

NETWORK CN INC  
Form 10-K  
March 31, 2010

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

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

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

Commission file number 000-30264

NETWORK CN INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

Suite 3908, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong  
(Address of principal executive offices)

(852) 2833-2186

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: NONE

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$0.001 Par Value

(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

Edgar Filing: NETWORK CN INC - Form 10-K

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of June 30, 2009, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately \$7.9 million.

The number of shares outstanding of each of the issuer's classes of common stock, as of March 15, 2010 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	422,522,071

## TABLE OF CONTENTS

## PART I

<u>Item 1.</u>	<u>Business</u>	5
<u>Item 1A.</u>	<u>Risk Factors</u>	13
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	28
<u>Item 2.</u>	<u>Properties</u>	28
<u>Item 3.</u>	<u>Legal Proceedings</u>	29
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	29

## PART II

<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
<u>Item 6.</u>	<u>Selected Financial Data</u>	31
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	45
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	45
<u>Item 9A.</u>	<u>Controls and Procedures</u>	46
<u>Item 9B.</u>	<u>Other Information</u>	47

## PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	47
<u>Item 11.</u>	<u>Executive Compensation</u>	50
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	56
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	58
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	59

## PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	60
<u>SIGNATURES</u>		64
<u>FINANCIAL STATEMENTS</u>		F-1

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this annual report include “forward-looking statements” within the meaning of such term in Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause actual financial or operating results, performances or achievements expressed or implied by such forward-looking statements not to occur or be realized. Forward-looking statements made in this Report generally are based on our best estimates of future results, performances or achievements, predicated upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “will”, “could”, “should”, “project”, “expect”, “believe”, “estimate”, “anticipate”, “intend”, “contingent”, “opportunity” or similar terms, variations of those terms or the negative of those terms or other variations of those terms or comparable words or expressions. Potential risks and uncertainties include, among other things, such factors as:

- our potential inability to raise additional capital;
- changes in domestic and foreign laws, regulations and taxes;
- uncertainties related to China's legal system and economic, political and social events in China;
- Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks;” and
- changes in economic conditions, including a general economic downturn or a downturn in the securities markets.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this annual report are discussed in Item 1A. “Risk Factors”. Readers are urged to carefully review and consider the various disclosures made by us in this annual report and our other filings with the Security and Exchange Commission (the “SEC”). These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this annual report speak only as of the date hereof and we disclaim any obligation to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

USE OF TERMS

Except as otherwise indicated by the context, references in this report to:

- “BVI” are references to the British Virgin Islands;
- “China” and “PRC” are to the People’s Republic of China;
- the “Company”, “NCN”, “we”, “us”, or “our”, are references to Network CN Inc., a Delaware corporation and its direct and indirect subsidiaries: NCN Group Limited, or NCN Group, a BVI limited company; NCN Huamin Management Consultancy (Beijing) Company Limited, or NCN Huamin, a PRC limited company; Cityhorizon Limited, or Cityhorizon Hong Kong, a Hong Kong limited company, and its wholly owned subsidiaries, Cityhorizon Limited, or Cityhorizon BVI, a BVI limited company; Huizhong Lianhe Media Technology Co., Ltd., or Lianhe, a PRC limited company; Linkrich Enterprise Advertising and Investment Limited, or Linkrich Enterprise, a HK limited company, and its subsidiary, Yi Gao Shanghai Advertising Limited, or Yi Gao, a PRC limited company and the Company’s variable interest entities: Beijing Huizhong Bona Media Advertising Co., Ltd., or Bona, a PRC limited company; and Huizhi Botong Media Advertising Beijing Co., Ltd., or Botong, a PRC limited company.
- “NCN Landmark” are references to NCN Landmark International Hotel Group Limited, a BVI limited company, and its wholly-owned subsidiary, Beijing NCN Landmark Hotel Management Limited, a PRC limited company;
- “NCN Management Services” are references to NCN Management Services Limited, a BVI limited company;
  - “Quo Advertising ” are references to Shanghai Quo Advertising Co. Ltd, a PRC limited company
  - “RMB” are to the Renminbi, the legal currency of China;

- the “Securities Act” are to the Securities Act of 1933, as amended; and the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- “Tianma”, are references to Guangdong Tianma International Travel Service Co., Ltd, a PRC limited company;
  - “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States; and
- “Xuancai” are references to Xuancai (Beijing) Advertising Company Limited, a PRC limited company

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. We seek to acquire rights to install and operate roadside advertising panels and mega-size advertising panels in the major cities in China. In most cases, we are responsible for installing advertising panels, although in some cases, advertising panels might have already been installed, and we will be responsible for operating and maintaining the panels. Once the advertising panels are put into operation, we sell advertising airtime to our customers directly. Since late 2006, we have been operating a growing advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities. LED (known as “Light Emitting Diode”) technology has evolved to become a new and popular form of advertising in China, capable of delivering crisp, super-bright images both indoors and outdoors.

Our total advertising revenues were \$1,266,927, \$4,622,270 and \$1,442,552 for the years ended December 31, 2009, 2008 and 2007 respectively. Our net loss attributable to NCN common stockholders was \$37,359,188, \$59,484,833 and \$14,646,619 for the years ended December 31, 2009, 2008 and 2007 respectively. Our results of operations were negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2009, including the following:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- slowing demand due to the worldwide financial crisis and deteriorating economic conditions in China, leading many customers to cut their advertising budget. The impact of the reduction in the pace of our advertising spending is expected to be more significant on our new digital form of media than traditional advertising platforms.

To address these unfavorable market conditions, in the latter half of 2008, we undertook drastic cost-cutting measures including reduction of our workforce, office rentals, and reductions to our selling and marketing expenses and other general and administrative expenses. We also re-assessed the commercial viability of each of our concession right contracts and determined that many of our concession rights are no longer commercially viable due to high annual fees and therefore such commercially non-viable concession right contracts were terminated. Management has also successfully negotiated some reductions in advertising operating rights fees under existing contracts. The outcome of these cost reduction measures has been reflected in our financial results.

Since early 2010, we have begun to restructure our organization by consolidating our PRC operations into one directly owned PRC entity, Yi Gao. We expect that this consolidation will enhance our operational efficiency and effectiveness and should reduce our operating expenses for the foreseeable future. For details, please refer to Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Recent Developments – Corporate Restructuring” below.

To strengthen our ability to generate revenues from advertising sales which depends largely upon our ability to provide large networks of advertising locations throughout major areas in China, we also started our advertising agency business in 2009. We seek the advertising airtime from third party vendors in major cities in China and sell such advertising airtime to our customers. As an advertising agent, we are not responsible for acquiring advertising operating rights, installing, operating and maintaining advertising panels. We expect that this product line will enable

us to generate revenue without having capital commitment and hence enhance our current capital position and liquidity.

We also completed a debt restructuring exercise in April 2009 which has directly lessened our cash constraints. For details, please refer to Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources - Restructuring of Convertible Debt” below. In July 2009, our board appointed Dr. Earnest Leung, the nominee of our controlling shareholder, Keywin Holdings Limited (“Keywin”), as our chief executive officer. Dr. Leung, a Keywin director, has over 20 years experience in the investment banking industry and is actively formulating a series of business development strategies and exploring more prominent advertising related projects, aiming to expand the Company and improve its financial performance. Management has identified and is currently studying the feasibility of several potential projects, however, we have not yet committed to any of them.

#### History

We were incorporated under the laws of the State of Delaware on September 10, 1993 under the name EC Capital Limited. Our predecessor companies were involved in a variety of business and were operated by various management teams under different operating names. Between 2004 and 2006 we operated under the name Teda Travel Group Inc., which was primarily engaged in the provision of management services to hotels and resorts in China. On August 1, 2006, we changed our name to “Network CN Inc.” in order to better reflect our new vision to build a nationwide information and entertainment network in China.

## Table of Contents

From early 2006 until 2008, we had two business divisions: our Media Business Division and a Non-Media Business Division. We initially focused on the Non-Media Business Division, which was mainly comprised of a travel network through which we provided agency tour services and hotel management services. In 2006, we acquired 55% of the equity interest in Tianma, a PRC company 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 these tour services. We also provided day-to-day management services to hotels and resorts in the PRC. During the latter half of 2006, we adjusted our primary focus away from the tourism and hotel management business to the building of 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. In November 2006 we secured a media-related contract for installing and managing out-of-home LED advertising video panels. In 2007, we secured further rights to operate mega-size LED and roadside LED panels in prominent cities in the PRC through either entering business agreements with authority parties or business combination exercise, and began generating revenues from our Media Business.

### Disposal of Non-Media Business Division

On June 16, 2006, to take advantage of China's booming travel market, we acquired, through NCN Management Services, 55% of the equity interests of Tianma, a travel agency headquartered in Guangdong Province in the PRC, for an aggregate purchase price of \$936,283, \$833,333 of which was in cash and \$102,950 of which was in 362,500 shares of our common stock. The results of operations of Tianma have been included in the Company's consolidated statement of operations since the completion of the acquisition on June 16, 2006. Tianma is an authorized inbound and outbound travel operator and provides travel agency services to customers for both inbound and outbound travel. It organizes independent inbound and outbound tour and travel packages for a variety of destinations within China and internationally. Tour packages may include 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.

In 2008, as the Company did not foresee any major contribution from Tianma in the near future, the Board of Directors of the Company resolved that it was in the best interests of the Company to focus on developing its media business and to explore ways of divesting its travel business. The Company entered into stock purchase agreements disclosed below, to dispose of its entire Non-Media Business Division.

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

On September 30, 2008, the Company completed the sale of its 99.9% interest in NCN Landmark to an independent third party for a cash consideration of \$20,000. The acquirer acquired NCN Landmark along with its subsidiary, 100% interest in Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes of \$4,515.

The Company treated the sales of NCN Management Services along with its subsidiaries and variable interest entity and NCN Landmark along with its subsidiary as a discontinuation of operations.

### Acquisition of Quo Advertising



On January 31, 2007, we acquired 100% of the equity interests of Quo Advertising, an advertising agency headquartered in Shanghai, China, pursuant to a purchase and sale agreement and a trust agreement, dated January 24, 2007, between the Company and two independent PRC individuals. The Company acquired Quo Advertising for a purchase price of \$907,600, \$64,000 of which was in cash and the balance of which was in 300,000 shares of our common stock, valued at \$843,600. The results of operations of Quo Advertising have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 31, 2007.

Quo Advertising was founded in 1996 in Shanghai, China and provided advertising design, production, public relations and event management services for domestic and international clients before our acquisition. The acquisition strengthens our media network in the PRC. Our media business was mainly run through Quo Advertising in 2007 and 2008.

-6-

---

## Table of Contents

### Acquisition of Xuancai yi

Effective September 1, 2007, we acquired, through Quo Advertising, a 51% majority of the equity interests of Xuancai yi, an advertising agency located in Beijing, China, for a consideration of up to RMB12,245,000 (approximately \$1,667,000) in cash, payable over time based on Xuancai yi's achievement of certain net profit targets. An initial payment of RMB2,500,000 (approximately \$330,000) was made in September 2007 and the balance of the payment was due as follows: (1) up to RMB 2,454,300 (approximately \$336,700) based on Xuancai yi's net profit for the four months ended December 31, 2007; (2) up to RMB 1,834,500 (approximately \$251,700) based on Xuancai yi's net profit for the first quarter of fiscal year 2008; (3) up to RMB 1,827,400 (approximately \$250,700) based on Xuancai yi's net profit for the second quarter of fiscal year 2008; (4) up to RMB1,819,100 (approximately \$249,500) based on Xuancai yi's net profit for the third quarter of fiscal year 2008; and (5) up to RMB1,809,700 (approximately \$248,300) based on Xuancai yi's net profit for the fourth quarter of fiscal year 2008. As Xuancai yi failed to achieve the net profit targets in each of the above periods, no further cash payment was made with respect to the above earn-out consideration. The results of operations of Xuancai yi have been included in the Company's consolidated statement of operations since the acquisition date on September 1, 2007.

Xuancai yi was founded in 2007 and obtained the right to manage and operate a mega-size high resolution LED advertising billboard in a prominent location in China's capital city, Beijing. The billboard, covering more than 758 square meters, is located on the East Third Ring Road near the exit of the Airport Highway. As of December 31, 2008, a business agreement entered into between Xuancai yi and its media partner has expired and so Xuancai yi has maintained minimal operations thereafter. In the second quarter of fiscal 2009, we disposed of the entire 51% equity interests of Xuancai yi to its minority shareholders at \$nil consideration.

### Acquisition of Cityhorizon BVI

On January 1, 2008, we entered into a share purchase agreement with our wholly owned subsidiary Cityhorizon Hong Kong, to acquire 100% of the equity interest in Cityhorizon BVI and its wholly owned subsidiaries, Lianhe and Bona, from Cityhorizon BVI's sole shareholder, for an aggregate purchase price of \$8,738,000, \$5,000,000 of which was in cash and the balance of which was in 1,500,000 shares of restricted common stock of par value of \$0.001 each, valued at \$3,738,000. 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.

Cityhorizon BVI is an investment holding company and its subsidiaries Lianhe and Bona were both founded in 2006. Lianhe is principally engaged in the provision of technology and management consulting services and Bona is principally engaged in the provision of advertising services. The purpose of the acquisition was to further strengthen our Media Network in China. There has been no change in Lianhe's and Bona's business since the date of acquisition.

### 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 Botong and its registered shareholders, pursuant to which Lianhe is obligated to provide exclusive technology and management consulting services to Botong in exchange for service fees amounting to substantially all of the net income of Botong. Each of the registered PRC shareholders of Botong also entered into equity pledge agreements and option agreements with Lianhe which cannot be amended or terminated except by written consent of all parties. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged its equity interest in Botong for the performance of Botong's payment obligations under the exclusive technology and management consulting services agreements. In addition, the shareholders of Botong assigned to Lianhe all their voting rights as shareholders of Botong and Lianhe has the option to acquire the equity interests of Botong at a mutually agreed on purchase price that will first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered

Botong shareholders.

On January 1, 2008, Lianhe committed to extend loans totaling \$137,179 to the registered shareholders of Botong for the purpose of financing such shareholders' investment in Botong. Through the above contractual arrangements, Lianhe became the primary beneficiary of Botong which becomes a variable interest entity. The results of operations of Botong have been included in the Company's consolidated statement of operations since January 1, 2008.

Botong was founded in 2007 and obtained the right to manage and operate for a 6-year period, a mega-size high resolution LED advertising billboard located at Haoyou Emporium Wangujing in Beijing. There has been no change of its business since the date of acquisition.

#### Other Contractual Arrangements with the PRC Operating Companies

PRC regulations limit foreign ownership of companies that provide advertising services. Our advertising business was initially run through our trust arrangements with Quo Advertising directly operated our advertising network projects.

In January 2008, after our acquisition of Cityhorizon BVI and its PRC subsidiaries Lianhe and Bona, we restructured our advertising business in order to strengthen our compliance with existing PRC regulation. Through Lianhe, we entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising and Bona. In addition, we entered into an equity pledge agreement and an option agreement with each of the registered PRC shareholders of Quo Advertising and Bona, 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 their subsidiaries, and transfer their economic benefits to the Company for financial results consolidation pursuant to FIN 46(R).

-7-

---

Table of Contents

Corporate Structure

The following chart reflects our organization structure as of the date of this annual report:

Available Information

We file with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports to be filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC

Our corporate headquarters are located at Suite 3908, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, Special Administrative Region of the People's Republic of China. Our telephone number is (852) 2833-2186. We maintain a website at [www.ncnmedia.com](http://www.ncnmedia.com) that links to our electronic SEC filings and contains information about our subsidiaries which is not a part of this report. All the above documents are available free of charge on our website as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Industry Overview

The recent worldwide financial crisis and the deteriorating economic conditions in China created a number of challenges to China's advertising industry during the 2009 period, as budget conservatism prevailed among advertisers throughout the period. Although there were signs of recovery in China in late 2009, most advertisers continued to be cost-conscious and preferred to commit to short-term contracts rather than long-term contracts. Competition in the domestic out-of-home advertising sector is very intense and many local operators offered significant sales discounts to compete for market share.

Table of Contents

In 2009, The State Administration for Industry and Commerce of the PRC, estimated that Television will remain the dominant advertising medium in the PRC in the coming future, followed by print media, outdoor, internet and radio advertising. It was believed that the media and advertising industry will remain as one of the fastest growing markets in China. According to a market research report issued by a reputable international investment bank in late of 2008, total advertising spending in China is expected to show sustained growth above 8% over the next 10 years. For out-of-home advertising, overall out-of-home advertising spending is expected to slow to 10% and 14% year-over-year in 2009 and 2010, respectively, from 20% in 2008.

In the past, we have expended our resources to build an out-of-home media throughout different PRC cities. In preparation for the upcoming 2010 Shanghai World Expo which we believe could bring us new business and revenues, we have allocated substantial resources in Shanghai while minimizing our Beijing operations. We believe that, in order to increase our market share in out-of-home advertising in China, in the long-run, we will have to increase our advertising locations, obtain more exclusive arrangements in desirable locations and to provide a wider range of media and advertising services through entering business agreements or business combination exercises with third parties.

**Our Services**

We install and operate roadside advertising panels in major cities throughout China. The following table summarizes by location the number of roadside advertising panels that the Company has the right to install and operate and the installation status:

Location	No. of Advertising Panels (1)	Panels Installed As of March 1, 2010	Panels Owned As of March 1, 2010	Expiration (2)
Nanjing Road Pedestrian Street, Shanghai	52	52	52	2010
Total as of March 1, 2010	52	52	52	

The following table summarizes by location the number of mega-size advertising panels that the Company has the right to install and operate and the installation status:

Location	No. of Advertising Panels (1)	Panels Installed As of March 1, 2010	Panels Owned As of March 1, 2010	Expiration (2)
Wuhan	1	1	1	2012
Beijing	1	1	1	2013
Total as of March 1, 2010	2	2	2	

- 
- 1) The size of the Company's typical roadside advertising panels ranges from 1.5 square meters to 4 square meters, while the mega-size advertising panels are typically from 80 square meters to over 120 square meters.
  - 2) Although the Company has a contractual right to operate the panels for certain period of time, governmental authorities in the PRC could limit the period during which we can operate the panels if the government interprets the current rules and regulations differently or if it were to implement new rules and regulations.

**Our Suppliers**

In some of our media projects, we are responsible for installing advertising panels and billboards. We design the shape of our advertising panels and billboards according to the terms approved by the relevant PRC governmental documents. We identify suppliers of component parts used in our advertising panels and contract assembly of our advertising panels to third-party contract assemblers who will assemble our advertising panels according to our specification. We select component suppliers based on price and quality.

We did not install any advertising panels in 2009 and 2007. During 2008, only 2 suppliers accounted for 20% or more of our panel installation costs. Xian Qingsong Technology Co., Ltd and Shenzhen LAMP Technology Co., Ltd, accounted for 31% and 26% to our panel installation costs respectively.

#### Our Customers

The media and advertising industry is one of the fastest growing markets in China. Out-of-home advertising is attractive because of relatively modest content production costs, less regulatory exposure, low maintenance costs and centralized operations made efficient by computers and other technology solutions. Industry analysts look for out-of-home advertising spending in China to grow at a 20% compounded annual growth rate through 2010. We are upbeat on the long-term prospect for the China sector although a temporary pause occurred in 2009 as the economy was hit by the global economic downturn.

-9-

---

Table of Contents

Our customers include large international and domestic brand name customers. The following tables set forth those customers accounted for 10% or more of our advertising sales in each fiscal year:

Name of Customer	Advertising Sales %
For the year ended December 31, 2009	
Shanghai Wenchang Advertising Co., Ltd	16%
Shanghai Chuangtian Advertising Co., Ltd	15%
Kinetic	15%
Beijing Dentsu Advertising Co., Ltd.	11%
For the year ended December 31, 2008	
OMD	38%
Beijing Dentsu Advertising Co., Ltd.	16%
For the year ended December 31, 2007	
MGI Luxury Asia Pacific Ltd	26%
Shanghai Gaorui Advertising Company Limited	16%
Binli (Shanghai) Commercial Company Limited	14%
SMH International Trading (Shanghai) Co., Ltd	14%

Our customers usually place their advertising orders on a project basis instead of a recurring basis. Our management does not believe that our advertising business depends upon a few customers, or that the loss of any one customer would have a material adverse effect on our business.

## Sales and Marketing

We sell our services through our direct sales force as well as through our advertising agencies. We employ sales professionals in the PRC and provide them in-house training to ensure we operate closely with and provide a high level of support to our customers. Selling through our advertising agencies enables us to leverage our direct sales resources and reach additional customers segment.

## Competition

We compete with other advertising companies in China, including companies that operate out-of-home advertising media networks, such as Focus Media, JCDecaux and Clear Media. The Company competes with these companies for advertising clients on the basis of the size of our advertising network, advertising coverage, panel locations, pricing, and range of advertising services that we offer. The Company also competes with these companies for rights to locate LED panels and/or billboards in desirable locations in Chinese cities. In addition, commercial buildings, hotels, restaurants and other commercial locations may decide to install and operate their own billboards or LED panels. The Company also competes for overall advertising spending with other more traditional media such as newspapers, TV, magazines and radio, and more advanced media like internet advertising, frame and public transport.

The Company may also face competition from new entrants into the out-of-home LED advertising sector. Our sector is characterized by low initial fixed costs for entrance in term of LED panel requirements and it is uncommon for advertising clients to enter into exclusive arrangements. In addition, as of December 10, 2005, wholly foreign-owned advertising companies are allowed to operate in China, which may expose us to increasing competition from international advertising media companies attracted by the opportunities in China.

Increased competition could reduce our operating margins, profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as more advertising locations and broader coverage and exclusive arrangements in desirable locations. These competitors could provide advertising clients with a wider range of media and advertising services, which could cause us to lose advertising clients or to reduce prices in order to compete, which could decrease our revenues, gross margins and profits. We cannot guarantee that we will be able to compete against these existing and new competitors.

In addition, we believe our business will be adversely affected by the recent global financial turmoil. In order to enhance our competitive power, we will strictly control our operating costs, actively explore ways to terminate commercially non-viable concession right contracts and continue to search for other prominent advertising projects in order to expand our advertising network. We believe that expanding our advertising network will enable us to offer more competitive pricing to our advertising clients, thereby increasing our profitability.

#### Our Intellectual Property

We do not have any registered trademarks, copyrights or licenses. However, we have obtained the following patent rights from the PRC State Intellectual Property Office:

-10-

---



## Table of Contents

- The technology of a display module and settings method for colored LED panels, which expires on November 22, 2017;
- The technology of the display system with blind spot checking function, which expires on November 27, 2017; and
- The invention of methodology in light intensity tuning for out-of-home LED panels, which expires on November 8, 2027;

We have also applied for the following patent rights from the PRC State Intellectual Property Office:

- The invention of methodology and monitoring system for staff in their out-of-home LED panel maintenance;
- The invention of blind spot checking methodology for multi-LED panels; and
- The invention of centralized remote management methodology for out-of-home LED panels.

## Our Research and Development

No material costs have been incurred on research and development activities for the fiscal years 2009, 2008 and 2007. We do not expect to incur significant research and development costs in the coming future.

## Employees

As of December 31, 2009, the Company and its subsidiaries and variable interest entities had approximately 33 employees at our offices located at our Hong Kong and PRC offices, all of which are full-time employees.

Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or work stoppage or any difficulty in recruiting staff for our operations.

We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the after-tax profit. In addition, we are required by the PRC law to cover employees in China with various type of social insurance. We believe that we are in material compliance with the relevant PRC laws.

## Government Regulation

### Limitations on Foreign Ownership in the Advertising Industry

The principal regulations governing foreign ownership in the advertising industry in China include:

- The Catalogue for Guiding Foreign Investment in Industry (2007);
- Advertising Law (1994);
- Regulations on Control of Advertisement (1987);
- Implementation Rules for Regulations on Control of Advertisement (2004); and
- The Administrative Regulations on Foreign-invested Advertising Enterprises (2004).

Since December 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 set up an advertising joint venture if the foreign investor has at least two years of direct operations in the advertising industry outside of China.

As we do not have the necessary advertising business outside of China, we are not entitled to own directly 100% of an advertising business in China. Our advertising business was provided through our contractual arrangements with our

PRC operating entity, Quo Advertising in the year 2007. Quo Advertising was owned by two PRC citizens, who are designated by us and hold 100% of the equity interests in Quo Advertising in trust for the benefit of us, and operates our advertising network projects. In January 2008, we restructured our advertising business after acquiring the media entities namely Lianhe and Bona. We, through our newly acquired subsidiary, 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 entered into an equity pledge agreement and an option agreement with each of the registered PRC shareholders of Quo Advertising, Bona and Botong designated by us 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.

Although these contractual arrangements, in the opinion of our PRC legal counsel, are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions, there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation. Accordingly, we cannot assure you that PRC regulatory authorities will not determine that our contractual arrangements and the business operations of our PRC operating companies as described herein violate PRC laws or regulations. If we or any of our PRC operating companies were found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation. Any actions taken may cause disruption to our business operations and may adversely affect our business, financial condition and results of operation. See Item A1. "Risk Factor" for details.

## Table of Contents

### Advertising Services

#### Business Licenses for Advertising Companies

The principal regulations governing advertising businesses in China include:

- The Advertising Law (1994)
- Regulations on Control of Advertisement (1987); and
- The Implementing Rules for the Advertising Administrative Regulations (2004).

These regulations stipulate that companies that engage in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation.

We do not expect to encounter any difficulties in maintaining our business licenses. Our PRC advertising operating companies hold business license from the local branches of the SAIC as required by the existing PRC regulations.

### Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. It is prohibited to disseminate tobacco advertisements via broadcast or print media. It is also prohibited to display tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, veterinary pharmaceuticals, agrochemicals, foodstuff, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals advertised through radio, film, television, newspaper, magazine and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute are true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements comply with applicable PRC laws and regulations. In addition, prior to distributing advertisements for certain commodities, which are subject to government censorship and approval, advertising distributors and advertisers are obligated to ensure that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business. We will employ qualified advertising inspectors who are trained to review advertising content for compliance with

relevant laws and regulations.

#### Out-of-home Advertising

The Advertising Law stipulates that the exhibition and display of out-of-home advertisements must not:

- utilize traffic safety facilities and traffic signs;
- impede the use of public facilities, traffic safety facilities and traffic signs;
- obstruct commercial and public activities or create an eyesore in urban areas;
- be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; and
- be placed in areas prohibited by the local governments from having out-of-home advertisements.

In addition to the Advertising Law, the SAIC promulgated the Out-of-home Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998, and May 22, 2006, which governs the out-of-home advertising industry in China.

-12-

---

## Table of Contents

Out-of-home advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Out-of-home Advertising Registration Certificate for such advertisement. Many municipal cities of China have respectively promulgated their own local regulations on the administration of out-of-home advertisements. Those municipal regulations set forth specific requirements on the out-of-home advertisements, such as the allowed places of dissemination and size requirements of the out-of-home advertisement facilities.

In addition to the regulations on out-of-home advertisements, the placement and installation of LED billboards are also subject to municipal local zoning requirements and relevant governmental approvals of the city where the LED billboards located. In Shanghai, the placement and installation of LED billboards are required to obtain application for an out-of-home advertising registration certificate for each LED billboard subject to a term of use approved by local government agency for each LED billboard. If the existing LED billboards placed by our LED location provider or us are required to be removed, the attractiveness of this portion of our advertising network will be diminished.

## Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Rules on Foreign Exchange Control (1996), as amended. Under the Rules, Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment outside China unless the prior approval of the State Administration for Foreign Exchange of the PRC or other relevant authorities is obtained.

Pursuant to the Rules on Foreign Exchange Control, foreign investment enterprises in China may purchase foreign currency without the approval of the State Administration for Foreign Exchange of the PRC for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by the State Administration for Foreign Exchange of the PRC) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment outside China are still subject to limitations and require approvals from the State Administration for Foreign Exchange of the PRC.

## Dividend Distributions

The principal regulations governing distribution of dividends of wholly foreign-owned companies include:

- The Foreign Investment Enterprise Law (1986), as amended; and
- Administrative Rules under the Foreign Investment Enterprise Law (2001).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds, unless such reserve funds as accumulated have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends.

## Enterprise Income Tax Law

The Enterprise Income Tax Law, or EIT Law, was promulgated by the PRC's 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% and other very limited situation that allows EIT rates at 20%, 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.

#### Environmental Matters

The Company's operations are subject to various environmental regulations. We believe that we are in substantial compliance with applicable laws, rules and regulations relating to the protection of the environment and that our compliance will have no material effect on our capital expenditures, earnings or competitive position.

#### ITEM 1A. RISK FACTORS

Risks relating to our business include the factors set forth below. If an adverse outcome of any of the following risks actually occurs, our business, financial condition or operating results could be materially and adversely affected. In evaluating our business, shareholders should consider carefully the following factors in addition to the other information presented herein.

Table of Contents

RISKS RELATED TO OUR BUSINESS

The recent global economic and financial market crisis may continue to have a negative effect on our business, financial condition, results of operations and cash flow.

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States, China and other parts of the world. This global economic and financial market crisis has had, and may continue to have, a negative effect on our ability to borrow funds or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by the current economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed media costs associated with our operations. Therefore, the global economic and financial market crisis could continue to have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

We have a limited operating history, which may make it difficult for you to evaluate our business and prospects.

We began to operate our advertising business in late 2006. Accordingly, we have a very limited operating history upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. In addition, due to our short operating history and recent additions to our management team, some of our senior management and employees have only worked together at our company for a relatively short period of time. As a result, it may be difficult for you to evaluate the effectiveness of our senior management and other key employees and their ability to address future challenges to our business.

We may not be able to recruit and retain key personnel, particularly sales and marketing personnel, which could have material and adverse effects on our business, financial condition and results of operations.

Our future success depends in part on the contributions of our management team and key technical and sales personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our CEO Dr. Earnest Leung and our Deputy CEO, Mr. Godfrey Hui, as well as our sales, marketing and other key personnel. Because of significant competition in our industry for qualified managerial, technical and sales personnel, we cannot assure you that we will be able to retain our key senior managerial, technical and sales personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. If we are unable to retain our existing personnel, or attract, train, integrate or motivate additional qualified personnel, our growth may be restricted. The loss of any of these key employees could slow our programming, distribution and sales efforts or have an adverse effect on how our business is perceived by advertisers, venue providers and investors, and our management may have to divert their attention from our business to recruiting replacements for such key personnel.

There may be unknown risks inherent in our acquisitions of Lianhe and Bona.

Although we conducted due diligence with respect to the acquisition of Lianhe and Bona, there is no assurance that all risks associated with these companies have been revealed. To protect us from associated liabilities, we have received guarantees of indemnification from the original owners. However we have no assurance that such guarantees will be

honored and legal action to enforce such guarantees 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.

-14-

---



## Table of Contents

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

We have issued convertible promissory notes to certain investors and our related interest payments on such 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 related agreements, 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.

In order to grow at the pace expected by management, we will require additional capital to support our long-term business plan. If we are unable to obtain additional capital in future years, we may be unable to proceed with our long-term business plan and we may be forced to curtail or cease our operation or further business expansion.

We will require additional working capital to support our long-term business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, so as to enhance the overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. U.S. and global credit and equity markets have recently undergone significant disruption, making it difficult for many businesses to obtain financing on acceptable terms. In addition, equity markets are continuing to experience wide fluctuations in value. If these conditions continue or worsen, we may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. To raise funds, we may need to issue new equities or bonds which could result in additional dilution to our shareholders and in. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities or contain covenants that would restrict our operations and strategy. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

Our acquisitions of Lianhe, Bona and any future acquisitions may expose us to potential risks and have an effect on our ability to manage our business.

It is our strategy to expand our business through acquisitions like that of 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.

We may be exposed to potential risks relating to our internal controls over financial reporting and our ability to have the operating effectiveness of our internal controls attested to by our independent auditors.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-K. We are subject to this requirement commencing with our fiscal year ending December 31, 2007 and a report of our management is included under Item 9A of this Annual Report on Form 10-K. In addition, SOX 404 requires the independent registered public accounting firm auditing a company's financial statements to attest to and report on the operating effectiveness of such company's internal controls. While we believe that the Company has adequate internal control procedures in place, we can provide no assurance that we will be viewed by our independent auditors as complying with all of the requirements imposed thereby or that we will receive a positive attestation from them. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements which could negatively impact our stock market price.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period based on the seasonality of consumer spending and corresponding advertising trends in China. As a result, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance. Factors that are likely to cause our operating results to fluctuate, such as the seasonality of advertising spending in China, the effect of the global economic downturn on spending in China, a further deterioration of economic conditions in China and potential changes to the regulation of the advertising industry in China, are discussed elsewhere in this annual report. If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which would harm our operating results for that quarter relative to our operating results from other quarters.

## Table of Contents

We have incurred losses and substantial doubt exists about our ability to continue as a going concern.

We have a history of operating losses. We have incurred a net loss attributable to NCN common stockholders of \$37,359,188 for fiscal year ended December 31, 2009. As of December 31, 2009, our shareholders' deficit was \$1,491,206. These raise substantial doubt about our ability to continue as a going concern. We have been dependent on sales of our equity securities and debt financing to meet our cash requirements. If adequate capital is not available to us, we may need to sell assets or seek to undertake a restructuring of our obligations with our creditors. We cannot give assurances that we would be able to accomplish either of these measures on commercially reasonable terms, if at all. In any such case, we may not be able to continue as a going concern.

If our subcontractors fail to perform their contractual obligations, our ability to provide services and products to our customers, as well as our ability to obtain future business, may be harmed.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by those subcontractors. A failure by one or more of our subcontractors to satisfactorily perform the agreed-upon services may materially and adversely impact our ability to perform our obligations to our customers, could expose us to liability and could have a material adverse effect on our ability to compete for future contracts and orders.

We have limited business insurance coverage for our PRC subsidiaries. In the event that adequate insurance is not available or our insurance is not deemed to cover a claim, we could face liability.

We carry insurance of various types, including general liability and professional liability insurance in amounts management considers adequate and customary for the jurisdiction in which we operate. Insurance companies in China offer limited business insurance products because the insurance industry in China is still at an early stage of development, and some of our insurance policies may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence. If we incur increased losses related to employee acts or omissions, or system failure, or if we are unable to obtain adequate insurance coverage at reasonable rates, or if we are unable to receive reimbursements from insurance carriers, our financial condition and results of operations could be materially and adversely affected.

## 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 impede the overall economic growth of China and adversely affect our liquidity and our ability to access to capital and to operate our business.

We conduct substantially all of our operations and generate most of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;

- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. While these measures may benefit the overall PRC economy, they may also have a negative effect on us. While the PRC economy has experienced significant growth over the past several years, the rate of growth has been irregular, both geographically and among various sectors of the economy, and has recently slowed across all sectors.

A number of factors have contributed to this slow-down, including appreciation of Renminbi, which adversely affected China's exports, and tightening macroeconomic measures and monetary policies adopted by the Chinese government aimed at preventing overheating of the Chinese economy and controlling China's high level of inflation. The slow-down has been exacerbated by the recent global crisis in the financial services and credit markets, which has caused significant volatility and dislocation of the global capital markets as well as increased rates of default and bankruptcy. It is uncertain how long the global crises in the financial services and credit markets will continue and how much adverse impact it will have on the global economy in general or the Chinese economy in particular. These macroeconomic developments could negatively affect our business, operating results, or financial condition in a number of ways. For instance, current or potential customers may delay or decrease spending with us or may not pay us or may delay paying us for previously purchased services.

## Table of Contents

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.

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

Our media operations were mainly conducted by Lianhe, Botong, Bona and Quo Advertising (deconsolidated on January 1, 2010) through commercial agreements arrangement. PRC regulations require any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Beginning December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry. We did not have any PRC operating subsidiaries able to apply for the required licenses for providing advertising services in China until Yi Gao, an equity joint venture was formed in late 2009. 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 registered PRC shareholders of Quo Advertising, Bona and Botong designated by us 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.

In early 2010, we start to restructure our organization structure by eliminating variable interest entities structure and substituting with direct ownership. On January 1, 2010, we consolidate all the business operations of Quo into Yi Gao. We also plan to transition the operations of Bona and Botong to Yi Gao.

However, before completing the restructuring, we cannot assure you that our existing PRC operating subsidiaries and affiliates will not be 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 operation; 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 may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations which became effective on September 8, 2006.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006. This new regulation, among other things, governs the approval process by which a PRC company may participate in an acquisition of assets or equity interests. Depending on the structure of the transaction, the new regulation will require the PRC parties to make a series of applications and supplemental applications to the government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to the new regulation, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

## Table of Contents

The new regulation allows PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to the Ministry of Commerce and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our stockholders' economic interests.

In addition to the above risks, in many instances, we will seek to structure transactions in a manner that avoids the need to make applications or a series of applications with Chinese regulatory authorities under these new M&A regulations. If we fail to effectively structure an acquisition in a manner that avoids the need for such applications or if the Chinese government interprets the requirements of the new M&A regulations in a manner different from our understanding of such regulations, then acquisitions that we have effected may be unwound or subject to rescission. Also, if the Chinese government determines that our structure of any of our acquisitions does not comply with these new regulations, then we may also be subject to fines and penalties.

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.

Our advertising business was initially run through our contractual arrangements with our PRC operating companies, Quo Advertising. Quo Advertising was owned by two PRC citizens designated by us and directly operated our advertising network projects. In January 2008, we restructured our advertising business after further acquiring the media companies namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into a series of commercial agreements with each of Quo Advertising, Bona and Botong and their respective registered shareholders. It enables us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation.

These contractual arrangements and commercial agreement arrangements may not be as effective in providing us with control over media subsidiaries as direct ownership. Before we complete the restructuring as aforementioned, under the current contractual arrangements, as a legal matter, if our PRC operating companies, Bona and Botong and their registered PRC shareholders fails to perform its or his/her respective obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and take legal action to compel him/her to fulfill his/her contractual obligations. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our PRC operating companies, and our ability to conduct our business may be negatively affected.

We rely on trust agreement arrangement with Quo Advertising to control 30% equity of Yi Gao, which may not be as effective in providing operational control as direct ownership.

Currently we are restructuring our operations in China by eliminating variable interest entities structure and substituting with direct ownership. We aim to consolidate all our advertising business into Yi Gao, a newly formed advertising joint venture in China. Yi Gao currently is 70% equity owned by Linkrich Enterprise Advertising and 30% equity owned by Quo Advertising.

On January 1, 2010, all the business operations of Quo were transferred to Yi Gao and the commercial arrangements with Quo were terminated. The stockholders of Quo were no longer designated by us. In order to enable us to exert 100% control over the advertisement business of Yi Gao, we have Quo Advertising signed a trust declaration, which enable Quo Advertising to hold the 30% equity interest of Yi Gao on behalf and for the benefit of Linkrich Enterprise Advertising.

Although the trust arrangement, in the opinion of our PRC legal counsel, are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions, there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation. Accordingly, we cannot assure you that PRC regulatory authorities will not determine that our trust arrangements with Quo Advertising are void. In the event Quo Advertising does not return the equity interest in Yi Gao to Linkrich Enterprise, or another designated entity, we may have to incur substantial costs to take legal action to compel Quo Advertising return the trust property to us. In the event we are unable to get back the equity interest in Yi Gao, we may not be able to exert 100% control over our PRC advertisement business, and our ability to conduct our business may be negatively affected.

-18-

---



## Table of Contents

The discontinuation of preferential tax treatments or other incentives for foreign invested enterprises under the new Enterprise Income Tax Law could materially impact our business development efforts in China and adversely affect our business, financial condition and results of operations.

The Enterprise Income Tax Law of the People's Republic of China, or New EIT Law, was promulgated by the PRC's National People's Congress on March 16, 2007 to create a "level playing field" by establishing, effective as of January 1, 2008, a unified corporate income tax rate, cost deduction and tax incentive policies for both domestic and foreign-invested enterprises deriving income from the PRC. Under the prior regulatory scheme, foreign enterprises and foreign invested enterprises, or FIEs, were generally only required to pay income tax at an effective rate of approximately 15% to 20%, while domestic Chinese companies usually have to pay income tax at an effective rate of about 25% or even higher. The New EIT Law and its implementing rules apply one single income tax rate of 25% to all both domestic and foreign-invested enterprises, except for some hi-tech enterprises which are subject to EIT rates of 15%. 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 and our business development in China may be adversely affected.

Under the New EIT Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.

Under the New EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise", meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. Because the New EIT Law and its implementing rules are new, no official interpretation or application of this new "resident enterprise" classification is available. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that the Company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempt income", we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. We are actively monitoring the possibility of "resident enterprise" treatment for the 2008 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible. If we were treated as a "resident enterprise" by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be creditable against our U.S. tax.

In addition, our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations which 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.

The PRC government exerts substantial influence over the manner in which we conduct our business activities.

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. 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. 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.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

## Table of Contents

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Restrictions on currency exchange, including regulation of loans and direct investment by offshore holding companies to PRC, entities may limit our ability to receive and use our sales revenue effectively.

Most of the Company's sales revenue and expenses are denominated in Renminbi which may need to be exchanged into 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, or SAFE, but need only a ministerial review, according to the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions promulgated in 1996, or 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. The Company can obtain foreign currency in exchange for Renminbi from swap centers authorized by the PRC government. In addition, our PRC operating subsidiaries may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without SAFE approval, by complying with certain procedural requirements. The Company does not anticipate problems in obtaining foreign currency to satisfy its requirements, but there is no assurance that future foreign currency shortages or changes in currency exchange laws and regulations by the PRC government will not restrict the Company from exchanging Renminbi in a timely manner. Since a significant amount of our future revenue will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside China that are denominated in foreign currencies.

As an offshore holding company of our PRC operating subsidiaries and affiliates, we may make loans or contribute additional capital to them or they may seek to borrow from other foreign lenders. Such loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the PRC Ministry of Commerce, or their respective local counterparts. 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 PRC operating subsidiaries and our ability to expand the business.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and the Renminbi and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in Renminbi and the net proceeds from this offering will be denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect the relative purchasing power of these proceeds, our balance sheet and our earnings per share in U.S. dollars following this offering. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue after this offering that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

-20-

---

## Table of Contents

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 and our ability to generate revenue and the market price of our common stock, and since our assets are located in the PRC, stockholders may not receive distributions that they would otherwise be entitled to.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the advertising businesses, we currently conduct certain of our operations in China through contractual arrangements with shareholders of Quo Advertising, 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.

The Company's assets are located in PRC and as such, 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 were 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.

PRC laws and regulations impose certain restriction on foreign investment in China's advertising service industry, and substantial uncertainties exist with respect to our contractual arrangements with our PRC operating companies.

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

Our advertising business was initially run through our contractual arrangements with our PRC operating companies, Quo Advertising. Quo Advertising was owned by two PRC citizens designated by us and directly operated our advertising network projects. In January 2008, we restructured our advertising business after further acquiring the media subsidiaries namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising, Bona and Botong. In addition, Lianhe also entered into an equity pledge agreement and an option purchase agreement with each of the registered PRC shareholders of Quo Advertising, Bona and Botong designated by us 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.

Although these contractual arrangements, in the opinion of our PRC legal counsel, are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions, there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation. We cannot assure you that PRC regulatory authorities will not determine that our contractual arrangements and the business operations of our PRC operating companies as described herein violate PRC laws or regulations. If we or any of our PRC operating companies were found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation. Before our completion of restructuring as aforementioned, any actions taken may cause disruption to our business operations and may adversely affect our business, financial condition and results of operation.

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

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

While there are no formal PRC laws or regulations that define or regulate out-of-home advertising, we believe that the relevant PRC government authorities are currently considering adopting new regulations governing out-of-home advertising. We cannot predict the timing of establishing such regulations and their impacts on our Company. Changes in laws and regulations or the enactment of new laws and regulations governing placement or content of out-of-home advertising, may affect our business prospects and results of operations. We cannot predict the ultimate cost for complying with these new requirements. 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 would affect our ability to compete in the advertising industry in the PRC.

Table of Contents

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiaries in China. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference, but have limited precedential value. 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. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. 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. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. 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, especially our contractual arrangements among Lianhe, Quo Advertising, Bona and Botong are governed by the PRC law, could adversely affect our business and operation. We cannot predict the effect of future developments in the PRC legal system, particularly with regard to the industries in which we operate, imposed on our business.

In addition, all of our executive officers and all but one of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese officers, directors and subsidiaries.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us.

The PRC National Development and Reform Commission, or the 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.

In October 2005, SAFE issued a public notice, the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, or the SAFE Notice, which requires PRC residents to register with the competent local SAFE branch before using onshore assets or equity interests held by them to establish offshore special purpose companies, or SPVs, for the purpose of overseas equity financing. Under the SAFE Notice, such PRC residents must also file amendments to their registration in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations. Moreover, if the SPVs were established and owned the onshore assets or equity interests before the implementation date of the SAFE Notice, a retroactive SAFE registration is required to have been completed before March 31, 2006. If any PRC resident stockholder of any SPV fails to make the required SAFE registration and amended registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV. Failure to comply with the SAFE registration and amendment

requirements described above could also result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Because of uncertainty over how the SAFE Notice will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the SAFE Notice by our PRC resident beneficial holders. In addition, such PRC residents may not always be able to complete the necessary registration procedures required by the SAFE Notice. We also have little control over either our present or prospective direct or indirect stockholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident stockholders to comply with the SAFE Notice, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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.



## Table of Contents

The implementation of the PRC Labor Contract Law may significantly increase our operating expenses and adversely affect our business and results of operations.

On June 29, 2007, the PRC National People's Congress enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law formalizes worker's rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions and provides for specific standards and procedure for the termination of an employment contract. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract. As there has been little guidance as to how the Labor Contract Law will be interpreted and enforced by the relevant PRC authorities, there remains substantial uncertainty as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law may significantly increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect these changes in manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

Any future outbreak of severe acute respiratory syndrome or avian flu in China, or similar adverse public health developments, may severely disrupt our business and operations.

From December 2002 to June 2003, China and certain other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, following this declaration, a number of isolated new cases of SARS have been reported, mostly recently in central China in April 2004. During May and June of 2003, many businesses in China were closed by the PRC government to prevent transmission of SARS. In addition, during 2005 and 2006 China reported cases of humans becoming infected with a strain of avian influenza or bird flu known as H5N1, which is often fatal to humans. This disease, which is spread through poultry populations, is capable in some circumstances of being transmitted to humans and is often fatal. A new outbreak of SARS or an outbreak of avian flu may reduce the level of economic activity in affected areas and deter people from congregating in public places, which may lead to a reduction in our advertising revenue as our clients may cancel existing contracts or defer future advertising expenditures. In addition, health or other government authorities may require temporary closure of our offices, or the offices, where we provide our advertising services. All these will severely disrupt our business operations and have a material adverse effect on our financial condition and results of operations.

## RISKS RELATED TO OUR INDUSTRY

The media and advertising industry is sensitive to changes in economic conditions and advertising trends.

The media and advertising industry is particularly sensitive to changes in general economic conditions and advertising trends. A deterioration of economic conditions would usually lead to a decrease in demand for advertising. Advertisers may reduce the money they spend on purchasing advertising airtime for a number of reasons, including but not limited to the followings:

- a general decline in economic conditions
- a decline in economic conditions in the particular cities where we conduct business
- a decision to shift advertising expenditures to other available advertising media

- a decline in advertising expenditure in general

A decrease in demand for advertising airtime in general and for our advertising services in particular would impair our ability to generate advertising revenues and our business, results of operations and financial condition could be materially and adversely affected.

The media and advertising industry is highly competitive and our inability to compete with companies that are larger and better capitalized than we are may adversely affect our business and results of operations.

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.

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 Lianhe and Bona. We cannot assure that we will be able to compete against new or existing competitors to generate satisfactory profit.

## Table of Contents

Furthermore, due to the less desirable locations currently the Company has, we can only charge the advertisers 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 generate higher levels of revenue.

We needs to continue geographic expansion in the media network market 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 are currently searching for more opportunities. However, 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.

We generally do not have exclusive or long-term agreements with our advertising clients and we may lose their engagement if they are not satisfied with our services or for other reasons.

As is customary in the advertising industry in China, we generally do not have exclusive or long-term agreements with our advertising clients. A majority of our agreements with our advertising clients have a term of less than a year. As a result, we must rely on high-quality services, industry reputation, our network size and coverage and favorable pricing to attract and retain advertising clients. There is no assurance, however, that we will be able to maintain our relationships with current and/or future clients. Our other advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. We lost client accounts in the past and may lose client accounts in the future. If a substantial number of our advertising clients choose not to continue to purchase advertising time from us, we would be unable to generate sufficient revenues and cash flows to operate our business, and our results of operations and financial condition would be materially and adversely affected.

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. If the public is receptive toward our new media network, our advertisers will continue to purchase the advertising air-time from us. However, in case the public finds any element such as the 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. Such uncertainty could adversely affect our revenue.

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. We are required 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. We cannot assure you that we can obtain all the relevant government approvals for all of our installations in China. If such approvals are delayed or are not granted, we will be unable to install LED panels or billboards on schedule, if at all, and we may incur additional installation costs or loss of advertising revenue.

-24-

---

## Table of Contents

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 and 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.

We may be subject to, and may expend significant resources in defending against, government actions and civil suits based on the content and services we provide through our digital out-of-home advertising networks.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable law. Violation of these laws or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for advertising business operations.

As an out-of-home advertising, we are obligated under PRC laws, rules and regulations to monitor the advertising content aired on our network or stationary advertising platform for compliance with applicable laws. Although the advertisements shown on our network generally have previously been broadcast over public television networks and have been subjected to internal review and verification by these broadcasters, we are required to separately and independently review and verify these advertisements for content compliance before displaying these advertisements. In addition, for advertising content related to special types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including the advertisers' operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with the local authorities. We employ, qualified advertising inspectors who are trained to review advertising content for compliance with applicable PRC laws, rules and regulations. We endeavor to comply with such requirements, including by requesting relevant documents from the advertisers. Further, out-of-home advertisements must be registered with the local branch of the State Administration for Industry and Commerce, or SAIC, before dissemination, and advertising distributors are required to submit a registration application form and the content of the advertisement to the local SAIC and receive an advertising registration certificate from the local SAIC. Our reputation will be tarnished and our results of operations may be adversely affected if advertisements shown on our digital out-of-home advertising network are provided to us by our advertising clients in violation of relevant PRC content laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with such advertising content are not complete, or if the advertisements are not content compliant.

Moreover, civil claims may be filed against us for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of the information displayed on our advertising network. If consumers find the content displayed on our advertising network to be offensive the authority parties may seek to hold us responsible for any consumer claims or may terminate their relationships with us.

In addition, if the security of our content management system is breached and unauthorized images, text or audio sounds are displayed on our advertising network, viewers or the PRC government may find these images, text or audio sounds to be offensive, which may subject us to civil liability or government censure despite our efforts to ensure the security of our content management system. Any such event may also damage our reputation. If our advertising viewers do not believe our content is reliable or accurate, our business model may become less appealing to viewers in China and our advertising clients may be less willing to place advertisements on our advertising network.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and could potentially result in judgments against us, which may materially disrupt our business.

We cannot be certain that our advertising content, entertainment content or other aspects of our media business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although we are not aware of any such claims, we may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely disrupt our business.

## Table of Contents

We may be, or may be joined as, a defendant in litigation brought against our clients or our local operating partners by third parties, governmental or regulatory authorities, consumers or competitors, which could result in judgments against us and materially disrupt our business.

From time to time, we may be, or may be joined as, a defendant in litigation brought against our clients or our local operating partners by third parties, governmental or regulatory authorities, consumers or competitors. These actions could involve claims alleging, among other things, that:

- advertising claims made with respect to our client's products or services are false, deceptive or misleading;
- our clients' products are defective or injurious and may be harmful to others; marketing, communications or advertising materials created for our clients infringe on the proprietary rights of third parties; or
- our relationships with our local operating partners violate or interfere with the contractual relationships or rights of third parties;

The damages, costs, expenses and attorneys' fees arising from any of these claims could have an adverse effect on our business, results of operations, financial condition and prospects. In any case, our reputation may be negatively affected by these allegations.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties and we make sales in China. Our activities in China create the risk of unauthorized payments or offers of payments by the employees, consultants, sales agents or distributors of our Company, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

## RISKS RELATED TO OUR COMMON STOCK

Although publicly traded, the trading market in our common stock has been substantially less liquid than the average trading market for a stock quoted on the OTCBB and this low trading volume may adversely affect the price of our common stock.

Our common stock started trading on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol "NWCN". The trading market in our common stock has been substantially less liquid than the average trading market for companies quoted on the OTCBB. Reported average daily trading volume in our common stock for the year ended December 31, 2009, was approximately 22,086 shares. Limited trading volume will subject our shares of common stock to greater price volatility and may make it difficult for you to sell your shares of common stock at a price that is attractive to you.

The market price of our common stock is volatile, leading to the possibility of its value being depressed at a time when you want to sell your holdings.

The market price of our common stock is volatile, and this volatility may continue. For instance, between January 1, 2009 and December 31, 2009, the closing bid price of our common stock, as reported on the markets on which our securities have traded, ranged between \$0.15 and \$0.03. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

our actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;

- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;

stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the advertising industry;

- customer demand for our products;
- investor perceptions of our industry in general and our company in particular;



Table of Contents

- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles; and
- loss of external funding sources.

Securities class action litigation is often instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. For example, in October 2008, the securities markets in the United States, China and other jurisdictions experienced the largest decline in share prices since the "Black Monday" crash on October 19, 1987. These market fluctuations may adversely affect the price of our common stock and other interests in our company at a time when you want to sell your interest in us.

A decline in the price of our shares of common stock could affect our ability to raise further working capital and adversely impact our operations.

A prolonged decline in the price of our shares of common stock could result in a reduction in the liquidity of our shares of common stock and a reduction in our ability to raise capital. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop our business and continue our current operations. If the stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

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

Our Certificate of Incorporation authorizes the issuance of 2,000,000,000 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.

Our 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.

We may be subject to penny stock regulations and restrictions which may limit a stockholder's ability to buy and sell our stock on the secondary market.

The SEC has adopted regulations which generally define so-called "penny stocks" to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. As of March 16, 2010, the closing bid and asked price for our common stock was \$0.02 per share, which designates it as a "penny stock". As a "penny stock", our common stock may become subject to Rule 15g-9 under the Exchange Act, or the "Penny Stock Rule". This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with a net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

## Table of Contents

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest. The penny stock rules could discourage investors from purchasing our common stock and thereby limit its marketability.

FINRA 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 Financial Industry Regulatory Authority, or FINRA, promulgates 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, FINRA believes that there is a high probability that low priced securities will not be suitable for at least some customers. The FINRA 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, to finance the development and expansion of our business and operations. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant.

A significant percentage of our outstanding ordinary shares is beneficially owned by a company, Keywin Holdings Limited of which Dr. Earnest Leung, our chief executive officer is the director, and as a result, he may have significantly greater influence on us and our corporate actions by nature of the size of Keywin's shareholdings relative to our public shareholders.

Keywin Holdings Limited beneficially owns approximately 27.8% of our outstanding ordinary shares. Accordingly, Earnest Leung, as a director of Keywin Holdings limited, has significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Without Earnest Leung's consent, we could be prevented from entering into transactions or conducting business that could be beneficial to us. Accordingly, Dr. Earnest Leung's control of the Company could hinder any change in control of our business, particularly where such change of control would benefit shareholders other than Dr. Earnest Leung. It would be difficult for us to change our corporate structure if any disputes arise between us and Dr. Earnest Leung or if he fails to carry out his contractual and fiduciary obligations to us. Thus, Earnest Leung's interests as an officer and employee may differ from his interests as a shareholder or from the interests of our other shareholders, including you.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We occupy 871 square feet of executive office space at Suite 3908, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, for \$8,846 per month (including office facilities), pursuant to a half-year agreement commencing November 1, 2009 between the Company's wholly owned subsidiary NCN Group Management Limited and our related company, Vision Tech International Holdings Limited .

We also maintain office space in Beijing and Shanghai for certain of our PRC operating companies. Our Beijing office occupies 150 square meters of space at Room 1611, Full Link Plaza No. 18, Chaoyangmenwai Ave, Beijing, China, for \$2,206 per month, pursuant to a 2-year lease agreement commencing November 18, 2009 between the Company's wholly owned subsidiary, Lianhe and Beijing Full Link Plaza Mansion Co., Ltd; and our Shanghai office currently occupies 359.7 square meters of space at Flat A, 21/F, No. 580 Nanjing West Road, Shanghai, China, for \$8,823 per month, pursuant to a 2 year lease agreement commencing January 1, 2010 to December 31, 2011 between the Company's subsidiary, Yi Gao and Quo Advertising, our former PRC operating company which was deconsolidated in 2010.

We believe that all our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our business.

-28-

---

Table of Contents

## ITEM 3. LEGAL PROCEEDINGS

On March 20, 2008, our wholly-owned subsidiary, NCN Huamin, entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd., or Chengtian, pursuant to which a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008 due to the fact that Chengtian had breached several provisions of the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of approximately \$505,000 for unpaid rental-related expenses, plus accrued interest, as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian, seeking an aggregate of approximately \$155,000 from Chengtian for overpayment of rental expenses and compensation for Chengtian's breach of contract. In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of \$280,000. In October, 2009, the Company appealed to Beijing Second Intermediate People's Court against the arbitration decision. On December 18, 2009, Beijing Second Intermediate People's Court made a final judgment to rescind the original judgment made by the Beijing Arbitration Commission. At present, no further legal actions have been taken or lawsuit was filed by Chengtian against Huamin. We do not believe that the outcome of this litigation will have a material impact on our consolidated financial statements, or our results of operations.

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

## ITEM 4. REMOVED AND RESERVED.

## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

## Market for Our Common Stock

Since August 1, 2006, our common stock has been listed on the Over-the-Counter Bulletin Board, or OTCBB, maintained by the Financial Industry Regulatory Authority, under the symbol "NWCN.OB". Prior to that date, our common stock had been quoted on the OTCBB under the symbol "TTVL.OB". On March 16, 2010, the last reported sales price of our common stock on the OTCBB was \$0.02 per share. The CUSIP number is 64125G100.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

## Closing Prices (1)

High	Low
------	-----

## FISCAL YEAR ENDED DECEMBER 31, 2009:

Fourth Quarter	\$0.12	\$0.05
Third Quarter	\$0.12	\$0.03
Second Quarter	\$0.12	\$0.03
First Quarter	\$0.15	\$0.03

## FISCAL YEAR ENDED DECEMBER 31, 2008:

Fourth Quarter	\$0.90	\$0.15
Third Quarter	\$2.00	\$0.90
Second Quarter	\$2.08	\$1.50
First Quarter	\$2.51	\$1.85

- (1) The above tables set forth the range of high and low closing prices per share of our common stock as reported by [www.bloomberg.com](http://www.bloomberg.com) for the periods indicated.

## Approximate Number of Holders of Our Common Stock

As of March 15, 2010, the Company had approximately 140 stockholders of record and 422,522,071 shares of common stock were issued and outstanding. Because some of our common stock is held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## Table of Contents

Holladay Stock Transfer is the registrar and transfer agent for our common stock. Their address is 2939 North 67th Place, Suite C, Scottsdale, Arizona 85251, USA and their telephone number and facsimile are (480) 481-3940 and (480) 481-3941, respectively.

## Dividend Policy

The Company has not declared any dividends since incorporation and does not anticipate doing so in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

As we are a holding company, we rely on dividends paid to us by our subsidiaries in the PRC through our Hong Kong subsidiaries, Cityhorizon Hong Kong and Linkrich Enterprise. In accordance with its articles of association, each of our subsidiaries in the PRC is required to allocate to its enterprise development reserve at least 10% of its respective after-tax profits determined in accordance with the PRC accounting standards and regulations. Each of our subsidiaries in the PRC may stop allocations to its general reserve if such reserve has reached 50% of its registered capital. Allocations to the reserve can only be used for making up losses and other specified purposes and may not be paid to us in forms of loans, advances, or cash dividends. Dividends paid by our PRC subsidiaries to Cityhorizon Hong Kong and Linkrich Enterprise, our Hong Kong subsidiaries, will not be subject to Hong Kong capital gains or other income tax under current Hong Kong laws and regulations because they will not be deemed to be assessable income derived from or arising in Hong Kong.

Our board of directors has discretion on whether to pay dividends unless the distribution would render us unable to repay our debts as they become due. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. For instance, the terms of the outstanding promissory notes issued to affiliated funds of Och-Ziff on April 2, 2009 contain restrictions on the payment of dividends. The dividend restrictions provide that the Company or any of its subsidiaries shall not declare or pay dividends or other distributions in respect of the equity securities of such entity other than dividends or distributions of cash which amounts during any 12-month period that exceed ten percent (10%) of the consolidated net income of the Company based on the Company's most recent audited financial statements disclosed in the Company's annual report on Form 10-K (or equivalent form) filed with the U.S. Securities and Exchange Commission.

## Performance Graph

The following performance graph\* compares, for the five year period ended December 31, 2009, the cumulative total stockholder return for the Company's common stock quoted on the OTCBB, the Standard & Poor's 500 Stock Index, or the S&P 500 Index, and the NASDAQ Stock Market (U.S. Companies) Index, or the NASDAQ Stock Market Index. The graph assumes that \$100 was invested on December 31, 2004 in the common stock of the Company, the OTCBB, the NASDAQ Stock Market and the S&P 500 Index, assumes reinvestment of any dividends. Measurement points are the last trading day of each of the Company's years ended December 31, 2005, 2006, 2007, 2008 and 2009. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

\* This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise, subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended or the Exchange Act.

Table of Contents

## Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Securities Authorized for Issuance Under Equity Compensation Plans".

## Recent Sales of Unregistered Securities

During the fiscal year ended December 31, 2009 we did not offer or sell any unregistered securities that were not previously disclosed in a quarterly report on Form 10-Q or in a current report on Form 8-K.

## Purchases of Our Equity Securities

No repurchases of our common stock were made during the fourth quarter of our fiscal year ended December 31, 2009.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes to Financial Statements.

## Consolidated Statements of Operations Data

	Years ended December 31				
	2009	2008	2007(1)	2006	2005
Revenues	\$ 1,266,927	\$ 4,622,270	\$ 1,442,552	\$ -	\$ -
Cost of revenues	(2,067,881 )	(17,374,713)	(2,795,188 )	-	-
Operating expenses	(5,423,074 )	(40,099,318)	(12,088,954)	(4,892,856)	(421,439 )
Other income	36,572	91,348	23,414	35,569	-
Interest and other debt-related expenses	(31,195,905)	(7,082,378 )	(329,194 )	(358 )	-
Net loss from continuing operations	(37,383,361)	(59,842,791)	(13,755,038)	(4,889,277)	(381,804 )
Net income (loss) from discontinued operations	-	45,041	(953,629 )	395,923	(1,670,016)
Net loss attributable to NCN common stockholders	(37,359,188)	(59,484,833)	(14,646,619)	(4,468,706)	(2,051,455)
Net loss per share from continuing operations attributable to NCN common stockholders – basic and diluted	\$ (0.12 )	\$ (0.83 )	\$ (0.20 )	\$ (0.10 )	\$ (0.02 )

## Consolidated Balance Sheets Data

	Years ended December 31				
	2009	2008	2007(1)	2006	2005
Cash	\$ 1,969,549	\$ 7,717,131	\$ 2,233,528	\$ 2,898,523	\$ 85,919



Prepayments for advertising operating rights, net	348,239	418,112	13,636,178	-	-
<b>Total assets</b>	<b>4,655,442</b>	<b>13,072,666</b>	<b>27,107,343</b>	<b>10,527,134</b>	<b>3,289,603</b>
Convertible promissory notes	3,854,934	30,848,024	12,626,292	-	-
<b>Total liabilities</b>	<b>6,146,648</b>	<b>36,428,883</b>	<b>16,120,533</b>	<b>1,011,780</b>	<b>1,301,123</b>
Stockholders' (deficit) equity	\$ (1,491,206)	\$ (23,356,217)	\$ 10,638,936	\$ 9,425,252	\$ 1,988,796

(1) Restated to correct the accounting errors arising from our misapplication of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. Please refer to Notes 3 to the consolidated financial statements for details.

Table of Contents

ITEMMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
7. OPERATIONS

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this Report. In addition to historical information, the following discussion contains certain forward-looking information. See "Forward Looking Statements" above for certain information concerning those forward looking statements. Our financial statements are prepared in U.S. dollars and in accordance with U.S. GAAP. References in this Report to a particular "fiscal" year are to our fiscal year ended on December 31, 2009.

Overview

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. We seek to acquire rights to install and operate roadside advertising panels and mega-size advertising panels in the major cities in China. In most cases, we are responsible for installing advertising panels, although in some cases, advertising panels might have already been installed, and we will be responsible for operating and maintaining the panels. Once the advertising panels are put into operation, we sell advertising airtime to our customers directly. Since late 2006, we have been operating a growing advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities. LED (known as "Light Emitting Diode") technology has evolved to become a new and popular form of advertising in China, capable of delivering crisp, super-bright images both indoors and outdoors.

Our total advertising revenues were \$1,266,927, \$4,622,270 and \$1,442,552 for the years ended December 31, 2009, 2008 and 2007 respectively. Our net loss attributable to NCN common stockholders was \$37,359,188, \$59,484,833 and \$14,646,619 for the years ended December 31, 2009, 2008 and 2007 respectively. Our results of operations were negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2009, including the following:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- slowing demand due to the worldwide financial crisis and deteriorating economic conditions in China, leading many customers to cut their advertising budget. The impact of the reduction in the pace of our advertising spending is expected to be more significant on our new digital form of media than traditional advertising platforms.

To address these unfavorable market conditions, in the latter half of 2008, we undertook drastic cost-cutting measures including reduction of our workforce, office rentals, and reductions to our selling and marketing expenses and other general and administrative expenses. We also re-assessed the commercial viability of each of our concession right contracts and determined that many of our concession rights are no longer commercially viable due to high annual fees and therefore such commercially non-viable concession right contracts were terminated. Management has also successfully negotiated some reductions in advertising operating rights fees under existing contracts. The outcome of these cost reduction measures has been reflected in our financial results.

Since early 2010, we have begun to restructure our organization by consolidating our PRC operations into one directly owned PRC entity, Yi Gao. We expect that this consolidation will enhance our operational efficiency and effectiveness and should reduce our operating expenses for the foreseeable future. For details, please refer to below sub-section "Recent Developments" below.

To strengthen our ability to generate revenues from advertising sales which depends largely upon our ability to provide large networks of advertising locations throughout major areas in China, we also started our advertising agency business in 2009. We seek the advertising airtime from third party vendors in major cities in China and sell such advertising airtime to our customers. As an advertising agent, we are not responsible for acquiring advertising operating rights, installing, operating and maintaining advertising panels. We expect that this product line will enable us to generate revenue without having capital commitment and hence enhance our current capital position and liquidity.

-32-

---

## Table of Contents

We also completed a debt restructuring exercise in April 2009 which has directly lessened our cash constraints. For details, please refer to below sub-section "Liquidity and Capital Resources - Restructuring of Convertible Debt" below. In July 2009, our board appointed Dr. Earnest Leung, the nominee of our controlling shareholder, Keywin, as our chief executive officer. Dr. Leung, a Keywin director, has over 20 years experience in the investment banking industry and is actively formulating a series of business development strategies and exploring more prominent advertising related projects, aiming to expand the Company and improve its financial performance. Management has identified and is currently studying the feasibility of several potential projects, however, we have not yet committed to any of them.

### Recent Developments

#### Corporate Restructuring

Since 2008, all our advertising business has been run through commercial arrangements with our PRC operating companies, namely Quo Advertising, Bona and Botong. In early 2010, our management decided that we would operate with more efficiency if we eliminated our structure of variable interest entities and substituted them with direct ownership. On January 1, 2010, we consolidated all the business operations of Quo into one directly owned PRC entity, Yi Gao, a newly formed advertising joint venture in China with 70% shareholding owned by Linkrich Enterprise, our wholly owned Hong Kong subsidiary and 30% shareholding owned by Quo, and terminated all Quo commercial arrangements. While the Quo stockholders are no longer designated by us, we are able to exert 100% control over the Yi Gao advertising business, pursuant to a trust declaration executed by Quo Advertising, whereby Quo Advertising holds Yi Gao's 30% equity interest on behalf and for the benefit of Linkrich Enterprise.

We plan to transition the operations of Bona and Botong to Yi Gao in order to simplify our operating structure. We believe that these arrangements will improve our operational efficiency and effectiveness.

### Results of Operations

Results of operations for the year ended December 31, 2009 as compared to the year ended December 31, 2008.

**Revenues.** Our revenues primarily consists of (1) LED panels and billboards advertising income, we recognize revenue in the period when advertisements are either aired or published and (2) advertising design, productions, public relations and event management services income. We recognize revenues when the services are performed. Revenues from advertising services for the year ended December 31, 2009 were \$1,266,927, as compared to \$4,622,270 for the year ended December 31, 2008, a decrease of 73%. The decrease was mainly attributed to a decrease in advertising sales orders as a result of the worldwide financial crisis and deteriorating economic conditions in China.

**Cost of Revenues.** Cost of revenues primarily consists of fees to obtain rights to operate advertising panels, advertising agency service fees, media display equipment depreciation expenses and other miscellaneous expenses. Cost of revenues for the year ended December 31, 2009 were \$2,067,881, a decrease of 88% compared to \$17,374,713 for the year ended December 31, 2008. The significant decrease was mainly attributable to the decrease in amortization of advertising operating rights fees. The amortization of advertising operating rights fee for the year ended December 31, 2009 was \$1,493,664, a decrease of 91% compared to \$15,900,456 for the year ended December 31, 2008. The decrease in the amortization of advertising operating rights fees resulted from the termination of commercially non-viable concession right contracts in late 2008 and early 2009 as well as the renegotiation of certain concession advertising operating rights fees to lower prices.

**Gross Loss.** Our gross loss for the year ended December 31, 2009 was \$800,954, a decrease of 94% compared to gross loss of \$12,752,443 for the same period in 2008. The decrease in gross loss was primarily driven by a significant

decrease in our cost of revenues resulted from the termination of commercially non-viable concession right contracts in late 2008 and early 2009 as well as the renegotiation of certain concession advertising operating rights fees to a lower prices.

**Selling and Marketing Expenses.** Selling and marketing expenses primarily consists of advertising and other marketing related expenses, compensation and related expenses for personnel engaged in sales and sales support functions. Selling and marketing expenses decreased by 79% from \$2,996,142 for the year ended December 31, 2008 to \$630,730 for the year ended December 31, 2009, primarily due to a decrease in advertising services provided by the Company.

**General and Administrative Expenses.** General and administrative expenses primarily consists of compensation related expenses (including salaries paid to executive and employees, stock-based compensation expense for stock granted to directors, executive officers and employees for services rendered calculated in accordance with SFAS 123R (ASC Topic 718), employee bonuses and other staff welfare and benefits, rental expenses, amortization expenses of intangible rights, depreciation expenses, fees for professional services, travel expenses and miscellaneous office expenses. General and administrative expenses for the year ended December 31, 2009 decrease by 60% to \$4,532,628 compared to \$11,254,933 for the year ended December 31, 2008. The decrease in general and administrative expenses was mainly due to drastic cost cutting measures, including reduction of the Company's workforce, rental, and other general and administrative expenses during 2009.

Table of Contents

Net Write-back of (Allowance for) Doubtful Debts. Net write-back of allowance for doubtful debts was \$542,771 for the year ended December 31, 2009 compared to allowance for doubtful debts of \$7,739,043 for the year ended December 31, 2008. The write-back of allowance of doubtful debts in 2009 includes certain doubtful debts were subsequently collected in 2009. The allowance for doubtful debts for 2008 includes a one-time allowance for doubtful debt of \$7,140,983 for prepaid expenses and other current assets for the year ended December 31, 2008. Such prepaid expenses and other current assets mainly represented the balance of payment from our customers being withheld by the authority party of certain media project and our initial deposits placed for soliciting other potential media projects which were abandoned by our management in late fiscal 2008.

Non-cash Impairment Charges. Non-cash impairment charges decreased by 96% to \$802,487 for the year ended December 31, 2009, as compared to \$18,109,200 for the year ended December 31, 2008. As the Company recorded a continuous net loss, ongoing impairment review was performed. For the year ended December 31, 2009, a non-cash impairment loss of \$454,904 and \$347,583 were recorded for media display equipment and intangible assets respectively. For the year ended December 31, 2008, a non-cash impairment loss of \$7,979,808, \$2,977,915 and \$7,151,477 was recorded for prepayments for advertising operating rights, media display equipment and intangible assets respectively.

Interest and Other Debt-Related Expenses. Interest and other debt-related expenses for the year ended December 31, 2009 increased to \$31,195,905, or by 340%, compared to \$7,082,378 for the year ended December 31, 2008. The significant increase was primarily due to the debt restructuring completed in April 2009, from which the Company recorded a one-time non-cash debt conversion charges, a one-time loss on early extinguishment of debt and a one-time write-off on unamortized deferred changes and debt discount of \$10,204,627, \$1,696,684 and \$16,935,828, respectively during the year ended December 31, 2009.

Income Taxes. The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded for the year ended December 31, 2009 and 2008 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss in fiscal 2009 and 2008.

Net Loss from Continuing Operations. The Company incurred a net loss from continuing operations of \$37,383,361 for the year ended December 31, 2009, a decrease of 38% compared to a net loss of \$59,842,791 for the year ended December 31, 2008. Generally, the decrease in the loss from continuing operations was due to 1) decrease in the cost of advertising services, selling and marketing expense, general and administrative expenses as a result of our cost cutting measures; 2) decrease in non-cash impairment charges; 3) the write-back of allowance for doubtful debt, offset by an increase in interest and other debt-related expenses arisen from one-time effect of debt restructuring, amounted to \$28,837,139.

Results of operations for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Revenues. Revenues from advertising services for the year ended December 31, 2008 were \$4,622,270, as compared to \$1,442,552 for the year ended December 31, 2007, an increase of 220%. The significant increase was attributable to the Company beginning to generate LED advertising revenue in late 2007.

Cost of Revenues. Cost of revenues for the year ended December 31, 2008 was \$17,374,713, an increase of 522% compared to \$2,795,188 for year ended December 31, 2007. The significant increase was attributable to an increase in both amortization of advertising rights which were acquired in late 2007 and early 2008 and depreciation of media display equipment which were placed into operation in early 2008.

Gross Loss. Our gross loss for the year ended December 31, 2008 was \$12,752,443, an increase of 843%, as compared to gross loss of \$1,352,636 for the same period in 2007. The increase in gross loss was primarily driven by a

significant increase in our cost of revenues as most of our media projects were placed into operation in late 2007 and early 2008. As our advertising revenue in 2008 was adversely affected by unexpected unfavorable market condition, increase in revenue was not in line with increase in cost of revenues. Accordingly, a significant increase in gross loss was recorded.

**Selling and Marketing Expenses.** Selling and marketing expenses for the year ended December 31, 2008 increased by 494% to \$2,996,142 compared to \$504,758 for the year ended December 31, 2007, primarily due to an increase in advertising services provided by the Company.

**General and Administrative Expenses.** General and administrative expenses for the year ended December 31, 2008 increased by 2% to \$11,254,933 compared to \$11,067,777 for the year ended December 31, 2007. The increase was driven by the increase in amortization charges of intangible assets as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in January 2008 and the increase in staff costs, office rental expense and other miscellaneous administrative expense as a result of the Company's continuous expansion in fiscal 2008, while offset by the decrease in the stock-based compensation expense. The decrease in the stock-based compensation was mainly due to less stock having been granted for services rendered during the year ended December 31, 2008.

## Table of Contents

Net Write-back of (Allowance for) Doubtful Debts. Allowance for doubtful debts for the year ended December 31, 2008 increased by 100% to \$7,739,043 compared to \$nil for the year ended December 31, 2007. The increase was mainly due to the occurrence of a one-time allowance for doubtful debts of \$7,140,983 for prepaid expenses and other current assets for the year ended December 31, 2008. Such prepaid expenses and other current assets mainly represented the balance of payment from our customers being withheld by the authority party of certain media project and our initial deposits placed for soliciting other potential media projects which were abandoned by our management in late fiscal 2008.

Non-cash impairment charges. Non-cash impairment charges increased by 3,407% to \$18,109,200 for the year ended December 31, 2008 as compared to \$516,419 for the year ended December 31, 2007. As the Company recorded a continuous net loss in fiscal 2008, it performed an impairment review on its prepayments for advertising operating rights, media display equipment and intangible assets during the latter half of fiscal 2008. Accordingly, a non-cash impairment loss of \$7,979,808, \$2,977,915 and \$7,151,477 was recorded for prepayments for advertising operating rights, media display equipment and intangible assets respectively. For the year ended December 31, 2007, a non-cash impairment loss of \$516,419 was recorded for intangible assets only. Such intangible assets were related to non-LED business and tour business on which we recorded a continuous operating loss in 2007.

Interest and Other Debt-Related Expenses. Interest and other debt-related expenses for the year ended December 31, 2008 increased by 2,051% to \$7,082,378 compared to \$329,194 for the year ended December 31, 2007. The significant increase was primarily due to the issuance of convertible promissory notes in late 2007 and early 2008. Of the \$7,082,378 recorded in the year ended December 31, 2008, \$5,589,920 was attributed to amortization of deferred charges and debt discount associated with these convertible promissory notes and \$1,492,458 was attributed to their respective interest expense.

Income Taxes. The Company derives all of its income in the PRC and is subject to income tax in the PRC. Income tax incurred for the year ended December 31, 2008 was \$nil as compared to \$7,668 for the year ended December 31, 2007. No income tax was recorded in 2008 as the Company and all of its subsidiaries and variable interest entities operated at a loss in fiscal 2008.

Net Loss from Continuing Operations. The Company incurred a net loss from continuing operations of \$59,842,791 for the year ended December 31, 2008, an increase of 335% compared to a net loss of \$13,755,038 for the year ended December 31, 2007. The increase in net loss was driven by several factors: (1) increase in cost of advertising services related to our media business as mention above, (2) increase in non-cash impairment charges recorded for prepayments for advertising operating rights, media display equipments and intangible assets, (3) increase in amortization of deferred charges and debt discount associated with the issuance of convertible promissory notes in late 2007 and early 2008, (4) increase in amortization charges of intangible assets as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in January 2008 (5) occurrence of a one-time allowance for doubtful debt of \$7,140,983 for prepaid expenses and other current assets as mentioned above and (6) increase in professional fees, payroll and other administrative expenses as a result of our rapid expansion.

### Results of Discontinued Operations

In Fiscal 2009

No material disposal transaction happened.

In Fiscal 2008



The Company disposed of its entire travel network business during the year ended December 31, 2008, pursuant to stock purchase agreements with various purchasers as follows:

- On September 1, 2008, the Company completed the sale of all its interests in NCN Management Services to an independent third party for a consideration of HK\$1,350,000, or approximately \$173,000, in cash. The acquirer acquired NCN Management Services along with its subsidiaries, which include 100% interest in NCN Hotels Investment Limited, 100% interest in NCN Pacific Hotels Limited and a 55% interest (through trust) in Tianma. The Company reported a gain on the sale, net of income taxes of \$61,570.
- On September 30, 2008, the Company completed the sale of its 99.9% interest in NCN Landmark to an independent third party for a cash consideration of \$20,000. The acquirer acquired NCN Landmark along with its subsidiary, 100% interest in Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes of \$4,515.

The Company treated the sales of NCN Management Services along with its subsidiaries and variable interest entity and NCN Landmark along with its subsidiary as a discontinued operation. Accordingly, revenues, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes, as “Net Loss from Discontinued Operations, Net of Income Taxes”.

Table of Contents

In Fiscal 2007

No material disposal transaction happened.

## Summary Operating Results of the Discontinued Operations

Summary operating results for the discontinued operations for the years ended 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Revenues	\$-	\$24,528,096	\$26,140,355
Cost of revenues	-	(24,172,537)	(25,830,401)
Gross profit	-	355,559	309,954
Non-cash impairment charges	-	-	(815,902 )
Operating expenses	-	(477,481 )	(460,362 )
Other income	-	98,838	9,210
Interest income	-	2,040	3,471
Interest expenses	-	-	-
Net loss from discontinued operations, net of income taxes	-	(21,044 )	(953,629 )
Gain from disposal of discontinued operations	-	66,085	-
Net income (loss) from discontinued operations	\$-	\$45,041	\$(953,629 )

## Liquidity and Capital Resources

## Cash Flows

As of December 31, 2009, current assets were \$3,073,760, current liabilities were \$2,291,714 and we had net working capital of \$782,046. Cash as of December 31, 2009 was \$1,969,549 compared to \$7,717,131 as of December 31, 2008, a decrease of \$5,747,582. The decrease was mainly attributable to the cash utilized by operating activities.

As of December 31, 2008, current assets were \$8,982,777, current liabilities were \$5,580,859 and we had net working capital of \$3,401,918. Cash as of December 31, 2008 was \$7,717,131 compared to \$2,233,528 as of December 31, 2007, an increase of \$5,483,603. The increase was attributable to the issuance of convertible promissory notes in late 2007 and early 2008.

The following table sets forth a summary of our cash flows for the periods indicated:

	Years ended December 31,		
	2009	2008	2007
Net cash used in operating activities	\$(5,428,273)	\$(17,944,568)	\$(21,320,216)
Net cash used in investing activities	(54,364 )	(6,689,257 )	(523,319 )
Net cash provided by (used in) financing activities	(250,000 )	28,900,000	21,119,380
Effect of exchange rate changes on cash	(14,945 )	1,217,428	59,160
Net increase (decrease) in cash and cash equivalents	(5,747,582)	5,483,603	(664,995 )
Cash and cash equivalents at the beginning of year	7,717,131	2,233,528	2,898,523
Cash and cash equivalents at the end of year	\$1,969,549	\$7,717,131	\$2,233,528

## Operating Activities

Net cash used by operating activities for the year ended December 31, 2009 was \$5,428,273 compared to \$17,944,568 for the year ended December 31, 2008, a decrease of \$12,516,295. The decrease in net cash used in operating

activities was mainly attributable to our drastic cost-cutting measures and the decrease in the payment for advertising operating rights fees as a result of the termination of commercially non-viable concession right contracts in 2009.

Net cash utilized by operating activities for the year ended December 31, 2008 was \$17,944,568, as compared with \$21,320,216 for the year ended December 31, 2007, a decrease of \$3,375,648. The decrease in net cash used in operating activities was mainly attributable to a decrease in the payments for acquiring advertising operating right in fiscal 2008.

-36-

---

## Table of Contents

### Investing Activities

Net cash used in investing activities for the year ended December 31, 2009 was \$54,364 compared to net cash used in investing activities of \$6,689,257 for the year ended December 31, 2008, a decrease of \$6,634,893. The decrease was mainly attributable to less equipment being purchased and no acquisitions being completed during 2009. For the year ended December 31, 2008, the investing activities consisted primarily of purchase of equipment related to our media business and costs associated with the acquisition of Cityhorizon BVI.

Net cash used in investing activities for the year ended December 31, 2008 was \$6,689,257, compared with net cash used in investing activities of \$523,319 for the year ended December 31, 2007, an increase of \$6,165,938. The increase was mainly due to more equipment being purchased and larger acquisitions were being completed during 2008.

### Financing Activities

Net cash used in financing activities was \$250,000 in fiscal 2009 compared to net cash provided by financing activities of \$28,900,000 in fiscal 2008. For fiscal 2009, the cash used in financing activities consisted primarily of issuance costs related to 1% convertible promissory notes. For fiscal 2008, the cash provided by financing activities primarily consisted of the issuance of \$35,000,000 in 3% convertible promissory notes, offset by \$5,000,000 paid to redeem the outstanding 12% convertible promissory note due May 2008.

Net cash provided by financing activities was \$28,900,000 for the year ended December 31, 2008, compared with net cash provided by financing activities of \$21,119,380 for the year ended December 31, 2007, an increase of \$7,780,620. The increase was primarily attributable to the issuance of \$35,000,000 in 3% Convertible Promissory Notes, offset by \$5,000,000 paid to redeem outstanding 12% convertible promissory note due May 2008 discussed as above. For the year ended December 31, 2007, the financing activities were attributable to a private placement that raised proceeds of \$1,500,000 and the issuance of Convertible Promissory Notes in fiscal 2007, which included \$5,000,000 in 12% convertible promissory notes and \$15,000,000 in 3% convertible promissory notes.

### Restructuring of Convertible Debt

On November 19, 2007, we entered into a Note and Warrant Purchase Agreement, as amended (the "Purchase Agreement") with our subsidiary Quo Advertising and affiliated investment funds of Och-Ziff Capital Management Group (the "Investors") pursuant to which we agreed to issue in three tranches, 3% Senior Secured Convertible Promissory 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 our Common Stock (the "Warrants"). On November 19, 2007, we issued 3% Convertible Promissory Notes in the aggregate principal amount of \$6,000,000, Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share. On November 28, 2007, we issued 3% Convertible Promissory Notes in the aggregate principal amount of \$9,000,000, Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share.

On January 31, 2008, we amended and restated the previously issued 3% Convertible Promissory Notes and issued to the Investors 3% Convertible Promissory Notes in the aggregate principal amount of \$50,000,000 (the "Amended and Restated Notes"), Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share (the "Third Closing"). In connection with the Third Closing, the parties entered into the First Amendment to the Purchase Agreement, dated as of January 31, 2008, to, among other things, establish additional funding channels between the Company and its subsidiaries in China and provide for certain other modifications in connections with the Third Closing. Concurrently with the Third Closing, we loaned substantially all

the proceeds from the Amended and Restated Notes to our wholly-owned direct subsidiary, NCN Group, and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the “NCN Group Note”). In connection with the Amended and Restated Notes, we entered into a Security Agreement, dated as of January 31, 2008 (the “Security Agreement”), pursuant to which we granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of our assets, including the NCN Group Note and 66% of the equity interest of NCN Group. In addition, NCN Group and certain of our 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.

On April 2, 2009, we entered into a Note Exchange Agreement with certain of the Investors (the “Note Exchange Agreement”), pursuant to which the parties agreed to cancel Amended and Restated Notes in the principal amount of \$5 million held by such Investors (including accrued and unpaid interest thereon), and all the Warrants, in exchange for our issuance of new 1% Unsecured Senior Convertible Promissory Notes due 2012 in the principal amount of \$5 million (the “1% Convertible Promissory Notes”). The 1% Convertible Promissory Notes bear interest at 1% per annum, payable semi-annually in arrears, and mature on April 1, 2012. They are convertible at any time into shares of our common stock at an initial conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. The parties also agreed to terminate the Security Agreement and release all security interests arising out of the Purchase Agreement and the Amended and Restated Notes.

Table of Contents

On April 2, 2009, we also entered into a Note Exchange and Option Agreement (the “Note Exchange and Option Agreement”) with Keywin Holdings Limited (“Keywin”), a transferee of the Investors, pursuant to which we agreed to exchange the remaining Amended and Restated Notes in the principal amount of \$45 million (including all accrued and unpaid interest thereon) for (i) 307,035,463 shares of our common stock and (ii) an option to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, originally exercisable for a three-month period commencing on April 2, 2009 (the “Keywin Option”). Pursuant to the latest amendment dated January 1, 2010, we agreed to extend the exercise period to an eighteen-month period ending on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days’ written notice.

## Advertising Operating Rights Fee

Advertising operating rights fee is the major cost of our advertising revenue. To maintain the advertising operating rights, the Company has to pay the advertising operating rights fee according to payment terms set forth in the contracts entered into with various contracting parties. These contracting parties generally require the Company to prepay advertising operating rights fee for a period of time. The details of our advertising operating rights fee were as follows:

	Years Ended December 31,		
	2009	2008	2007
Payment for prepayments for advertising operating rights	\$1,336,739	\$7,405,975	\$14,627,129
Settlement of accrued advertising operating rights	733,000	49,385	-
Total payment	\$2,069,739	\$7,455,360	\$14,627,129
Amortization of prepayments for advertising operating rights	\$1,388,980	\$15,167,456	\$990,951
Accrued advertising operating rights fee recognized	104,684	733,000	49,385
Total advertising operating rights fee recognized	\$1,493,664	\$15,900,456	\$1,040,336
	As of December 31,		
	2009	2008	
Prepayments for advertising operating rights, net	\$ 348,239	\$ 418,112	
Accrued advertising operating rights fees	\$ 104,684	\$ 733,000	

For future advertising operating rights commitments under non-cancellable advertising operating right contracts, please refer to the table under the following sub-section – “Contractual Obligations and Commercial Commitments”.

We financed the above payments through the issuance of our equity and debt securities. As we currently generate limited revenue from our media operation, in addition to the proceeds from the issuance of convertible promissory notes, we intend to continue to raise funds through the issuance of equity and debt securities to satisfy future payment requirements. There can be no assurance that we will be able to enter into such agreements.

In the event that advertising operating rights fees cannot be paid in accordance with the payment terms set forth in our contracts, we may not be able to continue to operate our advertising panels and our ability to generate revenue will be adversely affected. As such, failure to raise additional funds would have significant negative impact on our financial condition.

## Capital Expenditures

During the years ended December 31, 2009 and 2008, we acquired assets of \$128,489 and \$3,518,408 respectively which were financed through proceeds from the issuance of convertible promissory notes. During the year ended December 31, 2007, we acquired assets of \$207,371 financed through working capital.

-38-

---

Table of Contents

## Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of December 31, 2009:

	Total	Payments due by period			Thereafter
		Due in 2010	Due in 2011 - 2012	Due in 2013-2014	
Long Term Debt Obligations (a)	\$5,000,000	\$-	\$5,000,000	\$ -	\$-
Operating Lease Obligations (b)	465,352	395,317	70,035	-	-
Advertising Operating Rights Fee obligations (c)	2,811,339	1,569,640	1,101,687	140,012	-
Purchase Obligations (d)	\$18,000	\$18,000	\$ -	\$ -	\$-

**Long-term Debt Obligations.** We issued an aggregate of \$5,000,000 in 1% Convertible Promissory Notes in April 2009 to our investors. Such 1% Convertible Promissory Notes mature on April 1, 2012. For details, please refer to the notes to financial statements.

**Operating Lease Obligations.** We have entered into various non-cancelable operating lease agreements for our offices and staff quarter. Such operating leases do not contain significant restrictive provisions.

**Annual Advertising Operating Rights Fee Obligations.** The Company, through its PRC operating companies has acquired rights from third parties to operate roadside advertising panels and mega-size advertising panels whose lease terms expire between 2010 and 2013.

**Purchase Obligations.** We are obligated to make payments under non-cancellable contractual arrangements with our vendors, principally for constructing our advertising panels.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

## 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.



**Principles of Consolidation** – The condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities. Variable interest entities are those entities in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the Company is the primary beneficiary of these entities. In accordance with FASB Interpretation No. 46R “Consolidation of Variable Interest Entities—an interpretation of ARB No. 5” (“FIN 46R”) (ASC Topic 810), the primary beneficiary is required to consolidate the variable interest entities for financial reporting purposes. All significant intercompany transactions and balances have been eliminated upon consolidation.

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

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

Table of Contents

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

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

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

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

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

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

#### Convertible Promissory Notes and Warrants –

##### 1) Issuance of 12% Convertible Promissory Note and Warrants and 3% Convertible Promissory Notes and Warrants

During 2007 and 2008, the Company issued a 12% convertible promissory note in the principal amount of \$5,000,000 and warrants and 3% convertible promissory notes in the principal amount of \$50,000,000 and warrants. The warrants and embedded conversion feature were classified as equity under EITF Issue No. 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (ASC Topic 815-40) and met the other criteria in paragraph 11(a) of Statement of Financial Accounting Standards (“SFAS”) No. 133 “Accounting for Derivative Instruments and Hedging Activities” (ASC Topic 815-10-15-74). The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to

additional paid-in capital in accordance with EITF Issue No. 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio” (ASC Topic 470-20) and EITF Issue No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments” (ASC Topic 470-20).

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

2) Debt Restructuring and Issuance of 1% Convertible Promissory Note

On April 2, 2009, the Company entered into a new financing arrangement with the holders of the 3% convertible promissory notes and warrants and a new investor. The Company provided an inducement conversion offer to a new investor who exchanged 3% convertible promissory notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company’s common stock (the original conversion price is \$1.65 per share convertible into 28,282,227 shares). Pursuant to paragraph 21 of EITF Issue No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments” (ASC Topic 470-20), all the unamortized debt discount (including the discount from an allocation of proceeds to the warrants and the discount originated by the beneficial conversion feature) of the relevant 3% convertible promissory notes remaining at the date of conversion were immediately recognized as expenses and is included in amortization of deferred charges and debt discount in the condensed consolidated statement of operations. The Company also accounted for the inducement conversion offer according to SFAS No. 84 “Induced Conversions of Convertible Debt” (ASC Topic 470-20). To induce conversion, the Company has reduced the conversion price and also granted an option to purchase an aggregate of 122,814,185 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period. The Company recognized non-cash debt conversion charges equal to the fair value of the incremental consideration (including both reduction in the conversion price and grant of purchase option) given as of the date the inducement offer is accepted by a new investor. The fair value of the purchase option was determined utilizing Black-Scholes option pricing model.

## Table of Contents

For the remaining 3% convertible promissory notes in the principal amount of \$5,000,000, the Company and the holders of the 3% convertible promissory notes agreed to cancel the 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company's issuance of new 1% unsecured senior convertible promissory notes due 2012 in the principal amount of \$5,000,000. The 1% convertible promissory notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at an fixed conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. Pursuant to EITF Issue No. 96-19 "Debtor's Accounting For a Modification or Exchange of Debt Instruments" (ASC Topic 470-50) and EITF Issue No. 06-6 "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments" (ASC Topic 470-50-40), the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of new notes.

The Company determined the new 1% convertible promissory notes to be conventional convertible instruments under EITF Issue No. 05-2 "The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19" (ASC Topic 815-40-25). Its embedded conversion option was qualify for equity classification pursuant to EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (ASC Topic 815-40), and met the other criteria in paragraph 11(a) of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (ASC Topic 815-10-15-74). The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective yield method.

Early Redemption of Convertible Promissory Notes –Should early redemption of convertible promissory notes occur, the unamortized portion of the associated deferred charges and debt discount would be fully written off and any early redemption premium will be recognized as expense upon its occurrence. All related charges, if material, would be aggregated and included in a separate line "charges on early redemption of convertible promissory notes". Such an expense would be included in ordinary activities on the condensed consolidated statements of operations as required by SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (ASC Topic 470-50).

Revenue Recognition –For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with EITF Issue No. 99-17 "Accounting for Advertising Barter Transactions" (ASC Topic 605-20-25), which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions.

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. 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.

-41-

---

Table of Contents

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.

Stock-based Compensation –In December 2004, the FASB issued SFAS No. 123R “Share-Based Payment” (ASC Topic 718). Effective January 1, 2006, the Company adopted SFAS No. 123R (ASC Topic 718), using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. SFAS No. 123R (ASC Topic 718) 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 (ASC Topic 718), 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” (ASC Topic 505-50). In accordance with EITF 96-18 (ASC Topic 505-50), 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.

Income Taxes – The Company accounts for income taxes under SFAS No. 109 “Accounting for Income Taxes” (ASC Topic 740). Under SFAS No. 109 (ASC Topic 740), deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under SFAS No. 109 (ASC

Topic 740), 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.

Foreign Currency Translation –The assets and liabilities of the Company’s subsidiaries and variable interest entities denominated in currencies other than U.S. dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For condensed consolidated statements 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 condensed consolidated statements of operations.

-42-

---

## Table of Contents

### Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”) (not part of the Codification yet). SFAS 166 (not part of the Codification yet) removes the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46R (ASC Topic 810) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. SFAS 166 (not part of the Codification yet) will be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 166 (not part of the Codification yet) on our financial statements.

In June 2009, the FASB issued SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”) (not part of the Codification yet). This updated guidance requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity’s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. SFAS 167 (not part of the Codification yet) will be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 167 (not part of the Codification yet) on our financial statements.

In September 2009, the FASB issued ASU 2009-06, Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities (formerly proposed as FASB Staff Position No. 48-d, Application Guidance for Pass-Through Entities and Tax-Exempt Not-for-Profit Entities and Disclosure Modifications for Nonpublic Entities), which amended Accounting Standards Codification Subtopic 740-10, Income Taxes – Overall. ASU 2009-06 clarifies that an entity’s assertion that it is a pass-through entity is a tax position and should be assessed in accordance with Subtopic 740-10. Additionally, the ASU provides implementation guidance on the attribution of income taxes to entities and owners. The revised guidance is effective for periods ending after September 15, 2009. Management is currently evaluating the potential impact of ASU2010-6 on our financial statements.

In October 2009, the FASB issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)” (“ASU 2009-13”). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU2009-13 on our financial statements.

In October 2009, the FASB issued ASU 2009-14, “Certain Arrangements That Include Software Elements, (amendments to ASC Topic 985, Software)” (“ASU 2009-14”). ASU 2009-14 removes tangible products from the scope



of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU 2009-14 on our financial statements.

In October, 2009, the FASB issued ASU 2009-15, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing" (amendments to ASC Topic 470, Debt) ("ASU 2009-15"), and provides guidance for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity's own shares should be measured at fair value in accordance with Topic 820 and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Management is currently evaluating the potential impact of ASU 2009-15 on our financial statements.

In December 2009, FASB issued ASU 2009-16 Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets ("ASU 2009-16"). ASU 2009-16 amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in ASU 2009-16 improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. ASU 2009-16 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is currently evaluating the potential impact of ASU2009-16 on our financial statements.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU 2009-17"). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise's involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is currently evaluating the potential impact of ASU209-17 on our financial statements.

## Table of Contents

In January 2010, FASB issued ASU 2010-2 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification ("ASU 2010-2"). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification, originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 3, 2010. Management is currently evaluating the potential impact of ASU2010-2 on our financial statements.

In February 2010, FASB issued ASU 2010-9 Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-9"). ASU 2010-9 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-9 is effective for interim and annual periods ending after June 15, 2010. Management is currently evaluating the potential impact of ASU2010-9 on our financial statements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Interest Rate Sensitivity

We have no significant interest-bearing assets and our convertible promissory notes are fixed rate securities. Our exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits in banks. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may be different from our expectations due to changes in interest rates.

#### Foreign Currency Exchange Risk

While our reporting currency is the U.S. dollar, our consolidated revenues and consolidated costs and expenses are substantially denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. If the RMB appreciates against U.S. dollars, any new RMB-denominated investments or expenditures will be more costly to us. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of stockholders' equity. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

-44-

---

Table of Contents

## Inflation Risk

Inflationary factors such as increases in the costs to acquire advertising rights and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of revenues if the selling prices of our services do not increase with these increased costs.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## Consolidated Financial Statements

The financial statements required by this item begin on page F-1 hereof.

## Quarterly Financial Results

The following table reflects our unaudited quarterly consolidated statement of operations data for the quarters presented. We believe that the historical quarterly information has been prepared substantially on the same basis as the audited consolidated financial statements, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to state fairly the unaudited quarterly results of operations data.

	For the Three Months ended							
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 2008
Revenues, net	\$454,094	\$293,706	\$333,978	\$185,149	\$463,741	\$2,520,474	\$1,053,888	\$584,160
Gross loss	(100,564 )	(266,200 )	(167,080 )	(267,110 )	(2,652,901 )	(3,130,993 )	(3,591,376)	(3,377,000)
Net loss from continuing operations	(2,134,801)	(1,100,369)	(30,300,722)	(3,847,469)	(26,882,698)	(15,621,634)	(8,859,055)	(8,479,000)
Net income (loss) from discontinued operations	-	-	-	-	-	67,352	(56,865 )	34,554
Net loss attributable to NCN common stockholders	\$(2,134,801)	\$(1,099,364)	\$(30,299,321)	\$(3,825,702)	\$(26,750,832)	\$(15,474,366)	\$(8,888,121)	\$(8,371,000)
Net income (loss) per common share – basic and diluted	\$-	\$-	\$(0.08 )	\$(0.05 )	\$(0.37 )	\$(0.22 )	\$(0.12 )	\$(0.12 )
Loss per common share from continuing	\$-	\$-	\$(0.08 )	\$(0.05 )	\$(0.37 )	\$(0.22 )	\$(0.12 )	\$(0.12 )

operations									
Income									
(loss) per									
common									
share from									
discontinued									
operations	-	-	-	-	-	-	-	-	-
Net loss per									
common									
share – basic									
and diluted	\$-	\$-	\$(0.08	) \$(0.05	) \$(0.37	) \$(0.22	) \$(0.12	) \$(0.12	) \$(0.12

#### ITEM CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL 9. DISCLOSURE

On February 4, 2010, the Company was notified of the resignation, effective immediately, of the US Audit Practice of Jimmy CH Cheung & Co (“JCHC”), as the Company’s independent registered public accounting firm in connection with JCHC’s merger on January 29, 2010, with Baker Tilly Hong Kong Limited (“BTHK”). On February 5, 2010, the Company’s Board of Directors approved the appointment of BTHK as the Company’s independent registered public accounting firm.

The audit reports of JCHC on the financial statements of the Company as of and for the years ended December 31, 2008 and December 31, 2007 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

In connection with the audits of the Company’s financial statements for the fiscal years ended December 31, 2008 and 2007 and through the date of this Current Report, there were: (i) no disagreements between the Company and JCHC on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of JCHC, would have caused JCHC to make reference to the subject matter of the disagreement in their reports on the Company’s financial statements for such years, and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

## Table of Contents

During the Company's two most recent fiscal years ended December 31, 2008 and 2007 and through February 5, 2010, the Company did not consult with BTHK on (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that may be rendered on the Company's financial statements, and BTHK did not provide either a written report or oral advice to the Company that was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue; or (ii) the subject of any disagreement, as defined in Item 304 (a)(1)(iv) of Regulation S-K and the related instructions, or a reportable event within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported during the year and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Earnest Leung, and our Chief Financial Officer, Jennifer Fu, as appropriate to allow timely decisions regarding required disclosure. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and published financial statements.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as of December 31, 2009, in accordance with Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Based on and as a result of this evaluation, our Chief Executive Officer and our Chief Financial Officer have determined that as of the end of the period covered by this Report, our disclosure controls and procedures were effective.

#### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

An internal control material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Our management, with the participation and under the supervision of our Chief Executive Officer, Earnest Leung and our Chief Financial Officer, Jennifer Fu, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, Mr Leung and Ms Fu determined that our internal control over financial reporting was effective as of December 31, 2009.

The Company's independent registered public accounting firm has issued an attestation report regarding its assessment of the Company's internal control over financial reporting as of December 31, 2009, which appears on page F-2.

#### Changes In Internal Control Over Financial Reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

Table of Contents

## ITEM 9B. OTHER INFORMATION

Not applicable

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors and Executive Officers

The following table sets forth the names, ages and positions held with respect to each Director and Executive Officer of the Company as of the date of this Annual Report.

Name	Age	Position	Director Since
Earnest Leung	53	Chief Executive Officer and Chairperson of the Board	2009
Godfrey Hui	50	Deputy Chief Executive Officer and Director	2002
Jennifer Fu	32	Chief Financial Officer and Corporate Secretary	N/A
Ronald Lee	63	Director	2009
Gerald Godfrey	81	Director	2009

Each Director serves until our 2010 annual stockholders meeting and until their respective successors are duly elected and qualified or earlier resignation or removal.

Earnest Leung has served as the Company's director since May 11, 2009, and as Chief Executive Officer and Chairperson of the Board of the Company since July 15, 2009. Dr. Leung has over 20 years' experience in the investment banking industry. Since November 2004, he has worked as a financial advisor and consultant in Hong Kong and currently serves as a director of Southern Territories Group, Ltd., an investment company, Keywin Holdings Limited, an investment company, and of Statezone Ltd, a financial consulting company owned and controlled by Dr. Leung. He also currently serves as a director and chief executive officer of Vision Tech International Holdings Limited, which is listed on Hong Kong Main Board engaging in the distribution of consumer electronic products and home appliances in Hong Kong. Prior to that, Dr. Leung served, from September 1994 to October 2004, as Senior Director and Head of Investment, Asia for American Express Bank. Dr. Leung also held various senior investment positions with BNP Paribas Bank, New Zealand Insurance and Bank of America Trust. Dr. Leung holds an honorary doctor degree from International American University.

Godfrey Hui has served as Company's director since April 2002, and as Deputy Chief Executive Officer since July 15, 2009. Mr. Hui also served from April 2002 to July 2009 as the Company's Chief Executive Officer. Mr. Hui had over twenty years' experience in the hotel industry prior to founding our Company. He has worked for several international and regional hotel groups, including Hopewell Holdings Limited, a Hong Kong based real estate developer, where Mr. Hui worked in various capacities including Director of Operations, Finance and Development of the Hotel Division, Executive Assistant to the Chairman, Chairman of the Executive Committee, and Group Financial Controller and was responsible for management and financial issues, and Mega Hotels Management Limited (now a subsidiary of Hopewell), where he served as Director of Finance, Development and Operations. Mr. Hui holds a Bachelor of Science in Business Management from the Chinese University of Hong Kong and a Master's Degree in Finance and Investment from the University of Hull. Mr. Hui also serves as an independent non-executive director of



Vinda International Holdings Limited, which is listed on Hong Kong Main Board engaging in manufacturing and sale of household consumable paper.

Jennifer Fu was appointed as the Company's Chief Financial Officer on February 5, 2010. Prior to her appointment, she served since July 15, 2009 as the Company's Interim Chief Financial Officer, and since January 2008 as the Vice President, Finance of NCN Group Management Limited, the Company's subsidiary. Prior to that, Ms. Fu served in various periods, from December 2003 to August 2007, as the Financial Controller, Accounting Head and Internal Audit Manager of Coils Electronic Co., Limited, a principal subsidiary of CEC International Holdings Limited, a Hong Kong listed company engaged in the assembly and sale of coils, capacitors and other electronic components. Ms Fu began her career as an auditor in an international firm of certified public accountants and is a fellow member of The Association of Chartered Certified Accountants and member of Hong Kong Institute of Certified Public Accountants. Ms. Fu holds a Bachelor's Degree in Accounting and Finance from the University of Hong Kong.

Ronald Lee has served as the Company's director since July 2, 2009. Mr. Lee is the founder and has served as the Sole Proprietor of Ronald H. T. Lee & Co., Certified Public Accountants since 1973. He also has served as senior consultant of UHY Vacation HK CPA Limited, Chartered Accountants, Certified Public Accountants since 2007. Mr. Lee has over 40 years' experience in accounting industry. Mr. Lee graduated from the Hong Kong Technical College in 1967 (now the Hong Kong Polytechnic University) and is a fellow member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Institute of Chartered Accountants in England & Wales, The Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors.

## Table of Contents

Gerald Godfrey has served as the Company's director since July 2, 2009. Mr. Godfrey is now retired, was a partner with Charlotte Horstmann & Gerald Godfrey Ltd., a Hong Kong-based company that dealt in Asian antiques and art, from 1955 to 2005. From 1997 to 2003, Mr. Godfrey served as an independent non-executive director of the Millennium Group, a Hong-Kong based company that assists corporations, developers and investors with selling, leasing or investing in office, industrial, distribution, retail, land and resort properties in Asia. Mr. Godfrey served as Honorary Consul General to the Kingdom of Morocco from 1984 to 2004, and voting member of the Hong Kong Jockey Club. Mr. Godfrey received an M.A. from the Oxford University in 1951.

### Family Relationships

There are no family relationships between any directors or officers of the Company.

### Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement. Except as set forth in our discussion below in "Transactions with Related Persons, Promoters and Certain Control Persons; Corporate Governance", none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission statements of ownership and changes in ownership. The same persons are required to furnish us with copies of all Section 16(a) forms they file. We believe that, during fiscal 2009, all of our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities complied with the applicable filing requirements, with the following exceptions:

- 1) a late Form 3 report was filed for Keywin Holdings Limited on May 20, 2009 to report 310,388,463 shares of common stock owned and stock option to purchase 122,814,185 shares of common stock following the completion of debt restructuring on April 2, 2009;
- (2) a late Form 3 report was filed for Jennifer Fu on August 11, 2009, to report her stock owned following her appointment as Interim Financial Officer on July 15, 2009;
- (3) a late Form 3 report was filed for Gerald Godfrey on August 20, 2009, to report his stock owned following his appointment as director on July 2, 2009;
- (4) a late Form 4 report was filed for Ronald Lee on August 11, 2009, to report the stock award of 600,000 shares of common stock vested on July 1, 2010, effective July 15, 2009;
- (5) a late Form 4 report was filed for Peter Mak on August 11, 2009, to report the stock award of 600,000 shares of common stock vested on July 1, 2010, effective July 15, 2009;

(6) a late Form 4 report was filed for Gerald Godfrey on August 20, 2009, to report the stock award of 600,000 shares of common stock vested on July 1, 2010 , effective July 15, 2009;

(7) a late Form 4 report was filed for Jennifer Fu on August 11, 2009, to report the stock award of 1,000,000 shares of common stock on July 14, 2010, effective July 15, 2009;

(8) a late Form 4 report was filed for Earnest Leung on August 11, 2009, to report the stock award of 30,000,000 shares of common stock vested, effective July 15, 2009; and

(9) a late Form 4 report was filed for Godfrey Hui on August 11, 2009, to report (a) disposal of 1,500,000 shares of common stock granted in July 2007 as a result of his executive employment agreement dated July 23, 2007 was terminated on July 15, 2009; and (b) stock award of 10,000,000 shares of common stock , effective July 15, 2009.

-48-

---

Table of Contents

In making these statements, we have relied upon examination of the copies of all Section 16(a) forms provided to us and the written representations of our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities.

## Code of Business Conduct and Ethics

A Code of Business Conduct and Ethics is a written standard designed to deter wrongdoing and to promote (a) honest and ethical conduct, (b) full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements, (c) compliance with applicable laws, rules and regulations, (d) prompt reporting of violations of the code to an appropriate person and (e) accountability for adherence to the Code. We are not currently subject to any law, rule or regulation requiring that we adopt a Code of Business Conduct and Ethics. However, we have adopted a code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Such code of business conduct and ethics is available on our corporate website at [www.ncnmedia.com](http://www.ncnmedia.com).

## Corporate Governance

Our board of directors is currently comprised of Ronald Lee and Gerald Godfrey who each serves on our board of directors as an “independent director” as defined by Rule 4200(a)(15) of the Marketplace Rules of The Nasdaq Stock Market, Inc., or the “Nasdaq Marketplace Rules”. The board of directors has determined that Messr. Lee possesses the accounting or related financial management experience that qualifies him as financially sophisticated within the meaning of Rule 4350(d)(2)(A) of the Nasdaq Marketplace Rules and that he is an “audit committee financial expert” as defined by the rules and regulations of the SEC.

Our board of directors currently has three standing committees which perform various duties on behalf of and report to the board of directors: (i) audit committee, (ii) remuneration committee and (iii) nominating committee. From time to time, the board of directors may establish other committees. Each of the three standing committees is comprised entirely of independent directors as follows:

Name of Director	Audit	Nominating	Remuneration
Ronald Lee	M	C	M
Gerald Godfrey			C
Peter Mak**	C	M	

C = Chairperson

M = Member

\*\* On December 31, 2009, Mr. Peter Mak resigned from the board of directors of the Company, effective immediately. Mr. Peter Mak’s resignation was not because of any disagreement with the Company on any matter relating to the Company’s operations, policies or practices. The board of directors of the Company is currently reviewing candidates to fill the vacancy caused by Mr. Mak’s departure.

The Board of Directors has adopted a written charter for each of these committees, copies of which can be found on our website at [www.ncnmedia.com](http://www.ncnmedia.com).

## Audit Committee

Our board of directors established an Audit Committee in September 2007. Our Audit Committee currently consists of one member only: Ronald Lee, who is “independent” as that term is defined under the Nasdaq Marketplace Rules, as currently in effect. In addition, the Board of Directors has determined that Messrs. Lee is an “audit committee financial expert” as defined by SEC rules. Mr. Lee is a qualified accountant with many years of finance and audit experience.

The Audit Committee oversees our accounting, financial reporting and audit processes; appoints, determines the compensation of, and oversees, the independent auditors; pre-approves audit and non-audit services provided by the independent auditors; reviews the results and scope of audit and other services provided by the independent auditors; reviews the accounting principles and practices and procedures used in preparing our financial statements; and reviews our internal controls.

The Audit Committee works closely with management and our independent auditors. The Audit Committee also meets with our independent auditors without members of management present, on a quarterly basis, following completion of our auditors’ quarterly reviews and annual audit, to review the results of their work. The Audit Committee also meets with our independent auditors to approve the annual scope and fees for the audit services to be performed.

## Table of Contents

### Remuneration Committee

Our board of directors established a Remuneration Committee in September 2007. Our Remuneration Committee consists of two members: Ronald Lee and Gerald Godfrey, each of whom is “independent” as that term is defined under the Nasdaq Marketplace Rules, as currently in effect. Mr. Godfrey serves as the chairperson of the Remuneration Committee.

The Remuneration Committee (i) oversees and makes general recommendations to the Board of Directors regarding our compensation and benefits policies; (ii) oversees, evaluates and approves cash and stock compensation plans, policies and programs for our executive officers; and (iii) oversees and sets compensation for the Board of Directors. Our Chief Executive Officer may not be present at any meeting of our compensation committee during which his compensation is deliberated.

### Nominating Committee

Our board of directors established a Nominating Committee in September 2007. Our Nominating Committee currently consists of one member only: Ronald Lee who is “independent” as that term is defined under the Nasdaq Marketplace Rules, as currently in effect. Mr. Ronald serves as the chairperson of the Nominating Committee.

The Nominating Committee (i) considers and periodically reports on matters relating to the identification, selection and qualification of the Board of Directors and candidates nominated to the Board of Directors and its committees; (ii) develops and recommends governance principles applicable to the Company; and (iii) oversees the evaluation of the Board of Directors and management from a corporate governance perspective.

Although our bylaws do not contain provisions which specifically address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at our annual meeting of stockholders, the Nominating Committee will consider director candidates recommended by stockholders. In evaluating candidates submitted by stockholders, the Nominating Committee will consider (in addition to the criteria applicable to all director candidates described below) the needs of the Board and the qualifications of the candidate, and may also take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held.

The Nominating Committee does not have any formal criteria for director nominees; however, it believes that director nominees should have certain minimum qualifications, including the highest personal and professional integrity and values, an inquiring and independent mind, practical wisdom and mature judgment. In evaluating director nominees, the Nominating Committee also considers an individual’s skills, character, leadership experience, business experience and acumen, familiarity with relevant industry issues, national and international experience, and other relevant criteria that may contribute to our success. This evaluation is performed in light of the skill set and other characteristics that would most complement those of the current directors, including the diversity, maturity, skills and experience of the board as a whole, with the objective of recommending a group of persons that can best implement our business plan, develop our business and represent shareholder interests.

## ITEM 11 EXECUTIVE COMPENSATION

### Persons Covered

As of December 31, 2009, there were only three Executive Officers including Chief Executive Officer, Deputy Chief Executive Officer and Chief Financial Officer in the Company. The Company’s Chief Executive Officer and Chief Financial Officer during fiscal year 2009 and the Company’s executive officer as of December 31, 2009, or the Named

Executive Officers are set forth below:

Name	Position
Earnest Leung	Chief Executive Officer and Chairperson of the Board
Godfrey Hui	Deputy Chief Executive Officer and Director (Former Chief Executive Officer)
Jennifer Fu	Chief Financial Officer and Corporate Secretary
Daley Mok	Former Chief Financial Officer, Former Corporate Secretary and Former Director

On June 15, 2009, the Directors of the Company removed Daley Mok as the Company's Chief Financial Officer and from all other offices of the Company held by him and terminated his appointment as such. On the same day, the Directors of the Company appointed Mr. Godfrey Hui, the Company's Former Chief Executive Officer, to serve as interim Chief Financial Officer.

On July 15, 2009, Godfrey Hui resigned from his position as the Chief Executive Officer and Interim Chief Financial Officer. The Board of Directors of the Company appointed Earnest Leung, a director of the Company, to serve as the Company's Chief Executive Officer, Godfrey Hui to serve as the Company's Deputy Chief Executive Officer, and Jennifer Fu, to serve as the Company's Interim Chief Financial Officer, effective immediately.

On February 5, 2010, the Company's board of directors appointed Jennifer Fu to serve as the Company's Chief Financial Officer.

-50-

---

## Table of Contents

### Compensation Discussion and Analysis

#### Overview

Our Board of Directors determines executive compensation. The Company's executive compensation program is generally designed to align the interests of executives with the interests of shareholders and to reward executives for achieving the Company's objectives. The executive compensation program is also designed to attract and retain the services of qualified executives.

In determining executive compensation, our Board considers the recommendations of its Remuneration Committee which bases its recommendations on input from the Chief Executive Officer, the officers' current compensation, changes in cost of living, our financial condition, our operating results and individual performance.

Executive compensation generally consists of base salary, bonuses and long-term incentive equity compensation such as stock grants or additional options to purchase shares of the Company's common stock as well as various health and welfare benefits. The Board has determined that both the base salary and long-term incentive equity compensation should be the principal component of executive compensation. The Board has not adopted a formal bonus plan, and all bonuses are discretionary.

#### Elements of Compensation

The executive compensation for (i) the Company's Chief Executive Officer and Chief Financial Officer and (ii) the Company's compensated executive officer who were serving as executive officers (collectively "Named Executive Officers") for fiscal 2009 primarily consisted of base salary, long term incentive equity compensation, income tax reimbursement, and other compensation and benefit programs generally available to other employees.

**Base Salary.** The Board establishes base salaries for the Company's Named Executive Officers based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies in the Company's peer group for similar positions. Generally, the Board believes that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions and with similar responsibilities at comparable companies in line with our compensation philosophy.

Base salaries are reviewed annually, and may be adjusted to realign salaries with market levels after taking into account individual responsibilities, performance and experience.

**Bonuses.** Bonuses are intended to compensate the Named Executive Officers for achieving the Company's financial performance and other objectives established by the Board each year. The Board currently does not adopt a formal bonus plan and all bonuses are discretionary.

**Long-Term Incentive Equity Compensation.** The Board believes that stock-based awards promote the long-term growth and profitability of the Company by providing executive officers with incentives to improve shareholder value and contribute to the success of the Company and by enabling the Company to attract, retain and reward the best available persons for executive officer positions. The Named Executive Officers were eligible to receive certain number of shares of common stock of the Company. On July 15, 2009, the Company agreed to grant certain number of shares of common stock of the Company to each of Earnest Leung, Godfrey Hui and Jennifer Fu in the following amounts: Dr. Leung : 30,000,000 shares; Mr. Hui: 10,000,000 shares and Ms Fu: 1,000,000 shares for their first two years service to the Company. The Company cannot currently determine the number or type of additional awards that may be granted to eligible participants under the long-term incentive equity compensation plan in the future. Such determination will be made from time to time by the Remuneration Committee (or Board).



Income Tax Reimbursement. Dr. Earnest Leung and Mr. Godfrey Hui were fully reimbursed by the Company for their Hong Kong personal income taxes resulting from their employment under the employment agreement dated July 15, 2009 while Ms Jennifer Fu was reimbursed by the Company for her Hong Kong personal income taxes resulting from 1,000,000 shares of common stock of the Company granted to her.

Change-In-Control and Termination Arrangements. The employment agreements with current Named Executives may be terminated by giving the other party three-month advanced notice, except Ms. Jennifer Fu may be terminated with one-month advance notice. Other than as disclosed above, the Company does not have change-in-control arrangements with any of its current Named Executives, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

#### Summary Compensation Table

The following table sets forth information concerning all compensation awarded to, earned by or paid during fiscal years 2009, 2008 and 2007, to the Named Executive Officers:

-51-

---

Table of Contents

Name and Principal Position	Year	Salary (\$)	(1) Bonus (\$)	(2) Stock Awards (\$)	Options Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)
Earnest Leung, Chief Executive Officer and Director	2009	46,154	-	225,000	-	-	-
	2008	-	-	-	-	-	-
	2007	-	-	-	-	-	-
Godfrey Hui, Deputy Chief Executive Officer and Director	2009	161,538	-	75,000	-	-	-
	2008	216,923	-	777,000	-	-	-
	2007	152,308	-	529,250	-	-	-
Jennifer Fu, Chief Financial Officer and Corporate Secretary	2009	72,495	-	7,500	-	-	-
	2008	-	-	-	-	-	-
	2007	-	-	-	-	-	-
Daley Mok, Former Chief Financial Officer, Corporate Secretary and Director	2009	93,718	-	-	-	-	-
	2008	151,538	-	518,000	-	-	-
	2007	97,179	-	262,750	-	-	-

(1) No bonus was paid to the Named Executive Officers in fiscal 2009, 2008 and 2007.

(2) The aggregate number of stock awards vested to each of the Named Executive Officers for his service rendered in each fiscal period was summarized as follows:

Named Executive Officer	2009	2008	2007
Earnest Leung	30,000,000	-	-

Godfrey Hui	10,000,000	300,000	275,000
Jennifer Fu	-	-	-
Daley Mok	-	200,000	125,000

As of December 31, 2009, all the above stocks were issued to each of Named Executive Officers. The dollar amounts reflect the value determined by the Company for accounting purposes for these awards and do not reflect whether the recipient has actually realized a financial benefit from the award. This column represents the dollar amount recognized for financial statement reporting purposes for each of the above specified fiscal years for stock awards granted to each of the Named Executive Officers in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. No stock awards were forfeited by any of the Named Executive Officers. For additional information, see Note 15 of our financial statements. For information on the valuation assumptions for stock grants made prior to 2009, see the notes in our financial statements in the Form 10-K for the respective year.

(3) All other compensation represents (a) contribution paid by the Company into a mandatory provident fund for the benefit of the Named Executive Officers (b) monthly cash allowance of HK\$40,000 (approximately \$5,161) paid to Dr. Earnest Leung and Mr. Godfrey Hui commencing from July 2009 and (c) income tax reimbursement to be paid to Dr. Earnest Leung and Mr. Godfrey Hui in order to sufficiently cover their Hong Kong salary taxes resulting from their employment during each fiscal year and to Mr. Daley Mok for his employment commencing from July 1, 2007 till June 15, 2009. As the aggregate of all other perquisites and other personal benefits received by each Named Executive Officer was less than \$10,000, they are not included in the above.

Table of Contents

## Employment Contracts and Termination of Employment and Change-In-Control Arrangements

On July 23, 2007, our subsidiary, NCN Group Management Limited, or the NCN Group, entered into executive employment agreements with Mr. Godfrey Hui and Mr. Daley Mok. Pursuant to these employment agreements, effective as of July 1, 2007, each Named Executive Officer was obligated to receive a monthly base salary and was entitled to receive shares of the Company's common stock as follows:

Named Executive Officer	Base Salary (1) (\$)	Common Stock Grant
Godfrey Hui	15,384	2,000,000(2)
Daley Mok	8,974	1,500,000(3)

(1) The Named Executive Officers' base salary is paid in Hong Kong dollars. The amounts set forth in this table are in U.S. dollars based on an exchange rate of HK\$:US\$ = 7.8:1. The base salary has been adjusted during fiscal year 2008 which was summarized as follows:

Named Executive Officer	Adjusted Base Salary On January 1, 2008 (\$)	Adjusted Base Salary on July 1, 2008 (\$)
Godfrey Hui	16,923	19,231
Daley Mok	9,872	15,385

(2) Pursuant to Mr. Hui's employment contract, he is entitled to a stock grant of 2,000,000 shares of the Company's common stock subject to annual vesting over five years if he remains employed by the Company as the Chief Executive Officer through the vesting date. The details of the vesting date and number of shares to be vested are as follows: December 31, 2007: 200,000 shares; December 31, 2008: 300,000 shares; December 31, 2009: 400,000 shares; December 31, 2010: 500,000 shares and December 31, 2011: 600,000 shares. The grant shall be subject to all terms of the Company's 2007 stock option/stock issuance plan or any future stock option/stock issuance plan under which it is issued. As of July 2009, his employment contract dated July 23, 2008 was terminated as a result of change of the board. Accordingly, Mr. Hui was no longer entitled to shares to be vested in 2009 and 2010.

(3) Pursuant to Mr. Mok's employment contract, he is entitled to a stock grant of 1,500,000 shares of the Company's common stock subject to annual vesting over five years if he remains employed by the Company as Chief Financial Officer through the vesting date. The details of the vesting date and number of shares to be vested are as follows: December 31, 2007: 100,000 shares; December 31, 2008: 200,000 shares; December 31, 2009: 300,000 shares; December 31, 2010: 400,000 shares and December 31, 2011: 500,000 shares. The grant shall be subject to all terms of the Company's 2007 stock option/stock issuance plan or any future stock option/stock issuance plan under which it is issued. As of June 15, 2009, the Company removed Mr. Mok as the Company's Chief Financial Officer. Accordingly, Mr. Mok was no longer entitled to shares to be vested in 2009 and 2010.

In addition to base salaries and stock grants disclosed above, the employment agreements dated July 23, 2007 for Mr. Hui and Mr. Mok include the following material provisions:

- Each employment agreement shall continue until termination by either party with three-month advance notice or for cause or disability.
- Discretionary bonus is determined by the board of directors of the NCN Group based on the realization of financial and performance goals of the Company and the NCN Group.
-

Restrictive covenants regarding confidentiality, other employment after termination for a period of six months without the approval of the NCN Group's Board of Directors, and solicitation of customers, suppliers or employees of the NCN Group.

- Income tax reimbursement which will be sufficient to cover their Hong Kong personal income taxes resulting from their employment under the respective employment agreements.
- In the event employment is terminated other than for cause, disability, or in the event of their resignation for good reason, each officer is entitled to severance payments consisting of his then base salary for 48 months provided there has been no change in control of either the NCN Group or the Company, or for 60 months if there has been a change in control of either the NCN Group or the Company in the preceding one year. In addition, he shall be entitled to accelerated vesting of all stock grants, as of the date of such termination other than for cause, remain unexercised and unvested, to the extent permissible by law. The employment agreements also provide that, in the event employment is terminated for disability, each officer shall be potentially eligible for disability benefits under any Company-provided disability plan in which he then participate, and shall be entitled to accelerated vesting of all stock grants, as of the date of such disability, remain unexercised and unvested, to the extent permissible by law.

Table of Contents

On July 15, 2009, the Company restructured the board composition and entered into separate executive employment agreements with each of Earnest Leung and Godfrey Hui, in connection with their services to the Company as our Chief Executive Officer and Deputy Chief Executive Officer, respectively. Accordingly, the employment agreement dated July 23, 2007 for Mr. Hui was terminated. Under the terms of the agreements, each of Dr. Leung and Mr. Hui will receive a monthly salary of HK\$60,000 (approximately \$7,741) and a monthly allowance of HK\$40,000 (approximately \$5,161) and we have agreed to grant each of Dr. Leung and Mr. Hui, of 30 million shares and 10 million shares of our common stock, respectively, for their first two years of service to the Company. We will fully reimburse them for their Hong Kong personal income taxes resulting from their employment under the agreements. Each of the executives has also agreed to customary non-competition and confidentiality provisions and the agreements may be terminated by the Company at any time without notice or payment, in the event that any of the executives engage in misconduct or dereliction of duty.

On February 5, 2010, Jennifer Fu was appointed as the Company's Chief Financial Officer. Ms Fu is entitled to a monthly salary of HK\$49,000 (approximately \$6,282) and a monthly allowance of HKD6,000 (approximately \$769). We have agreed to grant Ms. Fu 1 million shares of our common stock for her first two years of service to the Company and will fully reimburse her for her Hong Kong personal income taxes resulting from 1 million shares granted to her. The employment may be terminated by the Company at any time without notice or payment, in the event that any of the executives engage in misconduct or dereliction of duty.

## Retirement Benefits

Currently, we do not provide any employees, including our named executive officers any company sponsored retirement benefits other than a state pension scheme in which all of our employees in China participate.

## Grants of Plan-Based Awards

The following table sets forth information regarding grants of awards to the Named Executive Officers during the year ended December 31, 2009:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#) (1)	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock and Options Awards	Closing Price on Grant Date (\$/share)
Earnest Leung	July 15, 2009	30,000,000	-	-	-	900,000
Godfrey Hui	July 15, 2009	10,000,000	-	-	-	300,000
Jennifer Fu	July 15, 2009	1,000,000	-	-	-	30,000
Daley Mok	-	-	-	-	-	-

As described elsewhere herein, in July 2009, three Named Executive Officers were granted certain shares of the Company's common stock for their first two years of service to the Company. Other than the foregoing, no other stock awards were granted to the Company's Named Executive Officers during fiscal year 2009.

## Outstanding Equity Awards at Fiscal Year-End

Edgar Filing: NETWORK CN INC - Form 10-K

The following table sets forth the equity awards outstanding at December 31, 2009 for each of the named executive officers.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards			Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Earnest Leung	-	-	-	-	-	-
Godfrey Hui	-	-	-	-	-	-
Jennifer Fu(1)	-	-	-	-	1,000,000	\$49,810
Daley Mok	-	-	-	-	-	-

(1) As disclosed elsewhere herein, Ms. Fu is entitled to a stock grant of 1,000,000 shares of the Company's common stock, subject to annual vesting over two years if she remains employed by the Company through the vesting date. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not vest until July 14, 2010 after which the relevant share certificate will be handed to her.

Table of Contents

## Potential Payments Upon Termination or Change-in Control

The employment agreements with current Named Executives may be terminated by giving the other party three-month advanced notice, except Ms. Jennifer Fu may be terminated with one-month advance notice. Other than as disclosed above, the Company does not have change-in-control arrangements with any of its current Named Executives, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment. Accordingly, there is no potential payments payable to our current Named Executive Officers upon termination or change-in control.

## Director Compensation

The following table provides information about the compensation earned by directors who served during fiscal year 2009 (including Mr. Gerd Jakob and Mr. Peter Mak who resigned as director on May 5, 2009 and December 31, 2009 respectively; Messrs. Daley Mok, Daniel So, Stanley Chu, Edward Lu, Ronglie Xu who hold office until July 2, 2009):

Name of director	Fees Earned or Paid(1) in Cash (\$)	Stock Awards(2) (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation		Total (\$)
					Nonqualified Deferred Compensation Earnings(\$)	All Other Compensation (\$)	
Earnest Leung	52,147	-	-	-	-	-	52,147
Godfrey Hui	28,000	15,000	-	-	-	-	43,000
Ronald Lee*	12,000	9,000	-	-	-	-	21,000
Gerald Godfrey*	12,000	9,000	-	-	-	-	21,000
Peter Mak*	27,000	24,000	-	-	-	-	51,000
Daley Mok	7,500	10,000	-	-	-	-	17,500
Daniel So	7,500	10,000	-	-	-	-	17,500
Stanley Chu	7,500	10,000	-	-	-	-	17,500
Edward Lu*	10,000	10,000	-	-	-	-	20,000
Gerd Jakob*	6,667	-	-	-	-	-	6,667
Ronglie Xu*	15,000	15,000	-	-	-	-	30,000

\*Non-employee directors

(1) For the service period from July 2008 to June 2009, non-employee directors were entitled to an annual fee of \$20,000 and an additional annual fee of \$10,000 was paid to the chairperson of each board committee while for employee directors, all were entitled to an annual fee of \$15,000 except for (1) Mr. Hui, former board chairperson, who entitled to an annual fee of \$20,000; (2) Dr. Leung, who was appointed in May 2009 and was entitled to a fee of \$32,051 for his service period from May 2009 to June 2009. For the Service period from July 2009 to June 2010, non-employee directors were entitled to annual fee of \$24,000 and the employee directors were entitled to an annual fee of \$36,000.

(2) In July 2008, directors were granted an award of 10,000 shares with vesting date on June 30, 2009, for services rendered as a director between July 1, 2008 and June 30, 2009, and an additional 5,000 shares was granted to the chairperson of the board and to the chairperson of each board committee. In July 2009, only non-employee directors



were granted an award of 600,000 shares with vesting date on July 1, 2010. These amounts do not reflect whether the recipient has actually realized a financial benefit from the awards. The amounts represent the dollar amount recognized for financial statement reporting purposes for fiscal year 2009 for stock awards granted to each of the directors, in accordance with FAS 123R, and reflect the value determined by the Company for accounting purposes for these awards. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. No stock awards were forfeited by any of our non-employee directors in fiscal year 2009. For additional information, see Note 15 of our financial statements included herein.

-55-

---

Table of Contents

## Remuneration Committee Interlocks and Insider Participation

All current members of the Remuneration Committee are independent directors, and all past members were independent directors at all times during their service on such Committee. None of the past or present members of our Remuneration Committee are present or past employees or officers of ours or any of our subsidiaries. No member of the Remuneration Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934, as amended. None of our executive officers has served on the Board or Remuneration Committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on our Board or Remuneration Committee.

## Limitation of Liability and Indemnification of Officers and Directors

Our bylaws provide for the indemnification of our present and prior directors and officers or any person who may have served at our request as a director or officer of another corporation in which we own shares of capital stock or of which we are a creditor, against expenses actually and necessarily incurred by them in connection with the defense of any actions, suits or proceedings in which they, or any of them, are made parties, or a party, by reason of being or having been director(s) or officer(s) of us or of such other corporation, in the absence of negligence or misconduct in the performance of their duties. This indemnification policy could result in substantial expenditure by us, which we may be unable to recoup.

Insofar as indemnification by us for liabilities arising under the Securities Exchange Act of 1934, as amended, may be permitted to our directors, officers and controlling persons pursuant to provisions of the Articles of Incorporation and Bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy and is, therefore, unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person in connection with the securities being offered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2009 with respect to compensation plans, under which securities are authorized for issuance, aggregated as to (i) compensation plans previously approved by security holders, and (ii) compensation plans not previously approved by security holders.

#### Equity Compensation Plan Information

Plan Category	Number Of Securities To Be Issued Upon Exercise Of	Weighted Average Exercise Price Of Outstanding Options, Warrants And Rights	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation
---------------	--	---	--

Edgar Filing: NETWORK CN INC - Form 10-K

	Outstanding Options, Warrants And Rights (a)	(b)	Plans (Excluding Securities Reflected In Column (A)) (c)
Equity compensation plans approved by security holders	-	-	1,000,000 (1)
Equity compensation plans not approved by security holders	100,000 (2)	\$0.7	-
<b>Total</b>	<b>100,000 (2)</b>	<b>\$0.7</b>	<b>1,000,000</b>

(1) We reserved 3,000,000 shares for issuance under our 2004 Stock Incentive Plan, of which 1,000,000 shares are still available for issuance as of December 31, 2009. We reserved 7,500,000 shares for issuance under our 2007 Stock Option/Stock Issuance Plan. All 7,500,000 shares were issued as of December 31, 2009 and 36,997,260 shares were currently issued in excessive of the number of shares of common stock available for issuance under 2007 Stock Option/Stock Issuance Plan. Such excessive shares are held in escrow by the Company, in accordance with the plan, pending shareholders' approval. See below subsection - " Equity Incentive Plans" for more information about the plan.

Table of Contents

- (2) A warrant to purchase 100,000 shares of restricted common stock was granted to a consultant on August 25, 2006 with an exercise price of \$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 warrant remained unexercised as of December 31, 2009.

Option Grants In the Last Fiscal Year

None.

Equity Incentive Plan

In April 2004, our Board of Directors and holders of a majority of our then outstanding common stock authorized and approved the 2004 Stock Incentive Plan, or the 2004 Plan. Under the 2004 Plan, we reserved 3,000,000 shares of our common stock for issuance upon exercise of incentive and non-qualified stock options, stock bonuses and rights to purchase awarded from time-to-time, to our officers, directors, employees and consultants. As of December 31, 2009, 2,000,000 shares have been issued under the plan and 1,000,000 shares remain available for issuance. No options, warrants or other rights to acquire shares of our common stock have been granted or are outstanding under the plan. A registration statement on Form S-8 was filed with the SEC with respect to 2,000,000 shares of common stock issuable under the plan on April 22, 2004 (SEC File No. 333-114644).

In March 2007, our Board of Directors authorized and approved the 2007 Stock Option/Stock Issuance Plan, or the 2007 Plan. The purpose of the plan is to promote the best interests of the Company and its stockholders by providing a means of non-cash remuneration to selected participants who contribute to the operating progress and earning power of the Company. The plan also provides incentives to employees and directors by offering them an opportunity to acquire a proprietary interest in the Company. Under the 2007 Plan, we reserved 7,500,000 shares of our common stock for issuance upon exercise of incentive and non-qualified stock options, stock bonuses and rights to purchase awarded from time to time, to our officers, directors, employees and consultants. A registration statement on Form S-8 was filed with the SEC on April 6, 2007 (SEC File No. 333-141943) with respect to 7,500,000 shares of common stock issuable under the 2007 Plan as well as options to purchase 225,000 shares of common stock issued to the Company's legal counsel in February 2006. Such options were not issued under the 2004 Plan or the 2007 Plan. The Company's stockholders approved the 2007 Plan in November 2007.

Both of the Plans are currently administered by our Board of Directors. Under each plan, the Board determines which of our employees, officers, directors and consultants are granted awards, as well as the material terms of each award, including whether options are to be incentive stock options or non-qualified stock options.

Subject to the provisions of the Plans, and the Internal Revenue Code with respect to incentive stock options, the Board determines who shall receive awards, the number of shares of common stock that may be purchased, the time and manner of exercise of options and exercise prices. At its discretion, the Board also determines the form of consideration to be received upon exercise and may permit the exercise price of options granted under the plans to be paid in whole or in part with previously acquired shares and/or the surrender of options. The term of options granted under the plans may not exceed ten years, or five years for an incentive stock option granted to an optionee owning more than 10% of our voting stock. The exercise price for incentive stock options may not be less than 100% of the fair market value of our common stock at the time the option is granted. However, incentive stock options granted to a 10% holder of our voting stock may not be exercisable at less than 110% of the fair market value of our common stock at the date of the grant. The exercise price for non-qualified options will be determined by the board.

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth information as of March 15, 2010, regarding the beneficial ownership of our common stock (a) by each stockholder who is known by the Company to own beneficially in excess of 5% of our outstanding common stock; (b) by each of the Company's officers and directors; (c) and by the Company's officers and directors as a group. Except as otherwise indicated, all persons listed below have (i) sole voting power and investment power with respect to their shares of common stock, except to the extent that authority is shared by spouses under applicable law, and (ii) record and beneficial ownership with respect to their shares of stock. Unless otherwise identified, the address of the directors and officers of the Company listed above is Suite 3908, Shell Tower, Times Square, 1 Matheson Street Causeway Bay, Hong Kong. .

-57-

---

Table of Contents

Title of Class	Name and Address of Beneficial Owner	Office, If Any	Amount & Nature of Beneficial Ownership (1)	Percent of Class (3)
Common Stock	Earnest Leung	CEO and Director	31,463,000	7.4
Common Stock	Godfrey Hui	Deputy CEO and Director	11,135,000	2.6
Common Stock	Jennifer Fu	CFO	10,000	*
Common Stock	Ronald Lee	Director	-	-
Common Stock	Gerald Godfrey	Director	-	-
All Officers and Directors as a group (5 persons named above)			42,608,000	
Common Stock	Keywin Holdings Limited Room 902, 9/F1., Universal Trade Centre, 3 Arbutnot Road, Central, Hong Kong	5% Security Holder	243,523,668 (2)	44.7
	Sino Portfolio International Ltd 3104 -7, 31/F, Central Plaza, 18 Harbour Road, Hong Kong	5% Security Holder	137,681,437	32.6
Total Shares Owned by Persons Named above			423,813,105	

\* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

(2) Includes an option to purchase an aggregate of 122,814,185 shares of the Company's common stock, exercisable for an aggregate purchase price of \$2,000,000 until October 1, 2010.

(3) A total of 422,522,071 shares of our common stock outstanding are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1) as of March 15, 2010. For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.

#### Changes in Control

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

##### Related Transactions

Except as set forth below, during our last two fiscal years, we have not entered into any material transactions or series of transactions that would be considered material in which any director or executive officer or beneficial owner of 5% or more of any class of our capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest:

In April 2009, in connection with debt restructuring, Statezone Ltd. of which Dr. Earnest Leung, the Company's Chief Executive Officer and Director (being appointed on July 15, 2009 and May 11, 2009 respectively) is the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000 of which \$250,000 is recorded as issuance costs for 1% Convertible Promissory Notes and \$100,000 is recorded as prepaid expenses and other current assets, net during the year ended December 31, 2009.

On July 1, 2009, the Company and Keywin, of which Dr. Earnest Leung is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ended on July 1, 2009, to a six-month period ended October 1, 2009. On September 30, 2009, the exercise period for the Keywin Option was further extended to a nine-month period ended January 1, 2010. On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to extend the exercise period to an eighteen-month period ending on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice.

During the year ended December 31, 2009, the Company paid expenses in an aggregate amount of \$413,309 on behalf of Vision Tech International Holdings Limited, of which Dr. Earnest Leung is the chief executive officer and director. The balance is unsecured, bears no interest and repayable on demand. Such amount was fully repaid as of the date of this Annual Report.

Table of Contents

## Related Party Transaction Policy

Our Company has adopted a written Related Party Transaction Policy, or the Policy, for the purpose of describing the procedures used to identify, review, approve and disclose, if necessary, any transaction in which (i) the Company is a participant and (ii) a related person has or will have a direct or indirect material interest.

Once a related party transaction in which the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year has been identified, the Audit Committee must review the transaction for approval or ratification. In determining whether to approve or ratify a related party transaction, the Audit Committee shall consider all relevant facts and circumstances, including the following factors:

- the benefits to the Company of the transaction;
- the nature of the related party's interest in the transaction;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company and its stockholders;
- the potential impact of the transaction on a director's independence; and
- any other matters the Audit Committee deems appropriate.

No director may participate in any discussion, approval or ratification of a transaction in which he or she is a related person.

## Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

## Director Independence

Mr. Ronald Lee and Mr. Gerald Godfrey each serves on our board of directors as an "independent director" as defined by the Nasdaq Marketplace Rules. Our board of directors currently has three standing committees which perform various duties on behalf of and report to the board of directors: (i) audit committee, (ii) remuneration committee and (iii) nominating committee. Each of the three standing committees is comprised entirely of these independent directors.

There are no family relationships among any of our directors or executive officers. There are no arrangements or understandings among any of the directors, executive officers or other persons pursuant to which any officer or director was selected to serve as a director or officer.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Baker Tilly Hong Kong Limited and Jimmy C.H. Cheung & Co are our Principal Independent Registered Public Accountants engaged to examine our financial statements for the fiscal years ended December 31, 2009 and 2008 respectively. The following table shows the fees that we paid or accrued for the audit and other services provided by Baker Tilly Hong Kong Limited and Jimmy C.H. Cheung & Co., for the fiscal years ended December 31, 2009 and 2008.

Fee Category	2009	2008
Audit Fees	\$ 102,423	\$ 139,526
Audit-Related Fees	\$--	\$--
Tax Fees	\$--	\$--



All Other Fees

\$--

\$--

Audit Fees

This category includes the audit of our annual financial statements, review of financial statements included in our annual and quarterly reports and services that are normally provided by the independent registered public accounting firms in connection with engagements for those fiscal years. They also include fees billed for those services that are normally provided by the independent registered public accounting firms in connection with statutory and regulatory filings.

Audit-Related Fees

This category consists of assurance and related services by the independent registered public accounting firms that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees". The services for the fees disclosed under this category include consultations concerning financial accounting and reporting standards.

-59-

---

Table of Contents

Tax Fees

This category consists of professional services rendered for tax compliance and tax advice.

All Other Fees

This category consists of fees for other miscellaneous items.

Policy on Pre-Approval of Audit Services

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent registered public accounting firm. All audit services (including statutory audit engagements as required under local country laws) must be accepted by the Audit Committee before the audit commences.

Each year, management and the independent registered public accounting firm will jointly submit a pre-approval request, which will list each known and/or anticipated audit and non-audit service for the upcoming calendar year and which will include associated budgeted fees. The Audit Committee will review the requests and approve a list of annual pre-approved non-audit services.

All services provided by Baker Tilly Hong Kong Limited and Jimmy C.H. Cheung & Co during the fiscal years ended December 31, 2009, 2008 and 2007 were pre-approved by the Audit Committee.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements are filed as a part of this Form 10-K :

(i)	Reports of Independent Registered Public Accounting Firms	F-2
(ii)	Consolidated Balance Sheets as of December 31, 2009 and 2008	F-6
(iii)	Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2009, 2008 and 2007 (Restated)	F-7
(iv)	Consolidated Statement of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007 (Restated)	F-9
(v)	Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007 (Restated)	F-13
(vi)	Notes to Consolidated Financial Statements	F-15

(b) The following Exhibits are filed as part of this Annual Report on Form 10-K:

Exhibit Description  
No.

3.1	Amended And Restated Certificate Of Incorporation incorporated herein by reference from Exhibit A to Registrant's Definitive Information Statement on Schedule 14C filed with the SEC on January 10, 2007.
-----	--

- 3.2 Amended and Restated By-Laws, adopted on January 10, 2006, is incorporated herein by reference from Exhibit 3-(II) to Registrant's Current Report on Form 8-K filed with the SEC on January 18, 2006.
- 3.3 Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on July 27, 2009 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on July 29, 2009).
- 4.1 Form of Registrant's Common Stock Certificate.
- 4.2 Form of Amended and Restated Secured Convertible Promissory Note (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
- 4.3 Form of Warrant (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).

-60-

---

Table of Contents

- 4.4 Form of 3% Senior Secured Convertible Promissory Note (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
- 4.5 Form of Warrant (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
- 4.6 TEDA Travel Group, Inc. 2004 Stock Incentive Plan (incorporated herein by reference from Registrant's Registration Statement on Form S-8 filed with the SEC on April 22, 2004).
- 4.7 2007 Stock Option/Stock Issuance Plan (incorporated herein by reference from Registrant's Registration Statement on Form S-8 filed with the SEC on April 6, 2007).
- 4.8 Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2009 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009).
- 4.9 Registration Rights Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited and Keywin Holdings Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)
- 10.1 Purchase Agreement, dated November 19, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 26, 2007).
- 10.2 First Amendment to Note and Warrant Purchase Agreement, dated January 31, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
- 10.3 Security Agreement, dated January 31, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
- 10.4 Registration Rights Agreement, dated November 19, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 26, 2007).
- 10.5 Share Purchase Agreement dated January 1, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on January 7, 2008).
- 10.6 Agreement for Co-operation in Business between Shanghai Quo Advertising Company Limited and Wuhan Weiao Advertising Company Limited dated as of August 16, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on August 21, 2007).

- 10.7 Note and Warrant Purchase Agreement dated November 12, 2007 by and between the Company and Wei An Developments Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
- 10.8 Contract for the Rebuilding and Leasing of Advertisement Light Boxes on Nanjing Road Pedestrian Street (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on June 26, 2007) .
- 10.9 Agreement for Advertising Business dated April 26, 2007, by and among Shanghai Quo Advertising Company Limited, a subsidiary of Network CN Inc., and Shanghai Yukang Advertising Company Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2007).
- 10.10 Agreement for Co-operation and Agency in the Publication of Advertisements dated April 14, 2007, by and among Shanghai Quo Advertising Company Limited, a subsidiary of Network CN Inc., and Shanghai Qian Ming Advertising Company Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 20, 2007).
- 10.11 Stock Transfer Agreement between Youwei Zheng and NCN Management Services Limited for acquisition of 55% equity interest in Guangdong Tianma International Travel Service Co., Ltd., dated June 16, 2006 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2007).

Table of Contents

- 10.12 Business Joint Venture Agreement, between Shanghai Zhong Ying Communication Engineering Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Huangpu district of Shanghai, China (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 7, 2007).
- 10.13 Business Joint Venture Agreement, between Nanjing Yiyi Culture Advertising Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Nanjing (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 15, 2007).
- 10.14 Business Joint Venture Agreement, between Wuhan Xin An Technology Development Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Wuhan (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on March 1, 2007).
- 10.15 Stock Purchase Agreement dated as of September 1, 2008, between Zhanpeng Wang, an individual, and NCN Group Limited, a British Virgin Islands corporation.
- 10.16 Note Exchange Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)
- 10.17 Note Exchange and Option Agreement, dated April 2, 2009, between the Company and Keywin Holdings Limited. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)
- 10.18 Letter Agreement and Termination of Investor Rights Agreement, dated April 2, 2009, by and among the Company, Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Keywin Holdings Limited. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)
- 10.19 Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2009)
- 10.20 Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2009)
- 10.21 Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on

August 10, 2009)

10.22 Amendment No. 2 to Note Exchange and Option Agreement dated September 30, 2009, between Keywin Holding Limited and the Company. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2009)

10.23 Amendment No. 3 to Note Exchange and Option Agreement dated January 1, 2010, between Keywin Holding Limited and the Company

10.24 Lease Agreement with Vision Tech International Holdings Limited

14.1 Code of Business Conduct and Ethics for Network CN Inc. as approved by the Board of Directors as of December 31, 2003, is incorporated herein by reference from Registrant's Annual Report on Form 10-KSB filed with the SEC on April 13, 2005.

16.1 Letter of US Audit Practice of Jimmy CH Cheung & Co, dated February 9, 2010. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2010).

21.1 Subsidiaries of the registrant.\*

23.1 Consent of independent auditors Jimmy C.H. Cheung & Co.\*

23.2 Consent of independent auditors Baker Tilly Hong Kong Limited.\*

-62-

---

Table of Contents

24.1	Power of Attorney (included in the Signatures section of this report).
31.1	Certification of Chief Executive Officer pursuant to 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 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.*

---

\* Filed herewith.



Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Earnest Leung  
 Earnest Leung  
 Chief Executive Officer  
 (Principal Executive Officer)

Date: March 31, 2010

By: /s/ Jennifer Fu  
 Jennifer Fu  
 Chief Financial Officer  
 (Principal Financial and Accounting Officer)

Date: March 31, 2010

Power of Attorney

Each person whose signature appears below appoints Earnest Leung his or her attorney-in-fact, with full power of substitution and re-substitution, to sign any and all amendments to this report on Form 10-K of Network CN Inc., and to file them, with all their exhibits and other related documents, with the Securities and Exchange Commission, ratifying and confirming all that their attorney-in-fact and agent or his or her substitute or substitutes may lawfully do or cause to be done by virtue of this appointment.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Earnest Leung Earnest Leung	Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2010
/s/ Jennifer Fu Jennifer Fu	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2010
/s/ Godfrey Hui Godfrey Hui	Deputy Chief Executive Officer and Director	March 31, 2010
/s/ Ronald Lee Ronald Lee	Director	March 31, 2010



Table of Contents

NETWORK CN INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u>	F-6
<u>Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2009, 2008 and 2007 (Restated)</u>	F-7
<u>Consolidated Statements of Stockholders' (Deficit) Equity for the years ended December 31, 2009, 2008 and 2007 (Restated)</u>	F-9
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007 (Restated)</u>	F-13
<u>Notes to Consolidated Financial Statements</u>	F-15

F-1

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:  
Network CN Inc.

We have audited the accompanying consolidated balance sheet of Network CN Inc. and all of its subsidiaries and variable interest entities as of December 31, 2009 and the related consolidated statement of operations and comprehensive loss, stockholders' equity and cash flows for the year ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network CN Inc. and all of its subsidiaries and variable interest entities as of December 31, 2009, and the results of its operations and its cash flows for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

F-2

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Page Two

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred net losses of \$37,359,188 for the year ended December 31, 2009. Additionally, during the year ended December 31, 2009, the Company has used cash flow in operations of \$5,428,273. As of December 31, 2009, the Company recorded a stockholders' deficit of \$1,491,206. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Baker Tilly Hong Kong Limited  
BAKER TILLY HONG KONG LIMITED  
Certified Public Accountants

Hong Kong  
Date: March 31, 2010

F-3

---

Table of Contents

Jimmy C.H. Cheung & Co  
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:  
Network CN Inc.

We have audited the accompanying consolidated balance sheet of Network CN Inc. and all of its subsidiaries and variable interest entities as of December 31, 2008 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years ended December 31, 2008 and 2007 (restated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network CN Inc. and all of its subsidiaries and variable interest entities as of December 31, 2008, and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 (restated), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Page Two

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred net losses of \$59,484,833 and \$14,646,619 for the years ended December 31, 2008 and 2007 (restated), respectively. Additionally, during the years ended December 31, 2008 and 2007 (restated), the Company has used cash flow in operations of \$17,944,568 and \$21,320,216, respectively. As of December 31, 2008, the Company recorded a stockholders' deficit of \$23,356,217. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Jimmy C.H. Cheung & Co.  
JIMMY C.H. CHEUNG & CO  
Certified Public Accountants

Hong Kong

Date: March 26, 2009

1607 Dominion Centre, 43 Queen's Road East,  
Wanchai, Hong Kong  
Tel: (852) 25295500 Fax: (852) 21277660  
Email: jimmy.cheung@jhccheungco.hk  
Website: <http://www.jhccheungco.hk>

F-5

---

Table of Contents

NETWORK CN INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2009 AND 2008

	Note	As of December 31,	
		2009	2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$1,969,549	\$7,717,131
Accounts receivable, net	6	90,065	217,402
Prepayments for advertising operating rights, net	7	348,239	418,112
Prepaid expenses and other current assets, net	8	665,907	630,132
<b>Total Current Assets</b>		<b>3,073,760</b>	<b>8,982,777</b>
Equipment, Net	9	1,389,691	2,397,624
Intangible Assets, Net	10	-	449,307
Deferred Charges, Net	11	191,991	1,242,958
<b>TOTAL ASSETS</b>		<b>\$4,655,442</b>	<b>\$13,072,666</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>Current Liabilities</b>			
Accounts payable, accrued expenses and other payables	12	\$2,288,059	\$5,577,204
Current liabilities from discontinued operations		3,655	3,655
<b>Total Current Liabilities</b>		<b>2,291,714</b>	<b>5,580,859</b>
3% Convertible Promissory Notes Due 2011, Net	13	-	30,848,024
1% Convertible Promissory Note Due 2012, Net	13	3,854,934	-
<b>TOTAL LIABILITIES</b>		<b>6,146,648</b>	<b>36,428,883</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	14		
<b>STOCKHOLDERS' DEFICIT</b>	15		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized None issued and outstanding		-	-
Common stock, \$0.001 par value, 2,000,000,000 shares authorized Shares issued and outstanding: 423,122,071 and 71,641,608 as of December 31, 2009 and 2008 respectively		423,122	71,642
Additional paid-in capital		119,323,848	59,578,612
Deferred stock-based compensation		(900,000 )	-
Accumulated deficit		(122,013,120)	(84,653,932)
Accumulated other comprehensive income		1,674,944	1,647,461
<b>TOTAL STOCKHOLDERS' DEFICIT</b>		<b>(1,491,206 )</b>	<b>(23,356,217)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		<b>\$4,655,442</b>	<b>\$13,072,666</b>

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





Table of Contents

NETWORK CN INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007 (RESTATED)

		Years Ended December 31,		
	Note(s)	2009	2008	2007 Restated(1)
<b>REVENUES</b>				
Advertising services		\$1,266,927	\$4,622,270	\$1,442,552
<b>COST OF REVENUES</b>				
Cost of advertising services		(2,067,881 )	(17,374,713)	(2,795,188 )
<b>GROSS LOSS</b>		<b>(800,954 )</b>	<b>(12,752,443)</b>	<b>(1,352,636 )</b>
<b>OPERATING EXPENSES</b>				
Selling and marketing		(630,730 )	(2,996,142 )	(504,758 )
General and administrative		(4,532,628 )	(11,254,933)	(11,067,777)
Net write-back of /(allowance for) doubtful debts	6,8	542,771	(7,739,043 )	-
Non-cash impairment charges	7,9,10	(802,487 )	(18,109,200)	(516,419 )
<b>Total Operating Expenses</b>		<b>(5,423,074 )</b>	<b>(40,099,318)</b>	<b>(12,088,954)</b>
<b>LOSS FROM OPERATIONS</b>		<b>(6,224,028 )</b>	<b>(52,851,761)</b>	<b>(13,441,590)</b>
<b>OTHER INCOME</b>				
Interest income		22,486	90,703	23,340
Other income		14,086	645	74
<b>Total Other Income</b>		<b>36,572</b>	<b>91,348</b>	<b>23,414</b>
<b>INTEREST AND OTHER DEBT-RELATED EXPENSES</b>				
Amortization of deferred charges and debt discount	13	(18,873,863)	(5,589,920 )	(206,391 )
Non-cash debt conversion charges	13	(10,204,627)	-	-
Loss on early extinguishment of debt	13	(1,696,684 )	-	-
Interest expense	13	(420,731 )	(1,492,458 )	(122,803 )
<b>Total Interest and Other Debt-Related Expenses</b>		<b>(31,195,905)</b>	<b>(7,082,378 )</b>	<b>(329,194 )</b>
<b>NET LOSS BEFORE INCOME TAXES</b>		<b>(37,383,361)</b>	<b>(59,842,791)</b>	<b>(13,747,370)</b>
Income taxes	20	-	-	(7,668 )
<b>NET LOSS FROM CONTINUING OPERATIONS</b>		<b>(37,383,361)</b>	<b>(59,842,791)</b>	<b>(13,755,038)</b>
<b>DISCONTINUED OPERATIONS</b>				
Net loss from discontinued operations, net of income taxes	18	-	(21,044 )	(953,629 )
Gain from disposal of discontinued operations	18	-	66,085	-
<b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>		<b>-</b>	<b>45,041</b>	<b>(953,629 )</b>
<b>NET LOSS</b>		<b>\$(37,383,361)</b>	<b>\$(59,797,750)</b>	<b>\$(14,708,667)</b>

LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF INCOME TAXES	24,173	312,917	62,048
NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS	\$(37,359,188)	\$(59,484,833)	\$(14,646,619)
OTHER COMPREHENSIVE INCOME			
Total other comprehensive income	26,655	1,589,247	65,712
Less: foreign currency translation (gain) loss attributable to noncontrolling interests	828	(7,083 )	(3,895 )
Foreign currency translation gain attributable To NCN common stockholders	27,483	1,582,164	61,817

F-7



Table of Contents

NETWORK CN INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007(RESTATED)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Share	Amount					
Balance as of December 31, 2006	67,300,718	\$67,301	\$22,721,951	\$(2,845,000)	\$(10,522,480)	\$ 3,480	\$9,425,252
Issuance of stock for private placement	500,000	500	1,499,500	-	-	-	1,500,000
Issuance of stock for acquisition of a subsidiary	300,000	300	843,300	-	-	-	843,600
Issuance of stock for services rendered by directors and officers	607,260	607	166,227	-	-	-	166,834
Issuance of stock for services rendered by consultants	218,630	219	441,785	-	-	-	442,004
Exercise of warrants by a consultant	225,000	225	22,275	-	-	-	22,500
Stock-based compensation for stock granted to directors, officers and employees for services	-	-	2,378,380	-	-	-	2,378,380
Stock-based compensation for stock option/warrants issued to consultants for services	-	-	27,921	-	-	-	27,921
Stock-based compensation for stock warrants issued to a placement agent for services	-	-	21,305	-	-	-	21,305



Table of Contents

Amortization of deferred stock-based compensation	-	-	-	2,845,000	-	-	2,845,000
Value of warrants associated with convertible notes	-	-	2,823,670	-	-	-	2,823,670
Value of beneficial conversion feature of convertible notes to common stock	-	-	4,727,272	-	-	-	4,727,272
Translation adjustment	-	-	-	-	-	61,817	61,817
Net loss for the year - Restated(1)	-	-	-	-	(14,646,619)	-	(14,646,619)
Balance as of December 31, 2007- Restated(1)	69,151,608	\$69,152	\$35,673,586	\$-	\$(25,169,099)	\$65,297	\$10,638,936
Value of warrants associated with convertible notes	-	-	5,810,000	-	-	-	5,810,000
Value of beneficial conversion feature of convertible notes to common stock	-	-	11,030,303	-	-	-	11,030,303
Issuance of stock for acquisition of subsidiaries	1,500,000	1,500	3,736,500	-	-	-	3,738,000

Issuance of stock for services rendered by directors and officers	330,000	330	(330 )	-	-	-	-
Issuance of stock for services rendered by employees	660,000	660	(660 )	-	-	-	-
Stock-based compensation for stock granted to directors, officers and employees for services	-	-	3,149,028	-	-	-	3,149,028

F-10

---



Table of Contents

Stock-based compensation for stock granted to a consultant for services	-	-	52,354	-	-	-	52,354
Stock-based compensation for stock warrants issued to a placement agent for service	-	-	127,831	-	-	-	127,831
Translation adjustment	-	-	-	-	-	1,582,164	1,582,164
Net loss for the year	-	-	-	-	(59,484,833)	-	(59,484,833)
Balance as of December 31, 2008	71,641,608	\$71,642	\$59,578,612	\$-	\$(84,653,932)	\$1,647,461	\$(23,356,217)
Issuance of stock for services rendered by directors and officers	43,385,000	43,385	(43,385 )	(1,200,000)	-	-	(1,200,000 )
Issuance of stock for services rendered by employees	1,060,000	1,060	(1,060 )	-	-	-	-
Stock-based compensation for stock granted to directors, officers and employees for services	-	-	1,333,441	-	-	-	1,333,441

Stock-based compensation for stock granted to a consultant for services	-	-	125,647	-	-	-	125,647
Stock-based compensation for stock warrants issued to a placement agent for service	-	-	319,581	-	-	-	319,581
Issuance of stock to Keywin	307,035,463	307,035	(307,035 )	-	-	-	-
Exchange of 3% Convertible Promissory Notes to Common Stock			45,000,000				45,000,000

F-11

Table of Contents

Exchange of accrued and unpaid interests of 3% Convertible Promissory Notes to Common Stock			1,665,675				1,665,675
Non-Cash Debt Conversion Charges	-	-	10,204,627	-	-	-	10,204,627
Value of beneficial conversion feature of convertible note to common stock			1,447,745				1,447,745
Amortization of deferred stock-based compensation	-	-	-	300,000	-	-	300,000
Translation adjustment	-	-	-	-	-	27,483	27,483
Net loss for the year	-	-	-	-	(37,359,188 )	-	(37,359,188)
Balance as of December 31, 2009	423,122,071	\$423,122	\$119,323,848	\$(900,000 )	\$(122,013,120)	\$1,674,944	\$(1,491,206 )

(1) See Note 3 – Restatement and Reclassification

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

Table of Contents

NETWORK CN INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007(RESTATED)

	Years Ended December 31,		
	2009	2008	2007 Restated(1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss from continuing operations	\$ (37,359,188)	\$ (59,527,473)	\$ (13,692,714)
Net income (loss) from discontinued operations	-	42,640	(953,905 )
Net loss	(37,359,188)	(59,484,833)	(14,646,619)
Adjustments to reconcile net loss to net cash used in operating activities, including discontinued operations:			
Depreciation and amortization:			
Equipment and intangible assets	576,938	1,956,090	528,635
Deferred charges and debt discount	18,873,863	5,589,920	206,391
Non-cash debt conversion charges	10,204,627	-	-
Loss on early extinguishment of debt	1,696,684	-	-
Stock-based compensation for service	878,669	3,329,213	5,755,693
Loss on disposal of equipment (Net write-back of) allowance for doubtful debt	127,441 (542,771 )	176,535 7,739,043	5,350 10,716
Non-cash impairment charges			
Equipment and intangible assets	802,487	10,129,392	1,332,321
Prepayments for advertising operating rights	-	7,979,808	-
Noncontrolling interests	(24,173 )	(256,111 )	(62,048 )
Gain from disposal of discontinued operations	-	(66,085 )	-
Gain from disposal of subsidiaries / an affiliate	-	-	(10,096 )
Net gain on deconsolidation of variable interest entities	(14,338 )	-	-
Changes in operating assets and liabilities, net of effects from acquisitions and disposition:			
Accounts receivable, net	548,509	(766,282 )	(614,589 )
Prepayments for advertising operating rights, net	69,873	5,634,833	(13,636,178)
Prepaid expenses and other current assets, net	83,019	(2,974,785 )	(2,375,340 )
Accounts payable, accrued expenses and other payables	(1,349,913 )	3,068,694	2,185,548

Edgar Filing: NETWORK CN INC - Form 10-K

Net cash used in operating activities	(5,428,273 )	(17,944,568 )	(21,320,216 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of equipment	(128,489 )	(3,518,408 )	(207,371 )
Proceeds from sales of equipment	74,449	10,906	2,668
Net cash used in acquisition of subsidiaries, net	-	(2,708,928 )	(319,167 )
Proceeds from disposal of subsidiaries	-	-	551
Proceeds from disposal of discontinued operations, net of cash disposed of	(324 )	(472,827 )	-
Net cash used in investing activities	(54,364 )	(6,689,257 )	(523,319 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of 12% convertible promissory note, net of costs	-	-	4,900,000
Proceeds from issuance of 3% convertible promissory note, net of costs	-	33,900,000	14,700,000
Repayment of 12% convertible promissory note	-	(5,000,000 )	-
Proceeds from issuance of common stock for private placement, net of costs	-	-	1,500,000
Proceeds from exercise of warrants issued for service	-	-	22,500
Repayment of capital lease obligation	-	-	(3,120 )
Issuance costs paid for 1% convertible promissory note	(250,000 )	-	-
Net cash provided by (used in) financing activities	(250,000 )	28,900,000	21,119,380
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(14,945 )	1,217,428	59,160
NET INCREASE (DECREASE) IN CASH	(5,747,582 )	5,483,603	(664,995 )
CASH, BEGINNING OF YEAR	7,717,131	2,233,528	2,898,523
CASH, END OF YEAR	\$ 1,969,549	\$ 7,717,131	\$ 2,233,528

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**



Table of Contents

Cash paid during the year for:			
Income taxes	\$-	\$-	\$-
Interest paid for 12% convertible promissory note	\$-	\$69,041	\$78,934
Interest paid for 1% convertible promissory note	\$24,795	\$-	\$-
Interest paid for capital lease arrangement	\$-	\$-	\$421

(1) See Note 3 – Restatement and Reclassification

**SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITIES:**

**1) NON-CASH INVESTING ACTIVITIES**

On January 31, 2007, the Company acquired 100% of the equity interests of Quo Advertising, an advertising agency headquartered in Shanghai, China. The Company issued 300,000 shares of the Company's common stock of par value of \$0.001 each, totaling \$843,600 as part of the consideration. For more details, please refer to Note 5- Business Combinations.

In January 2008, the Company acquired 100% equity interest of Cityhorizon BVI, a British Virgin Islands company. The Company issued 1,500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$3,738,000 as part of the consideration. For more details, please refer to Note 5 – Business Combinations.

**2) NON-CASH FINANCING ACTIVITIES**

In April 2009, the Company issued an aggregate of 307,035,463 shares of the Company's restricted common stock with par value of \$0.001 each and an option to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period to a new investor in exchange for 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon (\$1,665,675). Pursuant to a note exchange agreement dated April 2, 2009, the Company and the investors canceled the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the investors including all accrued and unpaid interest thereon (\$185,075), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000. For more details, please refer to Note 13 – Convertible Promissory Notes and Warrants.

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

Table of Contents

NETWORK CN INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

NOTE 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Network CN Inc. and all of its subsidiaries and variable interest entities (collectively “NCN” or the “Company”) are principally engaged in the provision of out-of-home advertising in China. Since late of 2006, the Company has been operating a growing advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities.

Network CN Inc., originally incorporated on September 10, 1993 under the name EC Capital Limited, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the People’s Republic of China (“the PRC” or “China”). The Company was operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. Between 2004 and 2006, the Company operated under the name Teda Travel Group Inc., which was primarily engaged in the provision of management services to hotels and resorts in China. On August 1, 2006, the Company changed its name to “Network CN Inc.” in order to better reflect its new vision to build a nationwide information and entertainment network in China through its business in Travel Network and Media Network. In 2008, the Company disposed of its entire Travel Network in order to focus on Media Network. Accordingly, such business has been classified as discontinued operations for all periods presented. (See Note 18 – Discontinued Operations for details).

Details of the Company’s principal subsidiaries and variable interest entities as of December 31, 2009 are described in Note 4 – Subsidiaries and Variable Interest Entities.

Going Concern

The Company has experienced recurring net losses attributable to NCN common stockholders of \$ 37.4 million, \$59.5 million and \$14.6 million for the years ended December 31, 2009, 2008 and 2007 respectively. Additionally, the Company has net cash used in operating activities of \$5.4 million, \$17.9 million and \$21.3 million for the years ended December 31, 2009, 2008 and 2007 respectively. As of December 31, 2009, the Company recorded a stockholders’ deficit of \$1.5 million. These factors raise substantial doubt about its ability to continue as a going concern. The Company’s plans regarding those concerns are addressed in the following paragraph. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In response to current financial conditions, the Company has undergone drastic cost-cutting exercise including reduction of the Company’s workforce, office rentals, as well as selling and marketing expenses and other general and administrative expenses. Certain commercially non-viable concession right contracts were terminated and management has successfully negotiated with certain authority parties of concession rights to reduce advertising operating right fees. Besides, the Company has explored various means of obtaining additional financing. Accordingly, management believes that there are sufficient financial resources to meet the cash requirements for the next 12 months and the consolidated financial statements have been prepared on a going concern basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation and Preparation

These consolidated financial statements of the Company have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”).



These consolidated 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 consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities. Variable interest entities are those entities in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the Company is the primary beneficiary of these entities, which are required to be consolidated for financial reporting purpose. All significant intercompany transactions and balances have been eliminated upon consolidation.

F-15

---

Table of Contents

## (C) Use of Estimates

In preparing 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 consolidated financial statements taken as a whole.

## (D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of December 31, 2009 and 2008, the Company had no cash equivalents.

## (E) Allowance for Doubtful Debts

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

## (F) Prepayments for Advertising Operating Rights, Net

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

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

## (G) Equipment, Net

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

Media display equipment	5 - 7 years
Office equipment	3 - 5 years
Furniture and fixtures	3 - 5 years

Leasehold improvements unexpired  
over the lease terms

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

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

#### (H) Intangible Assets, Net

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

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

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

F-16

---

Table of Contents

(J) Deferred Charges, Net

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

(K) Convertible Promissory Notes and Warrants

1) Issuance of 12% Convertible Promissory Note and Warrants and 3% Convertible Promissory Notes and Warrants

During 2007 and 2008, the Company issued a 12% convertible promissory note in the principal amount of \$5,000,000 and warrants and 3% convertible promissory notes in the principal amount of \$50,000,000 and warrants. The warrants and embedded conversion feature were classified as equity under EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (ASC Topic 815-40) and met the other criteria in paragraph 11(a) of Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" (ASC Topic 815-10-15-74). The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" (ASC Topic 470-20) and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" (ASC Topic 470-20).

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

2) Debt Restructuring and Issuance of 1% Convertible Promissory Notes

On April 2, 2009, the Company entered into a new financing arrangement with the holders of the 3% convertible promissory notes and warrants and a new investor. The Company provided an inducement conversion offer to a new investor who exchanged 3% convertible promissory notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock (the original conversion price is \$1.65 per share convertible into 28,282,227 shares). Pursuant to paragraph 21 of EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" (ASC Topic 470-20), all the unamortized debt discount (including the discount from an allocation of proceeds to the warrants and the discount originated by the beneficial conversion feature) of the relevant 3% convertible promissory notes remaining at the date of conversion were immediately recognized as expenses and is included in amortization of deferred charges and debt discount in the consolidated statement of operations. The Company also accounted for the inducement conversion offer according to SFAS No. 84 "Induced Conversions of Convertible Debt" (ASC Topic 470-20). To induce conversion, the Company has reduced the conversion price and also granted an option to purchase an aggregate of 122,814,185 shares of the Company's common

stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period. The Company recognized non-cash debt conversion charges equal to the fair value of the incremental consideration (including both reduction in the conversion price and grant of purchase option) given as of the date the inducement offer is accepted by a new investor. The fair value of the purchase option was determined utilizing Black-Scholes option pricing model.

For the remaining 3% convertible promissory notes in the principal amount of \$5,000,000, the Company and the holders of the 3% convertible promissory notes agreed to cancel the 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company's issuance of new 1% unsecured senior convertible promissory notes due 2012 in the principal amount of \$5,000,000. The 1% convertible promissory notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at a fixed conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. Pursuant to EITF Issue No. 96-19 "Debtor's Accounting For a Modification or Exchange of Debt Instruments" (ASC Topic 470-50) and EITF Issue No. 06-6 "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments" (ASC Topic 470-50-40), the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of new notes.

The Company determined the new 1% convertible promissory notes to be conventional convertible instruments under EITF Issue No. 05-2 "The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19" (ASC Topic 815-40-25). Its embedded conversion option was qualify for equity classification pursuant to EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (ASC Topic 815-40), and met the other criteria in paragraph 11(a) of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (ASC Topic 815-10-15-74). The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective yield method.

Table of Contents

(L) Early Redemption of Convertible Promissory Notes

Should early redemption of convertible promissory notes occur, the unamortized portion of the associated deferred charges and debt discount would be fully written off and any early redemption premium will be recognized as expense upon its occurrence. All related charges, if material, would be aggregated and included in a separate line "charges on early redemption of convertible promissory notes". Such an expense would be included in ordinary activities on the consolidated statements of operations as required by SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (ASC Topic 470-50).

(M) Revenue Recognition

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with EITF Issue No. 99-17 "Accounting for Advertising Barter Transactions" (ASC Topic 605-20-25), which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions. The amounts included in advertising services revenue and general and administrative for barter transactions were approximately \$nil, \$41,000 and \$nil for the years ended December 31, 2009, 2008 and 2007 respectively.

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

For tour services, the Company recognizes services-based revenue when the services have been performed. 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.

(N) Stock-based Compensation

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" (ASC Topic 718). Effective January 1, 2006, the Company adopted SFAS No. 123R (ASC Topic 718), using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. SFAS No. 123R (ASC Topic 718) 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.

F-18

---

## Table of Contents

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 (ASC Topic 718), 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” (ASC Topic 505-50). In accordance with EITF 96-18 (ASC Topic 505-50), 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.

### (O) Income Taxes

The Company accounts for income taxes under SFAS No. 109 “Accounting for Income Taxes” (ASC Topic 740). Under SFAS No. 109 (ASC Topic 740), deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under SFAS No. 109 (ASC Topic 740), the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### (P) Comprehensive Income (Loss)

The Company follows SFAS No. 130 “Reporting Comprehensive Income” (ASC Topic 220) 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 statements of operations and comprehensive loss and the consolidated statement of stockholders’ equity.

### (Q) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed in accordance with SFAS No. 128 “Earnings Per Share” (ASC Topic 260) 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 years ended December 31, 2009, 2008 and 2007 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

### (R) Operating Leases



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

(S) Foreign Currency Translation

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

(T) Fair Value of Financial Instruments

SFAS No. 157 "Fair Value Measurements" (ASC Topic 820) defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

## Table of Contents

SFAS No. 157 (ASC Topic 820) establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS No. 157 (ASC Topic 820) establishes three levels of inputs that may be used to measure fair value:

Level 1 - Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying value of the Company's financial instruments, which consist of cash, accounts receivable, prepayments for advertising operating rights, 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 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.

### (U) Concentration of Credit Risk

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

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

### (V) Segmental Reporting

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" (ASC Topic 280) 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. In September 2008, the Company disposed of its entire travel business and focus on developing its media business in the PRC. Accordingly, it is management's view that the services rendered by the Company are of one operating segment: Media Network.

(W) Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”) (not part of the Codification yet). SFAS 166 (not part of the Codification yet) removes the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46R (ASC Topic 810) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. SFAS 166 (not part of the Codification yet) will be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 166 (not part of the Codification yet) on our financial statements.

In June 2009, the FASB issued SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”) (not part of the Codification yet). This updated guidance requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity’s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. SFAS 167 (not part of the Codification yet) will be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 167 (not part of the Codification yet) on our financial statements.

## Table of Contents

In September 2009, the FASB issued ASU 2009-06, Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities (formerly proposed as FASB Staff Position No. 48-d, Application Guidance for Pass-Through Entities and Tax-Exempt Not-for-Profit Entities and Disclosure Modifications for Nonpublic Entities), which amended Accounting Standards Codification Subtopic 740-10, Income Taxes – Overall. ASU 2009-06 clarifies that an entity’s assertion that it is a pass-through entity is a tax position and should be assessed in accordance with Subtopic 740-10. Additionally, the ASU provides implementation guidance on the attribution of income taxes to entities and owners. The revised guidance is effective for periods ending after September 15, 2009. Management is currently evaluating the potential impact of ASU2010-6 on our financial statements.

In October 2009, the FASB issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)” (“ASU 2009-13”). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU2009-13 on our financial statements.

In October 2009, the FASB issued ASU 2009-14, “Certain Arrangements That Include Software Elements, (amendments to ASC Topic 985, Software)” (“ASU 2009-14”). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU 2009-14 on our financial statements.

In October, 2009, the FASB issued ASU 2009-15, “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing”( amendments to ASC Topic 470, Debt)” (“ASU 2009-15”), and provides guidance for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity’s own shares should be measured at fair value in accordance with Topic 820 and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Management is currently evaluating the potential impact of ASU 2009-15 on our financial statements.

In December 2009, FASB issued ASU 2009-16 Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets ("ASU 2009-16"). ASU 2009-16 amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in ASU 2009-16 improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. ASU 2009-16 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is currently evaluating the potential impact of ASU2009-16 on our financial statements.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU 2009-17"). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise's involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Management is currently evaluating the potential impact of ASU209-17 on our financial statements.

F-21

---

Table of Contents

In January 2010, FASB issued ASU 2010-2 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification ("ASU 2010-2"). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification, originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 3, 2010. Management is currently evaluating the potential impact of ASU2010-2 on our financial statements.

In February 2010, FASB issued ASU 2010-9 Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-9"). ASU 2010-9 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-9 is effective for interim and annual periods ending after June 15, 2010. Management is currently evaluating the potential impact of ASU2010-9 on our financial statements.

NOTE 3                    RESTATEMENT AND RECLASSIFICATION

(A) Restatement of Financial Results

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

The restatement adjustments corrected the accounting errors arising from its misapplication of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007. The Company initially amortized the discount according to EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" (ASC Topic 470-20), which stated that discount resulting from allocation of proceeds to the beneficial conversion feature should be recognized as interest and other debt-related expenses over the minimum period from the date of issuance to the date of earliest conversion. As the notes are convertible at the date of issuance, the Company fully amortized such discount through interest and other debt-related expenses at the date of issuance accordingly. However, according to Issue 6 of EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" (ASC Topic 470-20), EITF Issues No. 98-5 (ASC Topic 470-20) should be modified to require the discount related to the beneficial conversion feature to be accreted from the date of issuance to the stated redemption date regardless of when the earliest conversion date occurs using the effective interest method. The restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27 (ASC Topic 470-20).

The restatement affected the Company's previously reported non-cash interest expense, net loss, long-term debt and stockholders' equity but had no effects on its cash flow. There was no change to each subtotal (operating, investing and financing activities) in the Company's consolidated statements of cash flows as a result of the restatement. Certain

balances related to line items within certain cash flows were corrected as part of the restatement. The restatement in the consolidated financial statements as of December 31, 2007 and for the year ended December 31, 2007 is as follows:

For the year ended December 31, 2007	As Previously Reported	Restatement Adjustments	As Restated
<b>Interest and Other Debt-Related Expenses</b>			
Amortization of deferred charges and debt discount	\$ 4,866,351	\$ (4,659,960)	\$ 206,391
Net loss attributable to NCN common stockholders	(19,306,579)	4,659,960	(14,646,619)
Comprehensive loss	(19,244,762)	4,659,960	(14,584,802)
Net loss per common share – basic and diluted	\$ (0.28 )	\$ 0.07	\$ (0.21 )
<b>As of December 31, 2007</b>			
<b>Liabilities</b>			
3% convertible promissory notes due 2011, net	\$ 12,545,456	\$ (4,659,960)	\$ 7,885,496
Total liabilities	20,780,493	(4,659,960)	16,120,533
<b>Stockholders' Equity</b>			
Accumulated deficit	(29,829,059)	4,659,960	(25,169,099)
Total stockholder's equity	\$ 5,978,976	\$ 4,659,960	\$ 10,638,936

F-22

---

Table of Contents

## (B) Reclassification

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

In addition, the Company completed the disposal of travel network during the year ended December 31, 2008. As a result of the disposal, the consolidated financial statements of the Company reflect travel network operation as discontinued operations for all presented periods. Accordingly, revenues and costs and expenses of travel network have been excluded from the respective accounts in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes, as “Net Loss from Discontinued Operations, Net of Income Taxes. For details, please refer to Note 18 – Discontinued Operations.

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

## NOTE 4 SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company’s principal consolidated subsidiaries and variable interest entities as of December 31, 2009 were as follows:

Name	Place of Incorporation	Ownership interest attributable to the Company	Principal activities
NCN Group Limited	BVI	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
NCN Travel Services Limited	BVI	100%	Dormant
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	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
Crown Eagle Investment Limited	Hong Kong	100%	Dormant
Profit Wave Investment Limited	Hong Kong	100%	Dormant
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Provision of administrative and management services
Shanghai Quo Advertising Company Limited	PRC	100%	Provision of advertising services
Teda (Beijing) Hotels Management Limited	PRC	100%	Dormant; undergoing liquidation process
Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Provision of high-tech services
Beijing Huizhong Bona Media Advertising Co., Ltd.	PRC	100%	Provision of advertising services
Huizhi Botong Media Advertising Beijing Co., Ltd.	PRC	100%	Provision of advertising services
Yi Gao Shanghai Advertising Limited	PRC	100%	Provision of advertising services



Remarks:

1) During the year ended December 31, 2009, the Company's variable interest entity, Quo Advertising, disposed of its entire 51% equity interests of Xuancai yi, a PRC advertising company which has maintained minimal operation since the beginning of 2009, to the minority shareholders of Xuancai yi at \$nil consideration. Accordingly, the Company recorded a loss on deconsolidation of variable interest entity of \$8,178 included in general and administrative expenses on the consolidated statements of operations during the year ended December 31, 2009.

2) During the year ended December 31, 2009, the Company's variable interest entity, Quo Advertising, disposed of its entire 60% equity interests of Qingdao Zhongan Boyang, a PRC advertising company at \$nil consideration. Accordingly, the Company recorded a gain on deconsolidation of variable interest entity of \$22,516 included in general and administrative expenses on the consolidated statements of operations during the year ended December 31, 2009.

3) The Company winded up its wholly owned subsidiary, namely, Cityhorizon Limited, a BVI company engaging in investment holding during the year ended December 31, 2009.

F-23

---

Table of Contents

4) In late 2009, the Company established its wholly-owned subsidiary, namely, Yi Gao Shanghai Advertising Limited.

## NOTE 5 BUSINESS COMBINATIONS

## (A) Transactions Completed in 2007

## 1. Acquisition of Quo Advertising

On January 31, 2007, the Company acquired 100% of the equity interests of Quo Advertising, an advertising agency headquartered in Shanghai, China, pursuant to a Purchase and Sales Agreement and Trust Agreements entered with independent third parties dated January 24, 2007. The acquisition helped the Company to grow its advertising business in China. The Company paid \$64,000 in cash and issued 300,000 shares of the Company's common stock of par value of \$0.001 each, totaling \$843,600 in exchange for 100% of the equity interest of Quo Advertising. The total consideration was \$907,600.

The acquisition has been accounted for using the purchase method of accounting and the results of operations of Quo Advertising have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 31, 2007.

The allocation of the purchase price is as follows:

Cash	\$ 18,001
Accounts receivable, net	83,791
Prepaid expenses and other current assets, net	298,559
Equipment, net	15,114
Intangible right	536,540
Accounts payable, accrued expenses and other payables	(44,405)
Total purchase price	\$ 907,600

Identifiable intangible right of \$536,540 is measured at fair value as of the date of the acquisition and amortized over 20 years. The intangible right of Quo Advertising was fully provided with impairment loss in 2007. For details, please refer to Note 10 – Intangible Assets, Nets for details.

## 2. Acquisition of Xuancai yi

Effective September 1, 2007, the Company, through Quo Advertising, acquired 51% of the equity interests of Xuancai yi (Beijing) Advertising Company Limited ("Xuancai yi"), an advertising agency in Beijing, China, for a consideration of up to RMB 12,245,000 (equivalent to \$1,666,943) in cash. Xuancai yi secured the rights to operate a 758 square-meter mega-size high resolution LED advertising billboard in a prominent location in Beijing, China. The investment in Xuancai yi 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 Xuancai yi have been included in the Company's consolidated statement of operations since the acquisition date on September 1, 2007.

The purchase consideration, to be paid fully in cash, is payable as follows:

1. An initial payment of RMB2,500,000 (approximately \$330,000);
2. Up to RMB 2,454,300 (approximately \$337,000) based on Xuancai yi's net profit for the four months ended December 31, 2007;

3. Up to RMB 1,834,500 (approximately \$252,000) based on Xuancaiye's net profit for the first quarter of fiscal year 2008;
4. Up to RMB 1,827,400 (approximately \$251,000) based on Xuancaiye's net profit for the second quarter of fiscal year 2008;
5. Up to RMB1,819,100 (approximately \$250,000) based on Xuancaiye's net profit for the third quarter of fiscal year 2008; and
6. Up to RMB1,809,700 (approximately \$248,000) based on Xuancaiye's net profit for the fourth quarter of fiscal year 2008.

The initial payment of RMB2,500,000 (equivalent to \$330,000) was made in September 2007. The allocation of the initial payment is as follows:

Cash	\$57,971
Prepaid expenses and other current assets, net	82,150
Equipment, net	6,955
Intangible right	586,066
Accounts payable, accrued expenses and other payables	(85,833 )
Noncontrolling interests	(317,181 )
Total purchase price	\$330,128

Table of Contents

Identifiable intangible right of \$586,066 is measured at fair value as of the date of the acquisition and is amortized over 16 months based on initial contract period with Xuancaiye's media partner.

As Xuancaiye failed to achieve the net profit targets in each of the above periods, no further cash payment has been made with respect to the above earn-out consideration.

## (B) Transactions Completed in 2008

## 1. Acquisition of Cityhorizon BVI

On January 1, 2008, the Company and its wholly owned subsidiary Cityhorizon Limited ("Cityhorizon Hong Kong"), a Hong Kong company, entered into a Share Purchase Agreement with Cityhorizon BVI, Lianhe, a wholly owned subsidiary of Cityhorizon BVI, Bona, a wholly owned subsidiary of Cityhorizon BVI, and a third party who is the 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 the third party. Pursuant to the Share Purchase Agreement, the Company in January 2008 paid the third party \$5,000,000 in cash and issued the third party 1,500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$3,738,000. The total purchase consideration was \$8,738,000. The purpose of the acquisition was to strengthen the Company's media network in China.

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

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, net	170,347
Equipment, net	1,995,702
Intangible assets, net	1,973,865
Accounts payable, accrued expenses and other payables	(280,306)
Total purchase price	\$ 8,738,000

Intangible assets represent the acquired application systems developed internally by Lianhe for controlling LED activities. Based on a valuation performed by an independent valuer, the fair value of the acquired application systems as of the date of acquisition amounted to RMB31,000,000 (equivalent to US\$4,252,564). This fair value, after deducting negative goodwill of \$2,278,699 arising from business combination with Cityhorizon BVI, Lianhe and Bona, equaled to \$1,973,865. Such net amount was amortized over the useful lives of the application systems. The acquired application systems were fully provided with impairment loss in 2008. For details, please refer to Note 10 – Intangible Assets, Nets for details.

## 2. 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 Botong, a company organized under the laws of the PRC, and their respective registered shareholders, pursuant to which Lianhe provides exclusive technology and management consulting services to Botong in exchange for service fees amounting to substantially all of the net income of Botong. Each of the registered PRC shareholders of Botong also entered into equity pledge agreements and option agreements with Lianhe which cannot be amended or

terminated except by written consent of all parties. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged such shareholder's interest in Botong for the performance of such Botong's payment obligations under its respective exclusive technology and management consulting services agreements. In addition, Lianhe has been assigned all voting rights by the shareholders of Botong and has the option to acquire the equity interests of Botong at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders.

In addition, as of January 1, 2008, Lianhe committed to extend loan totaling \$137,179 to the registered shareholders of Botong for the purpose of financing such shareholders' investment in Botong. Through the above contractual arrangements, Lianhe becomes the primary beneficiary of Botong which becomes a variable interest entity. 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 were as follows:

Cash	\$ 653
Prepaid expenses and other current assets, net	102,154
Equipment, net	599,348
Intangible asset	551,031
Accounts payable, accrued expenses and other payables	(1,116,007)
Net assets	\$ 137,179

F-25

---

Table of Contents

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

## (C) Unaudited Pro Forma Consolidated Financial Information

## 1. Disclosure for the year ended December 31, 2007

The table below summarizes the unaudited pro forma results of operations assuming the acquisitions of Quo Advertising and Xuancai yi were completed on January 1, 2007. These unaudited pro forma results have been prepared for information purposes only and do not purport to be indicative of what the operating results would have been had the acquisitions actually taken place on January 1, 2007, and may not be indicative of future operating results.

	Year ended December 31,2007 (Unaudited) (Restated)
Revenues	\$ 27,619,599
Net loss before income taxes and noncontrolling interests	\$ (14,807,565 )
Net loss attributable to NCN common stockholders	\$ (14,753,561 )
Net loss per share	
- Basic and diluted	\$ (0.22 )

## 2. Disclosure for the year ended December 31, 2008

As the acquisition of Cityhorizon BVI and consolidation of Botong was on January 1, 2008, no pro-forma consolidated financial information was required to be prepared according to FASB Statements No.141, "Business Combinations"(ASC Topic805).

## NOTE 6 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Accounts receivable	\$93,909	\$817,643
Less: allowance for doubtful debts	(3,844 )	(600,241 )
Total	\$90,065	\$217,402

For the year ended December 31, 2009, the Company recorded a net write-back of allowance for doubtful debts for accounts receivable of \$421,172. For the years ended December 31, 2008 and 2007, the Company recorded an allowance for doubtful debts for accounts receivable of \$598,060 and \$nil respectively. Such allowance for doubtful debt and net write-back of allowance for doubtful debts were included as net write-back of / (allowance for) doubtful debts on the consolidated statements of operations.

The Company recorded a write-off of certain allowance for doubtful debts for accounts receivable of \$175,593, \$nil and \$nil for the years ended December 31, 2009, 2008 and 2007 respectively.

Table of Contents

## NOTE 7 PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of December 31, 2009 and 2008 were as follows:

	2009	2008
Gross carrying amount		
Beginning	\$24,606,150	\$14,627,129
Addition	2,069,739	7,455,360
Transfer from prepaid expenses and other current assets	-	2,283,791
Write off	(23,907,912)	-
Translation adjustments	39,061	239,870
Total gross carrying amount	2,807,038	24,606,150
Accumulated amortization		
Beginning	(16,275,735)	(990,951 )
Transfer from accrued advertising operating rights fee	(733,000 )	-
Amortization for the year	(1,388,980 )	(15,167,456)
Write off	16,031,388	-
Translation adjustments	16,625	(117,328 )
Total accumulated amortization	(2,349,702 )	(16,275,735)
Provision for impairment		
Beginning	(7,912,303 )	-
Addition	-	(7,979,808 )
Write off	7,876,523	-
Translation adjustments	(73,317 )	67,505
Total Provision for impairment	(109,097 )	(7,912,303 )
Prepayments for advertising operating rights, net	\$348,239	\$418,112

Total amortization expense of prepayments for advertising operating rights of the Company for the years ended December 31, 2009, 2008 and 2007 were \$1,388,980, \$15,167,456 and \$990,951 respectively. The amortization expense of prepayments for advertising operating rights was included as cost of advertising services on the consolidated statement of operations.

## Provision for impairment

As the Company recorded a continuous net loss, the Company performed an impairment review of its prepayments for advertising operating rights. The Company compared the carrying amount of the prepayments for advertising operating rights of each project to the sum of the undiscounted cash flows expected to be generated. For those projects with carrying values exceeding undiscounted cash flows, the Company determined their fair values using a discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$nil, \$7,979,808 and \$nil for the years ended December 31, 2009, 2008 and 2007 in relation to the prepayments for certain advertising operating rights projects. The impairment loss was included as non-cash impairment charges on the consolidated statement of operations.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded a write-off of provision for impairment losses against cost and accumulated amortization of certain prepayments for advertising operating rights amounted to \$7,876,523, \$nil and \$nil respectively.





Table of Contents

## NOTE 8 PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of December 31, 2009 and 2008 were as follows:

	2009	2008
Rental deposits	\$91,548	\$93,294
Deposits paid for soliciting potential media projects	-	3,109,609
Payments from customers withheld by a third party	1,404,977	1,402,751
Receivable from a related party (Note 16)	413,309	-
Other receivables	10,914	2,937,228
Prepaid expenses	158,722	222,679
Sub-total	2,079,470	7,765,561
Less: allowance for doubtful debts	(1,413,563)	(7,135,429)
Total	\$665,907	\$630,132

For the year ended December 31, 2009, the Company recorded a net write-back of allowance for doubtful debts for prepaid expenses and other current assets of \$121,599, while for the years ended December 31, 2008 and 2007, the Company recorded an allowance for doubtful debts for prepaid expenses and other current assets of \$7,140,983 and \$10,716 respectively. The allowance for doubtful debts for other receivables was included in net write-back of / (allowance for) doubtful debts and net loss from discontinued operations, net of income taxes on the consolidated statements of operations.

The Company wrote off certain allowance for doubtful debts for prepaid expenses and other current assets of \$5,601,974, \$nil and \$nil for the years ended December 31, 2009, 2008 and 2007 respectively.

Table of Contents

## NOTE 9 EQUIPMENT, NET

Equipment, net as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Media display equipment	\$5,230,837	\$5,389,316
Office equipment	321,257	484,827
Furniture and fixtures	15,566	54,520
Construction in progress	-	378,106
Sub-Total	5,567,660	6,306,769
Less: accumulated depreciation	(1,232,235)	(928,466)
Less: provision for impairment	(2,945,734)	(2,980,679)
Total	\$1,389,691	\$2,397,624

Depreciation expenses for the years ended December 31, 2009, 2008 and 2007 amounted to \$475,214, \$917,428 and \$56,603 respectively.

## Provision for impairment

As the Company recorded a continuous net loss, the Company performed an impairment review of its equipment. The Company compared the carrying value of its equipment to the sum of the undiscounted cash flows expected to be generated. For those assets with carrying values exceeding undiscounted cash flows, the Company determined their fair values using a discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$454,904, \$2,977,915 and \$nil for certain media display equipment for the years ended December 31, 2009, 2008 and 2007. The impairment loss was included as non-cash impairment charges in the consolidated statements of operations.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded a write-off of provision for impairment losses against cost and accumulated amortization of equipment amounted to \$494,953, \$nil and \$nil respectively.

## Pledge of Equipment

Upon the completion of debt restructuring in April 2009, no equipment has been pledged by the Company.

## NOTE 10 INTANGIBLE ASSETS, NET

Intangible assets, net as of December 31, 2009 and 2008 were as follows:

	2009	2008
Amortized intangible rights		
Gross carrying amount	\$551,031	\$7,137,097
Less: accumulated amortization	(203,448)	(1,312,790)
Less: provision for impairment loss	(347,583)	(5,375,000)
Amortized intangible rights, net	-	449,307
Amortized acquired application systems		
Gross carrying amount	1,973,865	1,973,865
Less: accumulated amortization	(197,388)	(197,388)
Less: provision for impairment loss	(1,776,477)	(1,776,477)

Amortized acquired application systems, net	-	-
Intangible assets, net	\$-	\$449,307

Total amortization expense of intangible assets of the Company for the years ended December 31, 2009, 2008 and 2007 amounted to \$101,724, \$1,038,662 and \$472,032 respectively.

F-29

---

Table of Contents

## Provision for impairment

Total non-cash impairment charges recorded for intangible assets of the Company for the years ended December 31, 2009, 2008 and 2007 amounted to \$347,583, \$7,151,477 and \$1,332,321 respectively. They were included in non-cash impairment charges and net loss from discontinued operations, net of income taxes in the consolidated statements of operations.

## a) In Fiscal 2007

In 2007, the Company compared the undiscounted cash flows expected to be generated to the carrying value of Quo Advertising's intangible right as a result of the non-LED business of Quo Advertising is shrinking and recording a continuous operating loss. The Company determined that the intangible right of Quo Advertising which associated with non-LED advertising business should be fully provided with impairment loss. An impairment loss of \$516,419 for intangible right of Quo Advertising was recorded for the year ended December 31, 2007. In fiscal 2008, the Company wrote-off the intangible right of Quo Advertising.

For the intangible right of Tianma, which associated with operating right to conduct tour business, the Company compared the undiscounted cash flows to the carrying values of Tianma's intangible right as a result of continuous operating loss recorded by Tianma in 2007. The Company has determined the intangible right should be fully provided with impairment loss based on discounted cash flow model. Accordingly, the Company recorded an impairment loss of \$815,902 for intangible right of Tianma for the year ended December 31, 2007. In fiscal 2008, the Company wrote-off the intangible right of Tianma.

## b) In Fiscal 2008

In 2008, the Company performed impairment review on its intangible right acquired in 2006 for managing and operating 120 LED outdoor advertising video panels in the Changning district of Shanghai, China as a result of limited revenue being generated from such media project. The Company determined that the intangible right of such media project should be fully provided with impairment loss based on discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$5,375,000 for such intangible right for the year ended December 31, 2008. In fiscal 2009, the Company wrote-off the intangible right of such media project.

The Company also performed an impairment review on its acquired application systems from Lianhe for controlling LED activities as the Company recorded a continuous net loss on LED business. The Company determined that the acquired application systems should be fully provided with impairment loss based on discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$1,776,477 for the acquired application system for the year ended December 31, 2008.

## c) In Fiscal 2009

In 2009, the Company performed impairment review on the intangible rights arisen from the consolidation of Botong. Such intangible right was related to the acquired advertising operating right for operating 1 mega-size LED billboard at Haoyou Emporium in Beijing. The Company determined that such intangible right should be fully provided with impairment loss based on discounted cash flow analysis. Accordingly, the Company recorded an impairment loss of \$347,583 for such intangible right for the year ended December 31, 2009.

## NOTE 11 DEFERRED CHARGES, NET

Deferred charges, net as of December 31, 2009 and 2008 were as follows:

	2009	2008
Deferred charges	\$250,000	\$1,700,000
Less: accumulated amortization	(58,009 )	(457,042 )
Total	\$191,991	\$1,242,958

Total amortization of deferred charges for the years ended December 31, 2009, 2008 and 2007 amounted to \$1,189,214, \$527,885 and \$29,157 respectively. They were included as amortization of deferred charges and debt discount in the consolidated statements of operations.

Pursuant to the debt restructuring in April, 2009, all the associated unamortized deferred charges of the 3% Convertible Promissory Notes at the date of transaction were immediately recognized as expenses and included as interest and other debt-related expenses. For details, please refer to Note 13 – Convertible Promissory Notes and Warrants.

#### NOTE 12                      ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of December 31, 2009 and 2008 consisted of the following:

F-30

---

Table of Contents

	2009	2008
Accounts payable	\$105,957	\$801,627
Accrued professional fee	468,942	461,953
Accrued staff benefit and related fees	908,832	1,028,049
Accrued interest expenses	12,603	1,467,417
Other accrued expenses	558,369	839,519
Payable to a related party (Note 16)	17,692	-
Other payables	215,664	978,639
Total	\$2,288,059	\$5,577,204

## NOTE 13 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 was convertible into the Company’s common stock at the conversion price of \$2.40 per share. Pursuant to the agreement, the Company was 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 was six months and the Company had 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 12% Convertible Promissory Note. However, the Company had the right to prepay all or any portion of the amounts due under the 12% Convertible Promissory 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 the 12% Convertible Promissory Note 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.

As of December 31, 2009, none of the warrants associated with 12% Convertible Promissory Note was exercised.

## (B) 3% Convertible Promissory Notes and Warrants

On November 19, 2007, the Company and Quo Advertising 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 which 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 were issued in three tranches:

- 1) On November 19, 2007, 3% Convertible Promissory Notes in the aggregate principal amount of \$6,000,000, Warrants exercisable for 2,400,000 shares at \$2.50 per share and Warrants exercisable for 1,714,285 shares at \$3.50 per share were issued;
- 2)

On November 28, 2007, 3% Convertible Promissory Notes in the aggregate principal amount of \$9,000,000, Warrants exercisable for 3,600,000 shares at \$2.50 per share and Warrants exercisable for 2,571,430 shares at \$3.50 per share were issued; and

- 3) On January 31, 2008 (the "Third Closing"), 3% Convertible Promissory Notes in the aggregate principal amount of \$35,000,000, Warrants exercisable for 14,000,000 shares at \$2.50 per share and Warrants exercisable for 10,000,000 shares at \$3.50 per share were issued.

The 3% Convertible Promissory Notes bore interest at 3% per annum payable semi-annually in arrears and were 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 was subject to adjusted downward on an annual basis if the Company should fail to meet certain annual EPS targets described in the Purchase Agreement. The EPS targets for fiscal 2008, 2009 and 2010 are \$0.081, \$0.453, and \$0.699 respectively. In the event of a default, or if the Company's actual EPS as defined in the Purchase Agreement for any fiscal year is less than 80% of the respective EPS target, certain Investors could 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 were to expire on June 30, 2011 and granted 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 would also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward. In connection with the issuance of the 3% Senior Secured Convertible Notes, the Company also entered into registration rights agreement with the Investors, pursuant to which, as amended, the Company agreed to file at their request, a registration statement registering for resale any shares issued to the Investor upon conversion of the 3% Convertible Promissory Notes or exercise of the Warrants.

Table of Contents

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

As of December 31, 2008, the Company failed to meet EPS target for fiscal 2008. The Investors agreed the conversion price of the 3% Convertible Promissory Notes remained unchanged at \$1.65 and have not proposed any adjustment to the conversion price. None of warrants associated with the above convertible promissory notes has been exercised.

**(C) Debt Restructuring and 1% Convertible Promissory Notes**

On April 2, 2009, the Company entered into a new financing arrangement with the holders of the 3% Convertible Promissory Notes and Warrants and a new investor.

Pursuant to a note exchange and option agreement, dated April 2, 2009 (the “Note Exchange and Option Agreement”), between the Company and Keywin Holdings Limited (“Keywin”), Keywin exchanged the 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company’s common stock and an option to purchase an aggregate of 122,814,185 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period commencing on April 2, 2009 (the “Keywin Option”). Pursuant to the first and second amendments, the exercise period of such option was subsequently extended to a six-month period ended October 1, 2009 and nine-month period ended January 1, 2010 respectively. As of December 31, 2009, such option to purchase the Company’s common stock has not been exercised.

On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to extend the exercise period to an eighteen-month period ending on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days’ written notice,

Pursuant to a note exchange agreement, dated April 2, 2009, among the Company and the Investors, the parties agreed to cancel the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the Investors (including all accrued and unpaid interest thereon), and all of the Warrants, in exchange for the Company’s issuance of new 1% Unsecured Senior Convertible Promissory Notes due 2012 in the principal amount of \$5,000,000 (the “1% Convertible Promissory Notes”). The 1% Convertible Promissory Notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at an initial conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the holders will have the right to redeem the 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest. The parties also agreed to terminate the security agreement and release all security interests arising out of the Purchase Agreement and the 3% Convertible Promissory Notes.

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

12%	3%	3%	1%	Total
Convertible	Convertible	Convertible	Convertible	



Edgar Filing: NETWORK CN INC - Form 10-K

	Promissory Note	Promissory Notes (first and second tranches)	Promissory Notes (third tranche)	Promissory Notes	
Proceeds of convertible promissory notes	\$5,000,000	\$15,000,000	\$35,000,000	\$5,000,000	\$60,000,000
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)	(1,447,745)	(17,205,320)
Total net proceeds of the convertible promissory notes	4,666,330	7,782,728	18,159,697	3,552,255	34,161,010
Repayment of 12% convertible promissory note	(5,000,000)	-	-	-	(5,000,000 )
Conversion of 3% convertible promissory notes of \$45 million	-	(15,000,000)	(30,000,000)	-	(45,000,000)
Cancellation of 3% convertible promissory notes of \$5 million	-	-	(5,000,000 )	-	(5,000,000 )
Amortization of debt discount	333,670	7,217,272	16,840,303	302,679	24,693,924
Net carrying value of convertible promissory notes as of December 31, 2009	\$-	\$-	\$-	\$3,854,934	\$3,854,934

F-32

Table of Contents

## Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the year ended December 31, 2009 was as follows:

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$-	\$-	\$-	\$-
3% convertible promissory notes	5,996,879	11,385,091	1,131,205	18,513,175
1% convertible promissory notes	-	302,679	58,009	360,688
Total	\$5,996,879	\$11,687,770	\$1,189,214	\$18,873,863

The amortization of deferred charges and debt discount for the year ended December 31, 2008 was as follows:

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$259,204	\$-	\$80,700	\$339,904
3% convertible promissory notes	1,657,004	3,145,827	447,185	5,250,016
1% convertible promissory notes	-	-	-	-
Total	\$1,916,208	\$3,145,827	\$527,885	\$5,589,920

The amortization of deferred charges and debt discount for the year ended December 31, 2007 was as follows:

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$74,466	\$-	\$19,301	\$93,767
3% convertible promissory notes	35,456	67,312	9,856	112,624
1% convertible promissory notes	-	-	-	-
Total	\$109,922	\$67,312	\$29,157	\$206,391

The fair values of the financial instruments associated with warrants of both the 12% Convertible Promissory Note and 3% Convertible Promissory Notes were determined utilizing Black-Scholes option pricing model, which is consistent with the Company's historical valuation methods. The following assumptions and estimates were used in the Black-Scholes option pricing model: (1) 12% Convertible Promissory Note: volatility of 182%; an average risk-free interest rate of 3.52%; dividend yield of 0%; and an expected life of 2 years, (2) 3% Convertible Promissory Notes: volatility of 47%; an average risk-free interest rate of 3.30%; dividend yield of 0%; and an expected life of 3.5 years. The respective allocated proceeds to the warrants of 12% Convertible Promissory Note and 3% Convertible Promissory Notes amounted to \$333,670 and \$8,300,000, respectively, is recorded in additional paid-in capital and the respective debt discount is amortized over the life of convertible promissory notes, using the effective yield method.

The embedded beneficial conversion feature are recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value of beneficial conversion feature is calculated according to EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" (ASC Topic 470-20) and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" (ASC Topic 470-20). Only the 3% Convertible Promissory Notes and 1% Convertible Promissory Notes are considered to have a beneficial conversion feature as their effective conversion price was less than the Company's market price of common stock at commitment date. For the 12% Convertible Promissory Note, no beneficial conversion feature existed. The value of beneficial conversion feature of 3% Convertible Promissory Notes and 1% Convertible Promissory Notes amounted to \$15,757,575 and \$1,447,745, respectively, is recorded as a reduction in the carrying value of the convertible promissory notes against

additional paid-in capital. As the 3% Convertible Promissory Notes and 1% Convertible Promissory Notes have stated redemption dates, the respective debt discount is amortized over the term of the notes from the respective date of issuance using the effective yield method.

On February 13, 2008, the Company fully redeemed 12% Convertible Promissory Note at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. Accordingly, all the associated unamortized deferred charges and unamortized debt discount of \$48,261 and \$149,885, respectively, at the date of redemption were immediately recognized as expenses and included in amortization of deferred charges and debt discount on the consolidated statements of operations for the year ended December 31, 2008.

F-33

---

Table of Contents

On April 2, 2009, Keywin exchanged 3% Convertible Promissory Notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock. All the associated unamortized deferred charges and unamortized debt discount of the 3% Convertible Promissory Notes in the principal amount of \$45,000,000 amounting to \$1,005,774 and \$15,930,054, respectively, at the date of conversion were immediately recognized as expenses and included in amortization of deferred charges and debt discount on the consolidated statements of operations for the year ended December 31, 2009.

## Non-cash debt conversion charges

Pursuant to the debt restructuring in April 2009, the Company provided an inducement conversion offer to Keywin who exchanged 3% Convertible Promissory Notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock. To induce conversion, the Company has reduced the conversion price and additionally granted an option to Keywin to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period. Accordingly, for the year ended December 31, 2009, the Company recognized a non-cash debt conversion charge of \$10,204,627 equal to the fair value of the incremental consideration (including both reduction in the conversion price and grant of the purchase option). The fair value of the purchase option was determined utilizing Black-Scholes option pricing model. The following assumptions and estimates were used: volatility of 129%; an average risk-free interest rate of 0.22%; dividend yield of 0%; and an expected life of 3 months.

## Loss on early extinguishment of debt

As aforementioned, on April 2, 2009, the Company, the Investors agreed to cancel the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the Investors (including all accrued and unpaid interest thereon), and all of the Warrants, in exchange for the Company's issuance of the 1% Unsecured Senior Convertible Promissory Notes in the principal amount of \$5,000,000. The Company determined that the 3% Convertible Promissory Notes and the 1% Convertible Promissory Notes were with substantially different terms and hence reported in the same manner as an extinguishment of the 3% Convertible Promissory Notes and issuance of the 1% Convertible Promissory Notes. Accordingly, all the associated unamortized deferred charges and unamortized debt discount of the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 amounted to \$111,753 and \$1,770,006 respectively at the date of extinguishment were immediately recognized as expenses and all the accrued and unpaid interest of \$185,075 at the date of extinguishment were recognized as income. Such expenses, net of income amounted to \$1,696,684 were included in the loss on early extinguishment of debt on the consolidated statements of operations for the year ended December 31, 2009.

## Interest Expense

The following table details the interest expenses:

	For the years ended December 31,		
	2009	2008	2007
12% convertible promissory note	\$-	\$69,041	\$122,803
3% convertible promissory notes	383,334	1,423,417	-
1% convertible promissory notes	37,397	-	-
Total	\$420,731	\$1,492,458	\$122,803

NOTE 14

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 December 31, 2009:

Fiscal years ending December 31,	
2010	\$ 395,317
2011	70,035
Total	\$ 465,352

Rent expense for the years ended December 31, 2009, 2008 and 2007 was \$ 381,093, \$1,390,070 and \$593,441 respectively.

F-34

---

Table of Contents

## 2. Annual Advertising Operating Rights Fee Commitment

The Company, through its through its PRC operating companies has acquired advertising rights from third parties to operate different types of advertising panels for certain periods.

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of panels that the Company held as of December 31, 2009:

Fiscal years ending December 31,	
2010	\$ 1,569,640
2011	513,248
2012	588,439
2013	94,642
Thereafter	45,370
Total	\$ 2,811,339

## 3. Capital commitments

As of December 31, 2009, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$18,000.

## (B) Contingencies

The Company accounts for loss contingencies in accordance with SFAS No. 5 “Accounting for Loss Contingencies” (ASC Topic 450) and other related guidelines. Set forth below is a description of certain loss contingencies as of December 31, 2009 and management’s opinion as to the likelihood of loss in respect of loss contingency.

On March 20, 2008, the Company’s wholly-owned subsidiary NCN Huamin entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd. (“Chengtian”), pursuant to which, a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008, as Chengtian had breached several provisions as stated in the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of approximately \$505,000 for unpaid rental-related expense plus accrued interest as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian and asserted to claim an aggregate of approximately \$155,000 from Chengtian for overpayment of rental expenses and compensation for Chengtian’s breach of contract.

In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of \$280,000. In October, 2009, the Company appealed to Beijing Second Intermediate People's Court against the arbitration decision. On December 18, 2009, Beijing Second Intermediate People’s Court made a final judgment to rescind the original judgment made by the Beijing Arbitration Commission. At present, no further legal actions have been taken or lawsuit was filed by Chengtian against Huamin. The Company do not believe that the outcome of this litigation will have a material impact on its consolidated financial statements, or its results of operations.

## NOTE 15 STOCKHOLDERS’ EQUITY

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

1. In February 2006, the Company issued an option to purchase up to 225,000 shares of common stock to its legal counsel at an exercise price of \$0.10 per share. So long as the counsel's relationship with the Company continues, one-twelfth of the shares underlying the option vested and became exercisable each month from the date of issuance. The option was exercisable for 120 days after termination of the relationship. The fair market value of the option was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 147%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of an option recognized for the years ended December 31, 2009, 2008 and 2007 were \$nil, \$nil and \$1,317 respectively. The option was exercised in April 2007.

2. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price \$0.70 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of the warrant recognized for the years ended December 31, 2009, 2008 and 2007 were \$nil, \$nil and \$26,604 respectively.

F-35

---

Table of Contents

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, Deputy Chief Executive Officer (former Chief Executive Officer), Daniel So, former Managing Director, Daley Mok, former Chief Financial Officer, Benedict Fung, former President, and Stanley Chu, former 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. However, Mr. So, Mr. Fung and Mr. Chu resigned from their respective positions in January 2009 and Mr. Mok was removed as the Company's Chief Financial Officer in June 2009. Further, on July 15, 2009, NCN Group Management Limited entered into a new executive employment agreement with Godfrey Hui, in connection with his services to the Company as the Deputy Chief Executive Officer. Accordingly, they are no longer entitled to those shares that will be vested on December 31, 2009, 2010 and 2011 in the following amounts: Mr. So, 1,500,000 shares; Mr. Fung, 970,000 shares, Mr. Chu, 790,000 shares; Mr. Mok, 1,200,000 shares; and Mr. Hui, 1,500,000 shares. In connection with these stock grants and in accordance with SFAS 123R (ASC Topic 718), the Company recognized non-cash stock-based compensation of \$nil, \$2,797,200 and \$1,709,400 included in general and administrative expenses on the consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 respectively. Out of the total shares granted under the Agreements, on January 2, 2008, an aggregate of 660,000 shares with par value of \$0.001 each were vested and issued to the concerned executives. On July 28, 2009, an aggregate of 500,000 shares with par value of \$0.001 each were vested and issued to certain 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 in 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, Ronglie Xu (who hold office until July 2, 2009), Joachim Burger (who resigned as a director of the Company on September 30, 2008), Gerd Jakob (who resigned as a director of the Company on May 5, 2009) and Edward Lu (who hold office until July 2, 2009). 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 (ASC Topic 718), the Company recognized \$nil, \$86,970 and \$57,980 of non-cash stock-based compensation included in general and administrative expenses on the consolidated statement of operation for the years ended December 31, 2009, 2008 and 2007 respectively. On July 21, 2008, an aggregate of 65,000 shares of common stock of par value of \$0.001 each were vested and issued to the independent directors.

9. In November 2007, the Company issued 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 the 3% Convertible Promissory Notes 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 (ASC Topic 718) 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 warrant is expired in November 2009. The value of the warrant recognized for the years ended December 31, 2009, 2008 and 2007 were \$319,581, \$127,831 and \$21,305 respectively.

10. In December 2007, the Company committed to grant 235,000 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 (ASC Topic 718), the Company recognized non-cash stock-based compensation of \$nil, \$nil and \$611,000 in general and administrative expenses on the consolidated statement of operation for the years ended December 31, 2009, 2008 and 2007. Such 235,000 shares of par value of \$0.001 each were issued on January 2, 2008. In addition, the Company committed to grant another 30,000 shares of common stock to an employee pursuant to his employment contract for service rendered. The Company recognized the non-cash stock-based compensation of \$nil, \$76,500 and \$nil for the years ended December 31, 2009, 2008 and 2007 for such 30,000 S-8 shares granted. In October 2008, such 30,000 shares of common stock of par value of \$0.001 each were vested and issued to the employees.

11. In June 2008, the Board of Directors granted 110,000 shares of common stock to the board of directors, Peter Mak, Ronglie Xu, Joachim Burger, Gerd Jakob, Edward Lu, Godfrey Hui, Daniel So, Daley Mok and Stanley Chu, as part of their directors' fee for their service rendered during the period from July 1, 2008 to June 30, 2009. Each director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak: 15,000 shares; Ronglie Xu: 15,000 shares; Joachim Burger: 15,000 shares; Gerd Jakob: 10,000 shares; Edward Lu: 10,000 shares; Godfrey Hui: 15,000 shares; Daniel So: 10,000 shares; Daley Mok: 10,000 shares and Stanley Chu: 10,000 shares. However, Mr. Joachim Burger and Mr. Gerd Jakob resigned as directors on September 30 2008 and May 5, 2009, respectively. Therefore, they are no longer entitled to those shares. In connection with these stock grants and in accordance with SFAS 123R (ASC Topic 718), the Company recognized \$74,999, \$95,001 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 respectively. On July 28, 2009, 85,000 shares of common stock of par value of \$0.001 each were vested and issued to those directors.

Table of Contents

12. In July 2008, the Company granted 170,000 shares of common stock to certain employees of the Company for their services rendered. One of the employees effectively resigned in January 2009 and his entitlement to 70,000 shares was canceled. One of the employees agreed to forfeit his original entitled shares of 40,000. Accordingly, in connection with these stock grants, the Company recognized the non-cash stock-based compensation of \$25,442, \$93,358 and \$nil for the years ended December 31, 2009, 2008 and 2007 respectively. On July 28, 2009, 60,000 shares of common stock with par value of \$0.001 were vested and issued to the employees.

13. In August 2008, the Company granted 100,000 shares of common stock to a consultant for services rendered. The value of stock grant recognized for the years ended December 31, 2009, 2008 and 2007 were \$125,647, \$52,353 and \$nil respectively.

14. In July 2009, the Board of Directors granted an aggregate of 1,800,000 shares of common stock to the independent directors of the Company for their services to the Company covering the period from July 2, 2009 to July 1, 2010. Each independent director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak: 600,000 shares; Ronald Lee: 600,000 shares; and Gerald Godfrey: 600,000 shares. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not be vested until July 1, 2010 after which the relevant share certificate will be handed to the independent directors. However, Mr. Peter Mak resigned as directors on December 31, 2009. Therefore, he is no longer entitled to those shares. In connection with these stock grants and in accordance with SFAS 123R (ASC Topic 718), the Company recognized \$18,000, \$nil and \$nil of non-cash stock-based compensation included in general and administrative expenses on the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 respectively.

15. In July 2009, the Board of Directors granted an aggregate of 2,000,000 shares of common stock to Jennifer Fu, Chief Financial Officer and one employee of the Company individually for their services to the Company covering the period from July 15, 2009 to July 14, 2011. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not vest until July 14, 2010 after which the relevant share certificate will be handed to the employees. In connection with these stock grants and in accordance with SFAS 123R (ASC Topic 718), the Company recognized \$15,000, \$nil and \$nil of non-cash stock-based compensation included in general and administrative expenses on the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 respectively.

16. In July 2009, NCN Group Management Limited entered into Executive Employment Agreements with Earnest Leung, Chief Executive Officer and Godfrey Hui, Deputy Chief Executive Officer. Pursuant to the agreements, Dr. Earnest Leung and Mr. Godfrey Hui were granted 30,000,000 and 10,000,000 shares, respectively, for their services rendered during the period from July 1, 2009 to June 30, 2011. Such shares with par value of \$0.001 each were issued to the concerned executives on July 28, 2009. In connection with these stock grants and in accordance with SFAS 123R (ASC Topic 718), the Company recognized \$1,200,000 of deferred stock compensation amortized over vesting period. The amortization of deferred stock compensation of \$300,000, \$nil and \$nil were recorded as non-cash stock-based compensation and included in general and administrative expenses on the consolidated statement of operation for the years ended December 31, 2009, 2008 and 2007 respectively.

(B) Stock Issued for Acquisition

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

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 13 – Convertible Promissory Note and Warrant for details.

F-37

---

Table of Contents

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 13 – 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. 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 13 – Convertible Promissory Note and Warrant for details.

**(E)Debt Restructuring**

On April 2, 2009, the Company entered into a new financing arrangement. Note 13 – Convertible Promissory Note and Warrant for details. Keywin exchanged 3% Convertible Promissory Notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock and an option to Keywin to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period commencing on April 2, 2009. Accordingly, the Company reversed such 3% Convertible Promissory Notes of principal amount of \$45,000,000 and all accrued and unpaid interest of \$1,665,675 against additional paid-in capital. The Company also recognized a non-cash debt conversion charges of \$10,204,627 against additional paid-in capital.

As part of new financing arrangement, the Company also issued \$5,000,000 in the 1% Convertible Promissory Notes on April 2, 2009. As the conversion price 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 \$1,447,745 recorded as a reduction in the carrying values of the notes against additional paid-in capital. For details, please refer to Note 13 – Convertible Promissory Note and Warrant.

On April 6, 2009, the Company issued an aggregate of 307,035,463 shares of the Company's restricted common stock with par value of \$0.001 each to Keywin accordingly.

**(F) Changes in Deficit**

The following table summarizes the changes in deficit for the year ended December 31, 2009:

	Noncontrolling Interests	NCN Common Stockholders	Total
Total deficit as of January 1, 2009	\$ -	\$ (23,356,217 )	\$ (23,356,217 )

Edgar Filing: NETWORK CN INC - Form 10-K

Net loss	(24,173 )	(37,359,188 )	(37,383,361 )
Other comprehensive income (loss)	(828 )	27,483	26,655
Preferred stock	-	-	-
Common stock	-	351,480	351,480
Additional paid-in capital	-	59,745,236	59,745,236
Disposal of investment	25,001	-	25,001
Deferred stock compensation	-	(900,000 )	(900,000 )
Total deficit as of December 31, 2009	\$ -	\$ (1,491,206 )	\$ (1,491,206 )

(G) Restriction on payment of dividends

The Company has not declared any dividends since incorporation. For instance, the terms of the outstanding promissory notes issued to affiliated funds of Och-Ziff on April 2, 2009 contain restrictions on the payment of dividends. The dividend restrictions provide that the Company or any of its subsidiaries shall not declare or pay dividends or other distributions in respect of the equity securities of such entity other than dividends or distributions of cash which amounts during any 12-month period that exceed ten percent (10%) of the consolidated net income of the Company based on the Company's most recent audited financial statements disclosed in the Company's annual report on Form 10-K (or equivalent form) filed with the U.S. Securities and Exchange Commission.

NOTE 16 RELATED PARTY TRANSACTIONS

Except as set forth below, during the years ended December 31, 2009, 2008 and 2007, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

Table of Contents

On December 21, 2007, the Company acquired 100% of voting shares of Linkrich Enterprise Advertising and Investment Limited, a dormant corporation incorporated in the Hong Kong Special Administrative Region, the PRC on March 16, 2001 from a director at a consideration of \$1,282 which is the par value of the voting shares.

In connection with debt restructuring in April 2009, a company of which the Company's chief Executive officer and director (being appointed on July 15, 2009 and May 11, 2009 respectively) is the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000 of which \$250,000 is recorded as issuance costs for 1% Convertible Promissory Notes and \$100,000 is recorded as prepaid expenses and other current assets, net during the year ended December 31, 2009.

On July 1, 2009, the Company and Keywin, of which the Company's chief executive officer and director is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ending on July 1, 2009, to a six-month period ended October 1, 2009. The exercise period for the Keywin option was subsequently further extended to a nine-month period ended January 1, 2010, pursuant to the Second Amendment. On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to further extend the exercise period to an eighteen-month period ending on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice,

During the year ended December 31, 2009, the Company paid expenses in the aggregate amount of \$413,309 expenses on behalf of a related company which is controlled by a director and chief executive officer of the Company. This amount is unsecured, bears no interest and repayable on demand. For details, please refer to Note 8 – Prepaid Expenses and Other Current Assets, Net.

During the year ended December 31, 2009, the Company entered into an agreement with a related company which is controlled by a director and chief executive officer of the Company. Pursuant to the agreement, the Company entered into an arrangement with the related company such that the Company shared an office with its facilities, of which the related company is the tenant, at a monthly fee of \$8,846 commencing from November 1, 2009 to April 30, 2010. As of December 31, 2009, the Company recorded an amount of \$17,692 payable to the related company. The amount is unsecured, bears no interest and repayable on demand.

## NOTE 17 NET LOSS PER COMMON SHARE

Net loss per share information for the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	2008	2007 (Restated)
Numerator:			
Net loss from continuing operations attributable to NCN common stockholders	\$(37,359,188 )	\$(59,527,473)	\$(13,692,714)
Net loss from discontinued operations attributable to NCN common stockholders	-	42,640	(953,905 )
Net loss attributable to NCN common stockholders	(37,359,188 )	(59,484,833)	(14,646,619)
Denominator:			
Weighted average number of shares outstanding, basic	317,882,046	71,569,242	68,556,081
Effect of dilutive securities			
Options and warrants	-	-	-

Edgar Filing: NETWORK CN INC - Form 10-K

Weighted average number of shares outstanding, diluted	317,882,046	71,569,242	68,556,081
Net loss per common share – basic and diluted			
Continuing operations	(0.12 )	(0.83 )	(0.20 )
Discontinued operations	-	-	(0.01 )
Net loss per common share – basic and diluted	\$(0.12 )	\$(0.83 )	\$(0.21 )

The diluted net loss per common share is the same as the basic net loss per common share for the years ended December 31, 2009, 2008 and 2007 as the ordinary shares to be issued under stock options and warrants outstanding are anti-dilutive and are therefore excluded from the computation of diluted net loss per common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of December 31, 2009, 2008 and 2007 were summarized as follows:

F-39

---

Table of Contents

	2009	2008	2007
Potential common equivalent shares:			
Stock warrants for services (1)	-	55,488	122,394
Warrant associated with convertible promissory notes	-	-	364,436
Conversion feature associated with convertible promissory notes to common stock	214,961,307	-	11,174,242
Common stock to be granted to directors executives and employees for services (including non-vested shares)	-	7,305,000	8,000,000
Common stock to be granted to consultants for services (including non-vested shares)	100,000	100,000	-
Stock options granted to Keywin	94,457,750	-	-
Total	309,519,057	7,460,488	19,661,072

## Remarks:

- (1) As of December 31, 2009, the number of potential common equivalent shares associated with warrants issued for services was nil, which was related to a warrant to purchase 100,000 shares of common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of \$0.70, which will expire in August 2016.

## NOTE 18 DISCONTINUED OPERATIONS

## (A) In Fiscal 2007

No material disposal transaction happened.

## (B) In Fiscal 2008

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

## 1. Sale of NCN Management Services

On September 1, 2008, the Company completed the sale of all its interests in NCN Management Services Limited ("NCN Management Services") to an independent third party for a consideration of \$173,077 in cash. The acquirer acquired NCN Management Services along with its subsidiaries, which include 100% interest in NCN Hotels Investment Limited, 100% interest in NCN Pacific Hotels Limited and 55% interest (through trust) in Tianma. The Company reported a gain on the sale, net of income taxes of \$61,570. The carrying amount of the assets and liabilities



included in the relevant disposal group as of the disposal date of September 1, 2008 were as follows:

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

## 2. Sale of NCN Landmark

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

F-40

---

Table of Contents

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

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

## (C) In Fiscal 2009

No material disposal transaction happened.

## (D) Summary Operating Results of the Discontinued Operations

Summary operating results for the discontinued operations for the years ended 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Revenues	\$-	\$24,528,096	\$26,140,355
Cost of revenues	-	(24,172,537)	(25,830,401)
Gross profit	-	355,559	309,954
Non-cash impairment charges	-	-	(815,902 )
Operating expenses	-	(477,481 )	(460,362 )
Other income	-	98,838	9,210
Interest income	-	2,040	3,471
Interest expenses	-	-	-
Net loss from discontinued operations, net of income taxes	-	(21,044 )	(953,629 )
Gain from disposal of discontinued operations	-	66,085	-
Net income (loss) from discontinued operations	\$	\$45,041	\$(953,629 )

## NOTE 19 BUSINESS SEGMENTS FROM CONTINUING OPERATIONS

In September 2008, the Company disposed of its entire travel business. Accordingly, it is management’s view that the Company operate in one single business segment: Media Network, providing out-of home advertising services.

## Geographic Information

The Group operates in the PRC and all of the Company’s long lived assets are located in the PRC.

## Major Customers

An analysis of percentage of advertising sales to major customers is as follows:

	2009	2008	2007
Customer A	16%		
Customer B	15%		
Customer C	15%		

Edgar Filing: NETWORK CN INC - Form 10-K

Customer D	11%		
Customer E		38%	-
Customer F	-	16%	-
Customer G	-	-	26%
Customer H	-	-	16%
Customer I	-	-	14%
Customer J	-	-	14%

F-41

---

Table of Contents

## NOTE 20 INCOME TAXES

Income is subject to taxation in various countries in which the Company operate. The loss before income taxes and noncontrolling interests by geographical locations for the years ended December 31, 2009, 2008 and 2007 was summarized as follows:

	2009	2008	2007 (Restated)
United States	\$32,127,551	\$8,280,492	\$4,275,859
Foreign	5,255,810	51,562,299	9,471,511
	\$37,383,361	\$59,842,791	\$13,747,370

Income tax expenses by geographical locations for the years ended December 31, 2009, 2008 and 2007 were summarized as follows:

	2009	2008	2007 (Restated)
Current	\$	\$	\$
United States	-	-	-
Foreign	-	-	7,668
	\$-	\$-	\$7,668
Deferred			
United States	-	-	-
Foreign	-	-	-
	\$-	\$-	\$-

The reconciliation of the effective income tax of the Company to the U.S. federal statutory rate (the principal tax jurisdiction of the Company) was as follows:

	2009	2008	2007 (Restated)
Expected income tax benefit	\$12,710,342	\$20,346,549	\$4,674,106
Operating loss carried forward	(864,141 )	(2,815,367 )	(1,453,792)
Nondeductible expenses	(10,059,226)	-	-
Tax effect on foreign income which is not subject U.S. federal corporate income tax rate of 34%	(1,786,975 )	(17,531,182)	(3,212,646)
	\$-	\$-	\$7,668

An analysis of the Company's deferred tax liabilities and deferred tax assets as of December 31, 2009, 2008 and 2007 was as follows:

	2009	2008	2007 (Restated)
Deferred tax assets:	\$	\$	\$
Net operating loss carried forward	7,486,656	6,622,515	3,807,148
Less: valuation allowance	(7,486,656)	(6,622,515)	(3,807,148)
Net deferred tax assets	\$-	\$-	\$-

The Company provided a full valuation allowance against the deferred tax assets as of December 31, 2009, 2008 and 2007 due to the uncertainty surrounding the realizability of these benefits in future tax returns.

F-42

---

Table of Contents

EXHIBIT INDEX

Exhibit Description  
No.

3.1	Amended And Restated Certificate Of Incorporation incorporated herein by reference from Exhibit A to Registrant's Definitive Information Statement on Schedule 14C filed with the SEC on January 10, 2007.
3.2	Amended and Restated By-Laws, adopted on January 10, 2006, is incorporated herein by reference from Exhibit 3-(II) to Registrant's Current Report on Form 8-K filed with the SEC on January 18, 2006.
3.3	Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on July 27, 2009 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on July 29, 2009).
4.1	Form of Registrant's Common Stock Certificate.
4.2	Form of Amended and Restated Secured Convertible Promissory Note (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
4.3	Form of Warrant (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
4.4	Form of 3% Senior Secured Convertible Promissory Note (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
4.5	Form of Warrant (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
4.6	TEDA Travel Group, Inc. 2004 Stock Incentive Plan (incorporated herein by reference from Registrant's Registration Statement on Form S-8 filed with the SEC on April 22, 2004).
4.7	2007 Stock Option/Stock Issuance Plan (incorporated herein by reference from Registrant's Registration Statement on Form S-8 filed with the SEC on April 6, 2007).
4.8	Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2009 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009).
4.9	Registration Rights Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited,

Sculptor Finance (SI) Ireland Limited and Keywin Holdings Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)

- 10.1 Purchase Agreement, dated November 19, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 26, 2007).
- 10.2 First Amendment to Note and Warrant Purchase Agreement, dated January 31, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
- 10.3 Security Agreement, dated January 31, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2008).
- 10.4 Registration Rights Agreement, dated November 19, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 26, 2007).
- 10.5 Share Purchase Agreement dated January 1, 2008 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on January 7, 2008).
- 10.6 Agreement for Co-operation in Business between Shanghai Quo Advertising Company Limited and Wuhan Weiao Advertising Company Limited dated as of August 16, 2007 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on August 21, 2007).

Table of Contents

- 10.7 Note and Warrant Purchase Agreement dated November 12, 2007 by and between the Company and Wei An Developments Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2007).
- 10.8 Contract for the Rebuilding and Leasing of Advertisement Light Boxes on Nanjing Road Pedestrian Street (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on June 26, 2007) .
- 10.9 Agreement for Advertising Business dated April 26, 2007, by and among Shanghai Quo Advertising Company Limited, a subsidiary of Network CN Inc., and Shanghai Yukang Advertising Company Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2007).
- 10.10 Agreement for Co-operation and Agency in the Publication of Advertisements dated April 14, 2007, by and among Shanghai Quo Advertising Company Limited, a subsidiary of Network CN Inc., and Shanghai Qian Ming Advertising Company Limited (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 20, 2007).
- 10.11 Stock Transfer Agreement between Youwei Zheng and NCN Management Services Limited for acquisition of 55% equity interest in Guangdong Tianma International Travel Service Co., Ltd., dated June 16, 2006 (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2007).
- 10.12 Business Joint Venture Agreement, between Shanghai Zhong Ying Communication Engineering Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Huangpu district of Shanghai, China (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 7, 2007).
- 10.13 Business Joint Venture Agreement, between Nanjing Yiyi Culture Advertising Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Nanjing (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 15, 2007).
- 10.14 Business Joint Venture Agreement, between Wuhan Xin An Technology Development Company Limited and Shanghai Quo Advertising Company Limited to manage LED outdoor project in Wuhan (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on March 1, 2007).
- 10.15 Stock Purchase Agreement dated as of September 1, 2008, between Zhanpeng Wang, an individual, and NCN Group Limited, a British Virgin Islands corporation.
- 10.16 Note Exchange Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P. (incorporated



herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)

10.17 Note Exchange and Option Agreement, dated April 2, 2009, between the Company and Keywin Holdings Limited. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)

10.18 Letter Agreement and Termination of Investor Rights Agreement, dated April 2, 2009, by and among the Company, Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Keywin Holdings Limited. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on April 6, 2009)

10.19 Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2009)

10.20 Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2009)

Table of Contents

- 10.21 Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2009)
- 10.22 Amendment No. 2 to Note Exchange and Option Agreement dated September 30, 2009, between Keywin Holding Limited and the Company. (incorporated herein by reference from Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2009)
- 10.23 Amendment No. 3 to Note Exchange and Option Agreement dated January 1, 2010, between Keywin Holding Limited and the Company
- 10.24 Lease Agreement with Vision Tech International Holdings Limited
- 14.1 Code of Business Conduct and Ethics for Network CN Inc. as approved by the Board of Directors as of December 31, 2003, is incorporated herein by reference from Registrant's Annual Report on Form 10-KSB filed with the SEC on April 13, 2005.
- 16.1 Letter of US Audit Practice of Jimmy CH Cheung & Co, dated February 9, 2010. (incorporated herein by reference from Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2010).
- 21.1 Subsidiaries of the registrant.\*
- 23.1 Consent of independent auditors Jimmy C.H. Cheung & Co.\*
- 23.2 Consent of independent auditors Baker Tilly Hong Kong Limited.\*
- 24.1 Power of Attorney (included in the Signatures section of this report).
- 31.1 Certification of Chief Executive Officer pursuant to 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 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.\*

