

NETWORK CN INC  
Form 10-Q  
November 13, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

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

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

Commission file number 000-30264

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

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

(852) 2833-2186

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

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

Yes  No

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

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

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

Yes  No

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



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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

NETWORK CN INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

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

(1) See Note 4 – Restatement and Reclassification

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

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

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

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

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



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

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

CASH, BEGINNING OF PERIOD	2,233,528	2,898,523
CASH, END OF PERIOD	\$ 10,041,572	\$ 2,035,047

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

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

Non-cash activities:

Issuance of common stock for acquisition of subsidiaries (Note 6)	\$ 3,738,000	\$ -
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## SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:

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

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

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

NOTE 1. INTERIM FINANCIAL STATEMENT

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

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

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

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Preparation

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

(B) Principles of Consolidation

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

(C) Use of Estimates

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

(D) Cash and Cash Equivalents

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

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(E) Allowance for Doubtful Accounts

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

(F) Prepayments for Advertising Operating Rights

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

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

(G) Equipment, Net

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

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

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

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

### (H) Intangible Assets, Net

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

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

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

### (J) Deferred Charges, Net

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

### (K) Convertible Promissory Notes and Warrants

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



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

(L) Early Redemption of Convertible Promissory Notes

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

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



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(M) Revenue Recognition

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

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

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

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

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

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

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

(N) Stock-based Compensation

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

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

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(O) Income Taxes

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

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

(P) Comprehensive Income (Loss)

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

(Q) Earnings (Loss) Per Common Share

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

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

(R) Operating Leases

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

(S) Foreign Currency Translation

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

(T) Fair Value of Financial Instruments

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

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

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(U) Concentration of Credit Risk

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

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

(V) Segmental Reporting

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

(W) Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

### NOTE 4. RESTATEMENT AND RECLASSIFICATION

#### (a) Restatement of Financial Results

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

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



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

(b) **Reclassification**

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

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

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

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## NOTE 5. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

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

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

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

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Remarks :

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

NOTE 6. BUSINESS COMBINATIONS

(a) Acquisition of Cityhorizon BVI

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

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

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The allocation of the purchase price is as follows:

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

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

(b) Consolidation of variable interest entity - Botong

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

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

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

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

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

## NOTE 7. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS

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

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

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

## Provision for impairment

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

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## NOTE 8. INTANGIBLE ASSETS, NET

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

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

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

## NOTE 9. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

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

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





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

(b) 3% Convertible Promissory Notes and warrants

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

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

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

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

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

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

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

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

## Warrants and Beneficial Conversion Features

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

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

## Amortization of Deferred Charges and Debt Discount

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

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

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

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

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## NOTE 10. COMMITMENTS AND CONTINGENCIES

## (a) Commitments

## 1. Rental Lease Commitment

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

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

## 2. Annual Advertising Operating Rights Fee Commitment

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

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

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

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3. Capital commitments

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

(b) Contingencies

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

1. Tianma litigation

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

2. Early Redemption of 3% Convertible Promissory Notes

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

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

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

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NOTE 11. STOCKHOLDERS' EQUITY

(a) Stock, Options and Warrants Issued for Services

1. In February 2006, the Company issued an option to purchase up to 225,000 shares of common stock to its legal counsel at an exercise price of \$0.10 per share. So long as the counsel's relationship with the Company continues, one-twelfth of the shares underlying the option vested and became exercisable each month from the date of issuance. The option was exercisable for 120 days after termination of