073,783)                | (1,764,233)       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                            |                   |
| Purchase of equipment  | (2,684,884)                | (8,141)           |
| Net cash used in acquisition of subsidiaries, net                              | (2,571,749)                | (45,999)          |
| Net cash used in investing activities  | (5,256,633)                | (54,140)          |
| <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 notes                                  | (5,000,000)                |                   |
| Repayment of capital lease obligation  | -                          | (2,340)           |
| Net cash provided by (used in) financing activities                            | 28,900,000                 | (2,340)           |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH  | 581,470                    | (12,463)          |
| NET INCREASE (DECREASE) IN CASH  | 15,151,054                 | (1,833,176)       |
| CASH, BEGINNING OF PERIOD  | 2,233,528                  | 2,898,523         |
| CASH, END OF PERIOD  | \$ 17,384,582              | \$ 1,065,347      |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                       |                            |                   |
| Cash paid during the year for:   |                            |                   |
| Income taxes   | \$ -                       | \$ -              |
| Interest paid for convertible promissory note                                  | \$ 346,625                 | \$ -              |
| Interest paid for capital lease arrangement                                    | \$ -                       | \$ 317            |
| 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, 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.

NETWORK CN INC

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 months ended March 31, 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 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 for the fiscal year ended December 31, 2007, previously filed with the Securities and Exchange Commission on March 24, 2008.

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 engaged in building a nationwide information and entertainment network in China through its Media Network and Travel Network.

Details of the Company’s principal subsidiaries and variable interest entities as of March 31, 2008 are described in Note 5 – Subsidiaries and variable interest entities.

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. 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 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 March 31, 2008 and 2007, the Company had no cash equivalents.

(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) Equipment, Net

Equipment is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets, which is from three to five years. 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.

Construction in progress represents the costs incurred in connection with the construction of roadside advertising panels and mega-size advertising panels of the Companies. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service. When completed, the roadside advertising panels and mega-size advertising panels have economic life of 5 years and 7 years respectively.

(G) 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 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.

(H) 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 assets 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.

(I) Deferred Charges, Net

Deferred charges are fees and expenses directly related to an 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 interest method. Amortization of deferred charges is included in interest expense on the consolidated statements of operations while the unamortized balance is included in deferred charges on the consolidated balance sheet.

(J) 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 warrants to purchase shares of the Company's common stock and warrants to purchase shares of the Company's common stocks. 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 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 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 according to Emerging Issues Task Force ("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."

The portion of debt discount resulting from 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 portion of debt discount resulting from allocation of proceeds to the beneficial conversion feature, it is recognized as interest expenses over the minimum period from the date of issuance to the date of earliest conversion, using the effective yield method.

In addition, the Company fully redeemed 12% promissory notes due May 2008 which was issued in November 2007 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. 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.

(K) Revenue Recognition

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.
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.



For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published.

(L) Stock-based Compensation

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“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 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 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.

(M) Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". Under SFAS 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 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.

(N) 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.

(O) 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.

The diluted net loss per share is the same as the basic net loss per share for the three months ended March 31, 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.

(P) 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.

(Q) Foreign Currency Translation

The Company uses the United States dollar as its functional and reporting currency. Monetary assets and liabilities denominated in currencies other than the United States dollar are remeasured into the United States dollar at the rates of exchange at the balance sheet date. Transactions in currencies other than the United States dollar during the year are converted into the United States dollar at the rates of exchange at the transaction dates. Exchange differences are recognized in the statement of operations.

On consolidation, balance sheets of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at the rates of exchange at the balance sheet date. Statements of operations of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at average rates of exchange during the year. Exchange differences resulting from the translation of financial statements denominated in currencies other than the United States dollar and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and credited or charged directly to a separate component of shareholders' equity (deficit) and are reported as other comprehensive income (loss).

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 statements of operations.

(R) 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.

(S) 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.

(T) 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.

(U) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. 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.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”. This statement 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. 160 is 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 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 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 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 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 161 on its financial statements and related disclosures.

## NOTE 4. RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current period's presentation. The reclassification did not have an effect on total revenues, total expenses, loss from operations, net loss and net loss per share.

## NOTE 5. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal consolidated subsidiaries and variable interest entities as of March 31, 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                                  |
| NCN Management 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                   |
| Guangdong Tianma International Travel Service Co., Ltd.     | The PRC                | 55%  | Provision of tour services                          |
| NCN Landmark International Hotel Group Limited              | British Virgin Islands | 99.9%  | Provision of hotel management services              |
| Beijing NCN Landmark Hotel Management Limited               | The PRC                | 99.9%  | Provision of hotel management services              |
| Teda (Beijing) Hotels Management Limited                    | The PRC                | 100%   | Dormant and undergo wind down 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   |
| NCN Hotels Investment Limited                               | British Virgin Islands | 100%   | Dormant   |
| NCN Pacific Hotels 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                                  |
| Hui Zhong Lian He Media Technology Co., Ltd (Note 6)        | The PRC                | 100%   | Provision of high-tech services                     |
| Beijing Hui Zhong Bo Na Media Advertising Co., Ltd (Note 6) | The PRC                | 100%   | Provision of advertising services                   |
| Hui Zhi Bo Tong 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 |
|--------------------------------|-----------|------|---------|

Remarks :

The Company established its wholly owned subsidiaries, Crown Eagle Investment Limited and Profit Wave Investment Limited in January 2008.

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## NOTE 6. BUSINESS COMBINATIONS

## (a) Acquisition of CityHorizon BVI

On January 1, 2008, the Company and its wholly owned subsidiary CityHorizon Limited, a Hong Kong company (“CityHorizon Hong Kong”), entered into a Share Purchase Agreement with CityHorizon Limited, a British Virgin Islands company (“CityHorizon BVI”), Hui Zhong Lian He Media Technology Co., Ltd., a wholly owned subsidiary of CityHorizon BVI (“Lianhe”), Beijing Hui Zhong Bo Na Media Advertising Co., Ltd., a wholly owned subsidiary of CityHorizon BVI (“Bona”), 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 acquisition will 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.

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 application systems internally developed by Lianhe for controlling LED activities. Based on a valuation performed by an independent valuer, the fair value of the 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 Hui Zhi Bo Tong 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 services fees, which amount 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, which cannot be amended or terminated except by written consent of all parties, with Lianhe. 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, Lianhe committed to extend loan totaling US\$137,179 as of January 1, 2008 to the registered shareholders of Botong for the purpose of financing such shareholders' investment in Botong. Through the above contractual arrangement, Lianhe was the primary beneficiary of Botong which was 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.

On January 1, 2008, the net assets of Botong was 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 right of \$551,031 is measured at fair value as of the effective date of Lianhe and Botong entering into the above commercial agreements and is amortized over the remaining contract period of Botong's advertising right.

#### NOTE 7. INTANGIBLE ASSETS, NET

The following table set forth information for intangible assets subject to amortization and intangible asset subject to amortization as of March 31, 2008 and December 31, 2007:

|                                     | As of<br>March 31, 2008<br>(Unaudited) | As of<br>December 31,<br>2007<br>(Audited) |
|-------------------------------------|--|--|
| Amortized intangible rights         |  |  |
| Gross carrying amount               | \$ 8,376,298                           | 7,825,267                                  |
| Less: accumulated amortization      | (1,209,424)                            | (999,106)                                  |
| Less: provision for impairment loss | (711,611)                              | (711,611)                                  |
| Amortized intangible rights, net    | 6,455,263                              | 6,114,550                                  |
| Unamortized intangible right        |  |  |
| Gross carrying amount               | 815,902                                | 815,902                                    |
| Less: provision for impairment      | (815,902)                              | (815,902)                                  |
| Unamortized intangible right, net   | -                                      | -  |
| Amortized application systems       |  |  |
| Gross carrying amount               | \$ 1,973,865                           | -  |
| Less: accumulated amortization      | (49,347)                               | -  |
| Amortized application systems, net  | 1,924,518                              | -  |
| Intangible assets, net              | \$ 8,379,781                           | 6,114,550                                  |

The increase in amortized intangible rights and amortized application systems were attributable to the consolidation of Botong and the acquisition of Cityhorizon BVI respectively. Please refer to Note 6 – Business Combinations for details. Total amortization expense of intangible assets of the Company for the quarters ended March 31, 2008 and 2007 amounted to \$259,665 and \$79,471 respectively.

NOTE 8. 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.

On February 13, 2008, the Company fully redeemed 12% promissory notes due May 2008 which was issued in November 2007 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 the Designated Holders (as defined in the Purchase Agreement), 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 and issuable in three tranches, with 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, issued on 19 November, 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 issued on 28 November 2007, and 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 to be issued in the third tranche, which was completed in January 2008. The warrants shall expire on June 30, 2011, pursuant to the Purchase Agreement.

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 Purchase Agreement. 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 of 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. 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.

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.

As of March 31, 2008, none of the conversion options and warrants associated with the above convertible promissory notes was exercised.

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<br>second<br>tranche) | 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 as of March 31, 2008 | 4,666,330                                | 7,782,728  | 18,159,697  | 30,608,755    |
| Prepayment of convertible promissory notes                                  | (5,000,000)                              | -  | -   | (5,000,000)   |
| Amortization of debt discount for the quarter ended March, 2008             | 333,670                                  | 4,881,191  | 11,221,587  | 16,436,448    |
| Net carrying value of convertible promissory notes                          | \$ -                                     | \$ 12,663,919  | \$ 29,381,284   | \$ 42,045,203 |

#### Warrant and Beneficial Conversion Features

The fair value of the financial instruments associated with warrants of both 12% convertible promissory note and 3% convertible promissory notes was 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.

The warrants 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. Accordingly, the conversion features do not require derivative accounting. The intrinsic value of beneficial conversion feature is calculated in 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 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 3% convertible promissory notes are convertible at the date of issuance, the respective debt discount equivalent to the value of beneficial conversion feature is fully amortized through interest expense as of the date of issuance.

#### Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended March 31, 2008 were as follows:

|                                 | Warrants   | Conversion<br>Features | Deferred<br>Charges | Total      |
|---------------------------------|------------|------------------------|---------------------|------------|
| 12% convertible promissory note | \$ 259,204 | -                      | 80,700              | 339,904    |
| 3% convertible promissory notes | \$ 309,747 | 11,030,303             | 110,576             | 11,450,626 |
| Total                           | \$ 568,951 | 11,030,303             | 191,276             | 11,790,530 |

## NOTE 9. 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 March 31, 2008:

|                                     |            |
|-------------------------------------|------------|
| Nine months ending December 31,2008 | \$ 348,321 |
| Fiscal year ending December 31,     |            |
| 2008                                | \$ 348,321 |
| 2009                                | 329,547    |
| 2010                                | 145,160    |
| 2011                                | 9,288      |
| Total                               | \$ 828,407 |

## 2. Annual Rights and Operating Fee Commitment

Since November 2006, the Company, through its subsidiaries NCN Media Services Limited, Quo Advertising , Xuancaiyyi, Bona and Botong has acquired rights from third parties to operate 12,984 roadside advertising panels and 14 mega-size advertising panels for periods ranging from 16 months to 20 years.

The following table sets forth the estimated future annual commitment of the Company with respect to the rights 12,984 roadside advertising panels and 14 mega-size advertising panels that the Company held as of March 31, 2008:

|                                     |               |
|-------------------------------------|---------------|
|                                     | (In millions) |
| Nine months ending December 31,2008 | \$ 16.8       |
| Fiscal year ending December 31,     |               |
| 2008                                | 16.8          |
| 2009                                | 14.1          |
| 2010                                | 3.8           |
| 2011                                | 3.7           |
| 2012                                | 3.7           |
| Thereafter                          | 24.8          |
| Total                               | \$ 66.9       |

## 3. Capital commitments

At March 31, 2008, the Company had commitments for capital projects in progress in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$12,493,000.

(b) Contingencies

The Company accounts for loss contingencies in accordance with SFAS 5, "Accounting for Loss Contingencies" and other related guidelines. Set forth below is a description of certain loss contingencies as of March 31, 2008 and management's opinion as to the likelihood of loss in respect of loss contingency.

The Company's 55%-owned subsidiary, Tianma, is a defendant in proceedings brought in the Guangzhou Yuexiu District Court. The proceedings were finalized on October 9, 2006. The facts surrounding the proceeding are as follows:

Guangdong Yongan Travel Agency ("Yongan") arranged a local tour in April 2001. Yongan rented a car from an agent of Tianma but the car did not belong to Tianma. A car accident happened during the tour, causing 20 injuries and one death. Guangzhou Police issued a proposed determination on the responsibilities of the accidents on May 18, 2001. The proposal determined that the driver who used a non-functioning car was fully liable for the accident. Those tourists sued Yongan for damages and Guangzhou Intermediate People's Court made a final judgment in 2004 that Yongan was liable and Yongan paid approximately RMB2.2 million (\$302,000) to the injured. In 2005, Yongan sued the agent of Tianma, Tianma and the car owner. In October 2006, the Guangzhou Yuexiu District Court made a judgment that the agent was liable to pay RMB2.1 million (\$288,000) plus interest for damages. Tianma and the car owner have joint-and-several liabilities.

Tianma is now appealing the court's decision. The Company believes that there is a reasonably high chance of overturning the court's decision. In addition, the Company has been indemnified for any future liability upon the acquisition by the prior owners of Tianma. Accordingly, no provision has been made by the Company to the above claims as of March 31, 2008.

NOTE 10. 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 vest and become exercisable each month from the date of issuance. The option may be exercised 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 during the quarters ended March 31, 2008 and 2007 were \$nil and \$1,317 respectively. The options were 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 become exercisable every 45 days beginning from the date of issuance. The warrant shall remain 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 quarters ended March 31, 2008 and 2007 was approximately \$nil and \$10,145 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 \$nil included in Payroll on the consolidated statement of operations for the quarters ended March 31, 2008 and 2007 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.
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 \$43,485 and \$nil of non-cash stock-based compensation included in Payroll on the consolidated statement of operation for the quarters ended March, 2008 and 2007 respectively.

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 8 – 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 quarter ended March 31, 2008 was \$31,985.

10. In December 31, 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 fully 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.

(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.

(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 8 – 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 8 – 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 8 – Convertible Promissory Note and Warrant for details.

## NOTE 11. RELATED PARTY TRANSACTIONS

During the quarters ended March 31, 2008 and 2007, the Company have not entered 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 12. NET LOSS PER COMMON SHARE

Net loss per share information for the quarters ended March 2008 and 2007 was as follows:

|  | 2008            | 2007           |
|--|-----------------|----------------|
| Numerator:   |                 |                |
| Net loss   | \$ (18,813,760) | \$ (3,214,395) |
| Denominator:   |                 |                |
| Weighted average number of shares outstanding, basic     | 71,418,201      | 67,520,718     |
| Effect of dilutive securities                            |                 |                |
| Options and warrants                                     | -               | -              |
| Weighted average number of shares outstanding, diluted   | 71,418,201      | 67,520,718     |
| Earnings/(Losses) per ordinary share – basic and diluted |                 |                |
| Net loss per share – basic and diluted                   | \$ (0.26)       | \$ (0.05)      |

The diluted net loss per share is the same as the basic net loss per share for the quarters ended March 31, 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. The securities that could potentially dilute basic earnings (loss) per share in the future that were not included in the computation of diluted earnings (loss) per share because of anti-dilutive effect as of March 31, 2008 and 2007 were summarized as follows:

|  | 2008       | 2007    |
|--|------------|---------|
| Potential common equivalent shares:  |            |         |
| Stock options for services   | -          | 287,032 |
| Stock warrants for services (1)  | 64,869     | 77,141  |
| Conversion feature associated with convertible promissory notes to common stock                            | 10,466,200 | -       |
| Common stock to be granted to directors executives and employees for services (including nonvested shares) | 7,105,000  | -       |
| Total  | 17,636,069 | 364,173 |

## Remarks:

(1) As of March 31, 2008, the number of potential common equivalent shares associated with warrants issued for services was 64,869 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.

## NOTE 13. BUSINESS SEGMENTS

The Company has changed their operating segments in 2007 as a result of change of internal organization structure by management. Each segment operates exclusively. The Company's Media Network segment provides marketing communications consultancy services to customers in China. The Company's Travel Network segment provides tour services as well as management services to hotels and resorts in China. The Company's 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 are no inter-segment sales.

| For the Three Months Ended March<br>31, 2008 | Media<br>Network | Travel<br>Network | Investment<br>Holding | Total        |
|--|------------------|-------------------|-----------------------|--------------|
| Revenue                                      | \$ 584,167       | \$ 8,458,482      | \$ -                  | \$ 9,042,649 |
| Loss from operations                         | (4,799,017)      | 15,434            | (1,994,741)           | 6,778,324    |
| Depreciation and amortization                |                  |                   |                       |              |
| -Equipment and intangible assets             | 429,403          | 2,396             | 10,159                | 441,958      |
| -Deferred charges and debt discount          | -                | -                 | 11,790,530            | 11,790,530   |
| Interest expense                             |                  |                   | 346,625               | 346,625      |
| Assets                                       | 43,457,567       | 1,899,768         | 12,074,903            | 57,432,238   |
| Capital Expenditures                         | 3,087,514        | 5,285             | 1,064                 | 3,093,863    |

| For the Three Months Ended March<br>31, 2007                        | Media<br>Network | Travel<br>Network | Investment<br>Holding | Total        |
|---|------------------|-------------------|-----------------------|--------------|
| Revenue   | \$ 393,899       | \$ 2,375,828      | \$ -                  | \$ 2,769,727 |
| Loss from operations  | 98,327           | (104,447)         | (3,230,727)           | (3,236,847)  |
| Depreciation and<br>amortization-equipment and<br>intangible assets | 353              | 1,597             | 88,243                | 90,193       |
| Assets  | 755,422          | 981,833           | 8,020,054             | 9,757,309    |
| Capital Expenditures  | 2,712            | (1,546)           | 6,975                 | 8,141        |

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 consolidated financial statements and the notes thereto included in "Part I — Financial Information, Item 1. Financial Statements." 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 is to build a nationwide information and entertainment network in the PRC. To achieve this goal, we have established two business divisions: our Media Business division and our Non-Media Business division. During the latter half of 2006, we adjusted our primary focus away from our 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. We took the first step in November 2006 by securing a media-related contract for installing and managing outdoor LED advertising video panels. In 2007, we acquired Shanghai Quo Advertising Company Limited ("Quo Advertising"), an advertising agency in Shanghai, China and Xuancaiye (Beijing) Advertising Company Limited ("Xuancaiye"), an advertising agency in Beijing, China. In 2008, the Company and its wholly owned subsidiary CityHorizon Limited, a Hong Kong company ("CityHorizon Hong Kong"), completed the acquisition of 100% of the issued and outstanding shares of CityHorizon Limited, a British Virgin Islands company, ("CityHorizon BVI") and by entering into a series of commercial agreements giving effective control of Quo Advertising, Bona and Botong to the Company, we secured rights to operate mega-size digital video billboards and roadside LED panels in prominent cities in the PRC and began generating revenues from our Media Business. As of March 31, 2008, we have installed 11,117 roadside LED panels, 167 roadside rolling light boxes and 12 mega-sized digital billboards, a portion of which were put into operation during this quarter. In 2008, we expect to continue to place additional LED panels into operation, which will contribute to the Company's media business revenue in the coming quarters.

Our Non-Media Business is composed of two sectors: Travel Network and e-Network. Through our Travel Network we provide agency tour services and hotel management services. In 2006, we acquired 55% of the equity interest in Guangdong Tianma International Travel Service Co., Ltd. (“Tianma”), a company organized under the laws of the PRC and engaged in the provision of tour services to customers both inside and outside of the PRC. In 2006 and 2007, we earned substantially all of our revenues from tour services. Our Travel Network also provides day-to-day management services to hotels and resorts in the PRC. Revenue from hotel management services declined in 2007 as a result of a decrease in the number of hotel properties that we manage. In 2008, we expect that the strong economic growth in China will continue and consumer spending in the travel service industry will continue to be strong. In addition, events such as the 2008 Beijing Olympics and the World Expo to be held in Shanghai in 2010, will occur in the next few years which we believe will support the growth of travel industry in China. At the same time, we expect to face increasing competition from hotels and airlines as they increase selling efforts or engage in alliances with other travel service providers.

Through our e-Network, we plan to establish a fully integrated and comprehensive business- to-business (B2B) and business-to consumer (B2C) travel network by providing a broad range of products and services. The development of our e-Network is still in the planning stage and we do not expect to generate substantial revenues from our e-Network in the near future.

Management’s current focus is on developing its Media Business, while less resources will be deployed for its Non-Media business division.

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.

## 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) Equipment, Net

Equipment is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets, which is from three to five years. 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.

Construction in progress represents the costs incurred in connection with the construction of roadside advertising panels and mega-size advertising panels of the Companies. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service. When completed, the roadside advertising panels and mega-size advertising panels have economic life of 5 years and 7 years respectively.

### (2) 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 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.



### (3) 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 assets 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.

### (4) Deferred Charges, Net

Deferred charges are fees and expenses directly related to an 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 interest method. Amortization of deferred charges is included in interest expense on the consolidated statements of operations while the unamortized balance is included in deferred charges on the consolidated balance sheet.

### (5) Convertible Promissory Notes and Warrants

In 2007, the Company issued a 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 to purchase shares of the Company's common stock. 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 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 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 Emerging Issues Task Force ("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."

The portion of debt discount resulting from 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 allocation of proceeds to the beneficial conversion feature, it is recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion, using the effective yield method. In addition, the Company fully redeemed the 12% convertible promissory note due May 2008 originally issued in November 2007 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. 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 consolidation statements of operation during the period of extinguishment.

(6) Revenue Recognition

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.

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.

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published.

#### (7) Stock-based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 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 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.

(8) Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes." Under SFAS 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 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.

(9) Foreign Currency Translation

The Company uses the United States dollar as its functional and reporting currency. Monetary assets and liabilities denominated in currencies other than the United States dollar are remeasured into the United States dollar at the rates of exchange at the balance sheet date. Transactions in currencies other than the United States dollar during the year are converted into the United States dollar at the rates of exchange at the transaction dates. Exchange differences are recognized in the statement of operations.

On consolidation, balance sheets of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at the rates of exchange at the balance sheet date. Statements of operations of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at average rates of exchange during the year. Exchange differences resulting from the translation of financial statements denominated in currencies other than the United States dollar and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and credited or charged directly to a separate component of shareholders' equity (deficit) and are reported as other comprehensive income (loss).

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 statements of operations.

#### (10) 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.

#### (11) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. 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 is not expected to have a material effect on the Company's future reported financial position or results of operations.

In February 2007, the 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 is not expected to have a material effect on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.” This statement 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. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. 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 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 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 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 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 161 on its financial statements and related disclosures.

## RESULTS OF OPERATIONS

For the three months ended March 31, 2008 and 2007

### Revenues

In the three months ended March 31, 2008 our revenues were derived primarily from the sale of tour services, although revenues from advertising services also increased during the period. Revenues increased by 226% to \$9,042,649 for the three months ended March 31, 2008, as compared to \$2,769,727 for the corresponding prior year period. The increase was primarily attributable to an increase in travel services revenues generated from Tianma. Revenues from travel services and advertising services for the three months ended March 31, 2008 were \$8,458,482 and \$584,167, respectively, as compared to \$2,375,828 and \$393,899, respectively, for the corresponding prior year period, an increase of 256% and 48%, respectively.

### Cost of Travel Services

Cost of tour services increased by 251% to \$8,301,823 for the three months ended March 31, 2008 compared to \$2,364,924 for the corresponding prior year period, as a result of the increase in the sale of tour services and the increase in fuel prices. The fuel price surge started in 2007 and crude oil prices rose to US\$100 per barrel. Since fuel is a major cost component for airlines and other travel providers, rising prices have increased our operating expenses and had an adverse impact on the profitability of our tour services.

### Cost of Advertising Services

Cost of advertising services for the three months ended March 31, 2008 was \$3,437,630 and \$246,682, respectively, an increase of 1293% over the corresponding prior year periods. The significant increase was attributable to the acquisition of Quo Advertising, Botong and Bona in 2007 and 2008. The increase was mainly attributable to amortization of advertising rights and depreciation of LED panels as the Company started to generate LED advertising income in late 2007.

### Professional Fees

Professional fees for the three months ended March 31, 2008 decreased by 56% to \$1,221,303 compared to \$2,776,490 for the corresponding prior year period, primarily due to a decrease in the number of shares of the Company's common stock issued for services in the current period.

## Payroll

Payroll for the three months ended March 31, 2008 was \$1,609,487, an increase of 377% as compared to \$337,394 for the corresponding prior year period. The significant increase was mainly due to (1) an increase in the number of employees attributable to the acquisition of Quo Advertising, Botong and Bona, and (2) an increase in the amount of non-cash stock-based compensation for directors and officers' services rendered in accordance to SFAS 123R.

## Other Selling, General and Administrative

Other selling, general and administrative expenses for the three months ended March 31, 2008 were \$1,250,730, compared to \$281,084 for the corresponding prior year period, an increase of 345%. The increase was primarily due to an increase in amortization of intangible assets related to the acquisitions of Botong and Lianhe. Rental expense, entertainment and staff benefits also increased in part as a result of these acquisitions as well as costs associated with the rapid expansion of our corporate structure.

## Net loss

The Company incurred a net loss of \$18,813,760 for the three months ended March 31, 2008, an increase of 485% compared to a net loss of \$3,214,395 for the corresponding prior year period. The increase in net loss was driven by several factors: (1) the increase in amortization of deferred charges and a debt discount associated with the issuance of convertible promissory notes in 2007 and 2008. 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 3% convertible promissory notes are convertible at the date of issuance, the respective debt discount being equal to the value of beneficial conversion feature of \$11,030,303 is fully amortized through interest expense as of the date of issuance. (2) the increase in amortization charges of intangible assets of \$130,847 which was due to identifiable intangible assets of were revalued as the effective control started over Botong and Lianhe (3) increase in cost of advertising services related to our media business as mention above, and (5) an increase in professional fees, payroll and other selling, general and administrative expenses recorded by the Company as a result of our expansion.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, the Company had cash and cash equivalents of \$17,384,582 compared to \$2,233,528 as of December 31, 2007, representing an increase of \$15,151,054. The increase was attributable to issuance of convertible promissory notes during the period.

Net cash utilized by operating activities for the three months ended March 31, 2008 was \$9,073,783, as compared with \$1,764,233 for the corresponding prior year period. The increase in net cash used in operating activities was attributable to an increase in fees paid to acquire rights to install and operate LED panels and billboards.



Net cash used in investing activities for the three months ended March 31, 2008 was \$5,256,633, compared with net cash used of \$54,140 for the corresponding prior year period. For the three months ended March 31, 2008, the investing activities consisted primarily of the purchase of equipment related to our media business as well as costs associated with the acquisitions of Quo Advertising and CityHorizon BVI.

Net cash provided by financing activities was \$28,900,000 for the three months ended March 31, 2008, compared with cash used in financing activities of \$2,340 for the corresponding prior year period. The increase was primarily attributable to the issuance of \$35,000,000 in 3% Convertible Promissory Notes in 2008 and the amendment and restatement of \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007, offset by \$5,000,000 paid to redeem outstanding 12% promissory notes due May 2008.

#### Capital Expenditures

We continue to seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions. During the period ended March 31, 2008, we acquired assets of \$2,684,884, financed through working capital.

#### Commitments

Since November 2006, the Company, through its subsidiaries, NCN Media Services Limited, Quo Advertising, Xuancai yi and Bona, have acquired rights from third parties to operate 12,984 roadside LED panels and 14 mega-sized digital billboards for periods ranging from 2 to 20 years.

A summary of the estimated future annual rights and operating fee commitments based on the 12,984 roadside LED panels and 14 mega-sized digital billboards as of March 31, 2008 is as follows:

|                                      | (In millions) |
|--------------------------------------|---------------|
| Nine months ending December 31, 2008 | \$ 16.8       |
| Fiscal year ending December 31,      |               |
| 2008                                 | 16.8          |
| 2009                                 | 14.1          |
| 2010                                 | 3.8           |
| 2011                                 | 3.7           |
| 2012                                 | 3.7           |
| Thereafter                           | 24.8          |
|                                      | \$ 66.9       |

The Company is also responsible for the cost of installing part of the 12,984 roadside LED panels and 14 mega-sized digital billboards. The Company estimates that the capital investment including installation costs for each roadside LED panel is approximately \$20,000 to \$25,000, and for each mega-sized digital billboard, depending on its size, is about \$600,000 to \$2,000,000. As such, the total capital expenditure for these projects will be approximately \$12 million.

In addition to the funds raised through private placements in 2007 and 2008, the Company is considering issuing new equity securities as well as arranging debt instruments to finance these projects. The Company's rights to install the panels are not subject to a detailed installation timetable, so we are not under any time pressure to raise necessary capital.

#### Off-Balance Sheet Arrangements

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

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

The following discussion about our market risk 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 which were 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 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. Our assets and liabilities related to RMB were related to accounts receivable and payables. Since July 2005, RMB is no longer pegged to the 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 may result in more fluctuations in exchange rates and in turn our business may suffer from higher foreign currency exchange rate risk. There are very few options available in China to hedge our exposure to exchange rate fluctuations. In addition, hedging transactions are generally prohibited in the PRC financial markets, and more important, the frequent changes in PRC exchange control regulations limit our hedging ability for RMB. As of March 31, 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 4T. 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 is 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.

(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 first 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 Securities and Exchange Commission'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.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The Company's 55%-owned subsidiary, Tianma, is a defendant in proceedings brought in Guangzhou Yuexiu District Court. The proceedings were finalized on October 9, 2006. The facts surrounding the proceeding are as follows:

Guangdong Yongan Travel Agency ("Yongan") arranged a local tour in April 2001. Yongan rented a car from an agent of Tianma but the car did not belong to Tianma. A car accident happened during the tour, causing 20 injuries and one death. Guangzhou Police issued a proposed determination on the responsibilities of the accidents on May 18, 2001. The proposal determined that the driver who used a non-functioning car was fully liable for the accident. Those tourists sued Yongan for damages and Guangzhou Intermediate People's Court made a final judgment in 2004 that Yongan was liable and Yongan paid approximately RMB2.2 million (\$302,000) to the injured. In 2005, Yongan sued the agent of Tianma, Tianma and the car owner. In October 2006, the Guangzhou Yuexiu District Court made a judgment that the agent was liable to pay RMB2.1 million (\$288,000) plus interest for damages. Tianma and the car owner have joint-and-several liabilities.

Tianma is now appealing the court's decision. The Company believes that there is a reasonably high chance of overturning the court's decision. In addition, the Company has been indemnified for any future liability upon the acquisition by the prior owners of Tianma.

Other than as described above, we are not aware of any material, active or pending legal proceedings against the Company, 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.

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

Such move is due to the fact that the PRC government is concerned about the appreciation of the RMB and accelerating inflation pressure. In January 2008, 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, rose 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 surged to 6.9 % in November 2007, the fastest since 1996.

It is expected that the PRC government will continue to institute further tightening measures. 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 PRC government, could materially affect our liquidity and operations.

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.

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.

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.

Risks from the outbreak of severe acute respiratory syndrome (SARS) and avian flu in various parts of China, Hong Kong and elsewhere.

Since early 2003, mainland China, Hong Kong and certain other countries, largely in Asia, have been experiencing an outbreak of a new and highly contagious form of atypical pneumonia, now known as severe acute respiratory syndromes, or SARS. This outbreak has resulted in significant disruption to the lifestyles of the business and economic activity in the effected areas. Areas in Mainland China that have been affected include areas where the Company has business and management operations. Although the outbreak is now generally under control in China, the Company cannot predict at this time whether the situation may again deteriorate or the extent of its effect on the Company's business and operations. Moreover, there are many Asian countries including China that report incidents of avian flu. Although this virus is spread through poultry populations, it is reported in many incidents that the virus can cause an infection to humans and is often fatal. Any outbreak of SARS or avian flu may result the closure of our offices or other businesses where we provide our advertising and hotel services. The occurrences of such diseases would also affect our out-of-home advertising network to advertisers. The advertisers may stop purchasing the advertising time and severely interrupt our business and operations.

The Company cannot assure that this outbreak, particularly if the situation worsens, will not significantly reduce the Company's revenues, disrupt the Company's staffing or otherwise generally disrupt the Company's operations.

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 and travel businesses, we currently conduct our operations in China through contractual arrangements with shareholders of Tianma and through commercial agreements 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 Tianma, 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 traveling and advertising industries and such structures may limit our control with respect to such entities.

Since 2001, the PRC Government has only allowed foreign investors to operate a travel business in China if the foreign investors have a record of travel operations outside China for at least three years with annual revenue of USD 40 million. The minimum capital investment is RMB 4 million and the foreign investors must be members of the China Tourism Association. Moreover, foreign investors are restricted from running outbound travel services. In order to penetrate this market, we acquired a majority interest of Tianma, a travel agency headquartered in the Guangdong province of the PRC in June 2006 through certain contractual arrangements. With the grant of the International Travel Agency Business License by China National Tourism Administration, Tianma is allowed to operate outbound travel services. Through our contractual arrangements, we designated a PRC citizen to hold 55% of the equity interest of Tianma in trust for our benefit. Tianma directly operates our traveling agent business.

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 directly own 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 two media subsidiaries, 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 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.

We have been and will continue to be dependent on these PRC operating companies to operate our traveling agent and 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 travel agency, advertising and Internet industries. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on these industries, our business may be affected.

The PRC government regulates the travel agency, advertising and Internet industries. We are required to obtain applicable permits or approvals from different regulatory authorities to conduct our business, including separate licenses for Internet content provision, advertising and travel agency 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.

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 Tianma, 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.

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.

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.

## 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 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.

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.

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.



3. Risks Related to Our Travel Business

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 travel business.

The travel industry is highly competitive, which may influence our ability to compete with other market participants.

We operate in markets that contain numerous competitors. Our ability to remain competitive, attract and retain business and leisure travelers depends on our success in distinguishing the quality, value and efficiency of our services from those offered by others. If we are unable to compete in these areas, this could limit our operating margins, diminish our market share and reduce our earnings.

We are subject to the range of operating risks to travel-related industry.

The profitability of travel-related industry that we operate in may be affected by a number of factors, including:

- International and regional economic conditions;
- the availability of and demand for hotel rooms and apartments;
- the desirability of particular locations and changes in travel patterns of domestic and foreign travelers;
- taxes and government regulations that influence or determine wages, prices, interest rates, and other costs;

- the availability of capital to allow us and joint venture partners to fund investments;
- the increase in wages and labor costs, energy, mortgage interest rates, insurance, transportation and fuel, and other expenses.

Any one or more of these factors could limit or reduce the demand on the travel services market.

The uncertain pace of the lodging and travel industry's recovery will continue to influence our financial results and growth.

Both the Company and the lodging industry were hurt by several events occurring over the last few years, including SARS and avian flu, and the terrorist attacks on New York and Washington. Although showing some improvements in Asia Pacific, business and leisure travel from United States and Europe remained depressed as some potential travelers reduced or avoided discretionary travel in light of safety concerns and economic declines stemming from erosion in consumer confidence. Although both the lodging and travel industries are recovering, the duration and full extent of that recovery remain unclear. Accordingly, our financial results and growth could be harmed if that recovery stalls or is reversed.

Our travel operations are subject to international and regional conditions.

Although we conduct our business in China, our activities are susceptible to changes in the performance of international and regional economies, as foreign travelers constitute a fair percentage of travel population. In recent years, our business has been hurt by decreases in travel resulting from SARS and downturns in US and Europe economic conditions. Our future economic performance is subject to the uncertain magnitude and duration of the economic growth in China, the prospects of improving economic performance in other regions, the unknown pace of any business travel recovery that results, and the occurrence of any future incidents in China in which we operate.

Future increase in fuel prices and the possible downturn in the US and global economies in 2008 may inhibit economic activity and therefore affect our travel operations.

The travel business is facing two more uncertainties. First, fuel prices have surged by 48 % in 2007 and as of February 2008 the crude oil price rise to US\$100 per barrel. Since fuel is a major cost component for airlines and traffic, the rising fuel price has had an adverse impact on the costs of our travel business and results lower our profitability. Second, there are indications of an economic downturn in the US and global economies in 2008, which could have an adverse effect on China's economic growth, which would then have a negative impact on the China travel market.

Our ability to grow is in part dependent upon future acquisitions.

The process of identifying, acquiring and integrating future acquisitions may constrain valuable management resources, and our failure to integrate future acquisitions may result in the loss of key employees and the dilution of stockholder value and have an adverse effect on our operating results. We have acquired existing businesses and expect to continue pursuing strategic acquisitions in the future. Completing any potential future acquisitions could cause significant diversions of management time and resources.

Acquisition transactions involve inherent risks such as:

- uncertainties in assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates;
  - the potential loss of key personnel of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition or other transaction;
  - problems that could arise from the integration of the acquired business;
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition or other transaction rationale; and
  - unexpected development costs that adversely affect our profitability.

Financing for future acquisitions may not be available on favorable terms, or at all. If we identify an appropriate acquisition candidate for our businesses, we may not be able to negotiate the terms of the acquisition successfully, finance the acquisition or integrate the acquired business, technologies or employees into our existing business and operations. Future acquisitions may not be well received by the investment community, which may cause our stock price to fluctuate. We cannot ensure that we will be able to identify or complete any acquisition in the future.

Risks relating to acts of God, terrorist activity and war could reduce the demand for lodging, which may affect our revenues.

Acts of God, such as natural disasters and the spread of contagious diseases, in the PRC where we own and manage can cause a decline in the level of business and leisure travel and reduce the demand for lodging. Wars (including the potential for war), terrorist activity (including threats of terrorist activity), political unrest and other forms of civil strife and geopolitical uncertainty can have a similar result. Any one or more of these events may reduce the overall demand for travel which could adversely affect our revenues.

Our results are likely to fluctuate because of seasonality in the travel industry in China.

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. For instance, the first quarter of each year generally contributes the lowest portion of our annual net revenues primarily due to a slowdown in business activity around and during the Chinese New Year holiday. Consequently, our revenues may fluctuate from quarter to quarter throughout the year.

#### 4. Risks Related to Our Developing e-Network Business

We target for developing a comprehensive and fully integrated Internet travel services platform focusing on providing a broad range of products and services. This includes, but is not limited to (i) Accommodation booking and sales; (ii) Travel agencies services for air-ticket sales and, tour packages; (iii) e-ticketing for concerts, sports events, exhibitions, etc; (iv) Sales and delivery of gifts and souvenirs; (v) e-payment function that directly links to payment-clearing systems of national banks, financial institutions and mobile phone operators. These products and services will be offered at individual service outlets located in some hotel chains, other potential locations and on a comprehensive online website. We plan to develop this component as a complete travel and leisure network and substantial revenue driver.

Our success in e-Network depends on whether we can acquire well-established companies and recruit expertise to consolidate and integrate our business network.

We will build our e-Shop brand through acquiring travel webs in China to capture existing users. It is a faster and more effective method than building our own travel web site from scratch to attract new users. We will also recruit experienced personnel to develop and fine-tune such online shopping and booking web site to suit our specific requirements. With this web site, we can provide a trading platform to leverage on Media and Travel Networks and establish a comprehensive e-Shop platform. Since expanding e-Shop product coverage through merger and acquisitions is our key development strategy, we will look for suitable companies to acquire. If we fail to find suitable target company for acquisition, the progress of building our e-Network may be affected.

Online payment systems in China are at an early stage of development and may restrict our ability to expand our online commerce service business.

Online payment systems in China are at an early stage of development. Although major Chinese banks are instituting online payment systems, these systems are not as widely available or acceptable to consumers in China as that in the United States and other developed countries. In addition, compared to countries like the United States, only a limited number of consumers in China have credit cards or debit cards. The lack of adequate online payment systems may limit the number of online commerce transactions that we can service. If online payment services cannot be developed, our ability to grow our online commerce business may be limited.

The Internet market has not been proven as an effective commercial medium in China.

The market for Internet products and services in China has only recently begun to develop. The Internet penetration rate, even though it is growing, is still low in China than those in the United States and other developed countries. Since the Internet is not yet a well-proven secured medium for commerce in China, our future operating results from online services will depend substantially upon the increased use and acceptance of the Internet for distribution of products and services and facilitation of commerce in China.

The Internet may not become a viable commercial marketplace in China for various reasons in the near future. More salient impediments to Internet development in China include:

- consumer dependence on traditional means of commerce;
- inexperience with the Internet as a sales and distribution channel;
- inadequate development of the necessary infrastructure to facilitate online commerce;
- concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet;
- inexperience with credit card usage or with other means of electronic payment; and
- limited use of personal computers.

If the Internet were not widely accepted as a medium for online commerce in China, our ability to grow our online business would be impeded.

The continued growth of Chinese Internet market depends on the establishment of an adequate telecommunications infrastructure.

Although many private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through state owned telecommunication operation under the administrative control and regulatory supervision of China's Ministry of Information Industry. In addition, the national networks in China are connected to the Internet through government controlled international gateways. These international gateways are the only channels through which a Chinese user can connect to the international Internet network. We rely on China Telecom and China Netcom to provide data communications capacity primarily through local telecommunications lines. Although the government has announced plans to develop the national information infrastructure, we cannot guarantee that this infrastructure will be developed. In addition, we will have no access to alternative networks and services, in the event of any infrastructure disruption or failure. The Internet infrastructure in China may not support the demands associated with continued growth in Internet usage and it may affect our progress of building our e-Network business.

5. Risks Related To Regulation of Our Business and to 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 travel and advertising industries, we could be subject to severe penalties.

Our travel operations are conducted by Tianma through our contractual arrangements. Meanwhile, our media operations are conducted by Lianhe, Botong, Bona and Quo Advertising through commercial agreements arrangement.

According to the Rules on Cognizance of Qualification for Civil Aviation Transporting Marketing Agencies (2006) and relevant foreign investment regulations regarding to civil aviation business, a foreign investor currently cannot own 100% of an air ticketing agency in China. In addition, foreign invested air ticketing agencies are not permitted to sell passenger tickets for domestic flights in China. The principal regulation governing foreign ownership of travel agencies in China is the Establishment of Foreign-controlled and Wholly Foreign-owned Travel Agencies Tentative Provisions, as amended in February 2005. Currently, qualified foreign investors have been permitted to establish or own a travel agency upon the approval of the PRC government, subject to considerable restrictions as to its scope of business. For instance, foreign travel agencies cannot arrange for the travel of persons from mainland China to Hong Kong, Macau, Taiwan or any other country. In addition, foreign travel agencies cannot establish branches.

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:

- 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 Tianma and Quo Advertising to operate our travel and advertising businesses respectively. In January 2008, we restructured our advertising business after acquiring 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 over these entities, and to consolidate their financial results. These contractual arrangements and commercial agreement arrangements may not be as effective in providing us with control over Tianma and 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 as 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.

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 impact 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 Tianma or our advertising subsidiaries by means of capital contributions. These capital contributions to Tianma or our 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.

#### 6. 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.

Our acquisitions of Tianma, 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, especially in e-Network, through acquisitions like that of Tianma, 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 Tianma, Quo Advertising, Xuancaiye, Lianhe and Bona.

Although we had conducted due diligence with respect to the acquisition of Tianma, Quo Advertising, Xuancaiye, 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.

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.

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 15c-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.

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 Purchase Agreement. 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 of 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. 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.



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

Not applicable.

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                                |

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: May 14, 2008

By:

/s/ GODFREY HUI  
Godfrey Hui,  
Chief Executive Officer

Date: May 14, 2008

By:

/s/ DALEY MOK  
Daley Mok,  
Chief Financial Officer