NETWORK CN INC
Form 10-K
May 10, 2013

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

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

o 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	90-0370486
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Room 2120 and 2122, Leighton Centre, 77 Leighton Road, 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 o No þ

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 o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if 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 þ No o

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. o

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

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

As of June 30, 2012, 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 $4.8 million.

The number of shares outstanding of each of the issuer's classes of common stock, as of May 10, 2013 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	105,419,467

NETWORK CN INC.

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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 annual 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”, “cont “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 U.S. Securities 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 annual report to:

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

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PART I

ITEM 1. BUSINESS

Overview of Our Business

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 an advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities. Light Emitting Diode, or LED, 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. In 2013, we have extended our business direction to not just selling air-time for its media panels but started working closely with property developers in media planning for the property at the very early stage.

Total advertising revenues were $1,835,940, $1,794,552 and $2,207,479 for the years ended December 31, 2012, 2011 and 2010 respectively. Our net loss was $1,210,629, $2,102,548 and $2,603,384 for the years ended December 31, 2012, 2011 and 2010 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 2012, 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
- many customers continued to be cost-conscious in their advertising budget especially on our new digital form of media.

To address these unfavorable market conditions, we continue to implement cost-cutting measures, including reductions in our workforce, office rentals, selling and marketing related expenses and other general and administrative expenses. We have also re-assessed the commercial viability of each of our concession rights contracts and have terminated those of our concession rights that we determined were no longer commercially viable due to high annual fees. Management has also successfully negotiated some reductions in advertising operating rights fees under remaining contracts. Since the latter half of 2011, we have expanded our focus from LED media and have actively explored new prominent media projects in order to provide a wider range of media and advertising services and improve our financial performance.

In order to increase our operational efficiency and effectiveness, in early 2010, we began to restructure our organization by consolidating our PRC operations into one directly owned PRC entity, Yi Gao. For details, please refer to Item 1 – Business, "History - Corporate Restructuring" below.

Recent Development

Extension of Convertible Promissory Notes

On November 19, 2007, the Company entered into a Note and Warrant Purchase Agreement, as amended (the "Purchase Agreement") with Shanghai Quo Advertising Co. Ltd and affiliated investment funds of Och-Ziff Capital Management Group (the "Investors") pursuant to which it 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 6,857,143 shares of the Company’s Common Stock (the “Warrants”). Between November 19 - 28, 2007, the Company issued 3% Convertible Promissory Notes in the aggregate principal amount of $15,000,000, Warrants to purchase shares of the Company’s common stock at $12.50 per share and Warrants to purchase shares of the Company’s common stock at $17.50 per share. On January 31, 2008, the Company 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 the Company’s common stock at $12.50 per share and Warrants to purchase shares of the Company’s common stock at $17.50 per share. In connection with the Amended and Restated Notes, the Company entered into a Security Agreement, dated as of January 31, 2008 (the “Security Agreement”), pursuant to which the Company granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of the Company’s assets, and 66% of the equity interest in the Company.

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On April 2, 2009, we entered into the Note Exchange Agreement with certain Investors, pursuant to which the parties agreed to cancel the 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 1% Unsecured Senior Convertible Notes due 2012 in the principal amount of $5 million, or the 1% Convertible Promissory Notes. The 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, and matured on April 1, 2012. They are convertible at any time into shares of our common stock at an initial conversion price of $0.1163 per share, subject to customary anti-dilution adjustments. In the event of a default, the Note Holders 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 Amended and Restated Notes.

The 1% Convertible Promissory Notes matured on April 1, 2012 and on the same date, the Company and the Note Holders agreed to the following: (1) extension of the maturity date of the 1% Convertible Promissory Notes for a period of two years and (2) modification of the 1% Convertible Promissory Notes to be convertible at any time into shares of the Company’s common stock at a conversion price of $0.09304 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued new 1% unsecured senior convertible promissory notes matured on April 1, 2014 to the Note Holders.

New Advertising Media Projects

In February 2012, we secured a new media advertising project in Shanghai, China. Pursuant to a cooperative agreement entered into with Shanghai Shenpu Advertising & Decoration Co., Limited, we were granted the right to operate a mega-sized traditional advertising billboard located at Raffles City, Shanghai, and two mega-sized traditional advertising billboards located at different sections along Nanjing Road and Henan Road in Shanghai. The terms of the cooperative arrangement is one year with a renewal option. In the past, these three mega-sized advertising panels were mainly used by branded corporate customers such as Citibank, Nikon and Nintendo and we expect that this trend will continue.

In October 2012, we secured a new media advertising project in Zhuhai, China. Pursuant to the agreement, we were granted the right to operate the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone for a period of a 34-month ending July 31, 2015.

Identification of Potential Projects

In November 2012, we entered into a framework agreement to co-operate with "Shanghai New Athletes Travel Limited" to operate the advertising area of the No. 2 Building in Shanghai New Athletes' City ("the City"), Putuo District, Shanghai. Under the Agreement signed, Shanghai New Athletes Travel Limited is the owner of the No. 2 Building in the City and we will be responsible for the media planning and to operate the advertising media of the building. The agreement is signed with one-year term from November 17, 2012 to November 16, 2013.

In January 2013, we entered into a framework agreement to co-operate with "Shanghai Changfeng International Sourcing & Investment Co., Ltd." to operate the advertising area of the “Shanghai International Sourcing Center Base” ("the Base") in Shanghai. Under the agreement signed, Shanghai Changfeng International Sourcing & Investment Co., Ltd. is the owner of the Base and we will be responsible for the media planning and will be the operator for the whole advertising media of the Base. This agreement initially covers the planning period from November 9, 2012 to June 30, 2013, with an operating agreement to be signed subsequently.

We have extended our business direction to not just selling air-time for its media panels but started working closely with property developers in media planning for the property at the very early stage. By doing so, we are able to attract several property developers to grant us media right within the whole property. These will include exhibition and conference centres, shopping malls, etc. This new business model will create a closer work relationship between the property owners and the Company as the property owners welcome a more thorough and well-planned media layout in their property at an early stage. Under this approach, the property owners are more eager to work with us and even more ready to invest in the installation of media panels.

The Company will continually explore new media projects in order to provide a wider range of media and advertising services, rather than focusing primarily on LED media. The Company has identified several such potential projects which it intends to aggressively pursue in the coming year.

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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 businesses 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.

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 and 2007, we earned substantially all of our revenues from providing tour services both inside and outside of the PRC. 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 our first 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, through NCN Management Services, we obtained a 55% control over Tianma, a travel agency headquartered in Guangdong Province in the PRC, for a consideration of $936,283, $833,333 of which was in cash and $102,950 of which was in 72,500 shares of our common stock. Tianma is an authorized travel operator and provides travel agency services to customers for both inbound and outbound travel. It organizes independent 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 itself of the 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 HK$1,350,000, or approximately $173,000, in cash. The acquirer acquired NCN Management Services along with its subsidiaries and variable interest entity, which include 100% equity interest in NCN Hotels Investment Limited, 100% equity interest in NCN Pacific Hotels Limited and our 55% control (through trust) over 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 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 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 exerted 100% control over 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. As we were unable to directly own a 100% equity interest in Quo Advertising under PRC laws and regulations, we designated two PRC citizens to hold Quo Advertising's equity interest on our behalf and for our benefit, in trusts. The Company obtained 100% control over Quo Advertising for consideration of $907,600, $64,000 of which was cash and the balance of which was in 60,000 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 January 31, 2007.

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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. On January 1, 2010, we terminated all the commercial arrangement with Quo Advertising and were no longer able to exert control over Quo Advertising which was deconsolidated accordingly. All the business operations of Quo Advertising have been transferred to Yi Gao, in which we held a 70% equity interest at the time, with the remaining 30% interest controlled through a trust arrangement with Quo Advertising. For details, please refer to Item 1 – Business, “History - Corporate Restructuring” below.

Acquisition of Xuancaiyi

Effective September 1, 2007, we acquired through Quo Advertising, a 51% majority of the equity interests of Xuancaiyi, an advertising agency located in Beijing, China. This interest in Xuancaiyi was purchased for an initial payment of RMB2,500,000 (equivalent to approximately $330,000 at the then-prevailing exchange rate) and a series of installments based upon achieving certain net income targets, none of which were earned. The results of operations of Xuancaiyi have been included in the Company's consolidated statement of operations since September 1, 2007.

Xuancaiyi 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, Beijing at that time. This billboard is more than 758 square meters and is located on the East Third Ring Road near the exit for the Airport Highway. However on December 31, 2008, a business agreement entered into between Xuancaiyi and its media partner expired and Xuancaiyi has had minimal operations since that time. In the second quarter of fiscal 2009, we disposed of our entire 51% equity interests of Xuancaiyi to its minority shareholders for no consideration. The Company reported a gain on the sale, net of income taxes, of $8,178.

Acquisition of Cityhorizon BVI

On January 1, 2008, we entered into a share purchase agreement through our wholly owned subsidiary Cityhorizon Hong Kong, to acquire 100% of the equity interest in Cityhorizon BVI and its PRC operating entities, Lianhe and Bona, from Cityhorizon BVI’s sole shareholder, for an aggregate purchase price of $8,738,000, $5,000,000 of which was payable in cash and the remainder payable as 300,000 shares of restricted common stock valued at $3,738,000. Lianhe was a wholly foreign owned enterprise of Cityhorizon BVI in China while Cityhorizon BVI exerted 100% effective control over Bona, a local PRC company, through a trust arrangement. The results of operations of Cityhorizon BVI, Lianhe and Bona have been included in our consolidated statement of operations since the completion of the acquisition on January 1, 2008.

Cityhorizon BVI is an investment holding company and its PRC operating entities, 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 RMB1,000,000 (equivalent to $137,179 at the then-prevailing exchange rate) 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. In March 2010, Botong terminated its commercially non-viable concession right contracts and ceased operations. As of March 31, 2010, we terminated all commercial agreements with Botong and were no longer able to exert control over Botong which was deconsolidated accordingly. For details, please refer to Item 1 – Business, "History - Corporate Restructuring" below.

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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 through which our advertising network projects were directly operated.

In January 2008, after our acquisition of Cityhorizon BVI and its subsidiaries Lianhe and Bona, we restructured our advertising business in order to strengthen our compliance with existing PRC regulation. As aforementioned, Lianhe was a wholly foreign owned enterprise of Cityhorizon BVI in China. We effectively owned 100% of the equity interest in Lianhe after the acquisition of Cityhorizon BVI. We restructured our advertising business by causing Lianhe to enter into a series of commercial agreements with Bona and Quo Advertising and their registered PRC shareholders who held the equity interest on behalf of us through trust arrangements and were obligated to follow our instruction. There was no consideration provided by Lianhe to Bona and Quo Advertising or their shareholders in exchange for entering into these commercial agreements. As of January 2008, the registered PRC shareholders of Quo Advertising were Ms. Zhang Lina and Ms. Zhang Qinxiu while the registered PRC shareholders of Bona were Mr. Dayong Hao and Mr. Kaiyin Liu.

Pursuant to these commercial agreements, Lianhe is obligated to provide exclusive technology and management consulting services to Bona and Quo Advertising in exchange for service fees amounting to substantially all of the net income of Bona and Quo Advertising. Each of the registered PRC shareholders of Bona and Quo Advertising 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 Bona and Quo Advertising for the performance of payment obligations of Bona and Quo Advertising under the exclusive technology and management consulting services agreements.

In addition, the shareholders of Bona and Quo Advertising assigned to Lianhe all their voting rights as shareholders of Bona and Quo Advertising and Lianhe has the option to acquire the equity interests of Bona and Quo Advertising at a mutually agreed purchase price that will first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered shareholders of Bona and Quo Advertising.

These commercial arrangements enable us to exert effective control on these entities, namely Bona and Quo Advertising and their respective subsidiaries, if any, and transfer their economic benefits to the Company for financial results consolidation pursuant to ASC Topic 810-10. In the opinion of our PRC legal counsel, these commercial arrangements are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions although there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation.

As of the date of this annual report, Lianhe has not received any technology and management consulting services fees from any of our PRC operating companies as they have operated at a net loss since entering into these contractual agreements. We also did not register all aforementioned equity pledge agreements with the relevant PRC authorities as we believed that the risk of the PRC shareholders of our PRC operating companies failing to perform their respective obligations under the above contractual arrangements was not high. Furthermore, under the current practice in the PRC, we would be required to submit an application to the PRC Authorities for revoking any previously registered equity pledges before we could designate other person as a new PRC shareholder. The process for such application varies on a case by case basis, but could last several months. As such, the registration of the equity pledge agreements with the relevant PRC authorities would incur more costs and time if at any time we want to designate other person as the new PRC shareholders. As most of our current business and operations was conducted by Yi Gao, which became our wholly owned foreign enterprise in January 2011 (for details, please refer to Item 1 – Business, “History - Corporate Restructuring” below) and Bona currently only has minimal operation, we believed the relevant risk imposed to our operations has been reduced.

Corporate Restructuring

In order to comply with PRC regulations governing foreign ownership in the advertising industry in China, our operations and advertising business was initially run through commercial arrangements with our PRC operating companies, namely Quo Advertising, Bona, Botong, and Yi Gao. For details of relevant regulations, please refer to Item 1 – Business, “Government Regulation” below.

Since late 2008, we have undergone a long application process to qualify and register Yi Gao, as a sino-foreign equity advertising joint venture. of which we directly owned 70% of the equity interest with the remaining 30% interest was controlled through trust arrangement with Quo Advertising, in Shanghai, for our benefit. On August 4, 2009 the State Administration of Industry and Commerce (“SAIC”) issued Yi Gao a business license which specifically includes operating an advertising business within its scope of operations. Accordingly, we began to restructure our organization in early 2010 to eliminate the variable interest entities structure through which we obtained control via commercial arrangements and substitute them with direct ownership. On January 1, 2010, we consolidated all the business operations of Quo Advertising into Yi Gao, and terminated all Quo Advertising commercial arrangements. On March 31, 2010, we also terminated all commercial arrangements with Botong in order to simplify our operating structure. Accordingly, our current PRC operations and advertising business is conducted by two advertising entities only, namely Yi Gao and Bona. We have not discontinued Bona, as we hope to be able to utilize its tax loss carried forward in the near future.

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On January 20, 2011, SAIC further approved Yi Gao to change from a sino-foreign equity advertising joint venture to our wholly owned foreign enterprise and issued Yi Gao an updated business license identifying Yi Gao is a wholly owned foreign enterprise of our Hong Kong subsidiary, Linkrich Enterprise and including operating an advertising business within its business scope. Quo Advertising, according to our trust declaration agreement, transferred its 30% equity interest on Yi Gao to our subsidiary, Linkrich Enterprise at no consideration. This transfer has been completed and we control 100% equity interest of Yi Gao through direct ownership and no longer rely on the trust agreement arrangement with Quo Advertising to control 30% equity interest of Yi Gao.

Before our restructuring exercise, we maintained PRC offices in both Beijing and Shanghai and our advertising business was run through four PRC advertising entities, namely Quo Advertising, Bona, Botong and Yi Gao. After the restructuring, we now maintain our PRC office in Shanghai only and our advertising business is only run through our PRC advertising entity Yi Gao. This restructuring exercise enables us to reduce our PRC operating expenses, including Beijing rental expenses of US$42K per annum, staff costs in Beijing of US$128K per annum, as well as office expenses, travelling expenses and PRC statutory expenses. The structure of our PRC operations is now simplified which directly improves internal communication and efficiency. We expect these actions will enhance our operational efficiency and effectiveness and should reduce our operating expenses for the foreseeable future.

Corporate Structure

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

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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 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at 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 Rooms 2120 and 2122 Leighton Centre, 77 Leighton Road, 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 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 world economy continued to struggle through uncertainty about the European sovereign debt crisis and the strength of the economic recovery in the United States which, in turn, hampered global economic revival in 2012. Faced with subdued global demand, the Chinese economy showed signs of a slowdown. The unfavorable global and domestic climate created a number of challenges to China's advertising industry as budget conservatism prevailed among advertisers throughout the period. Most advertisers are cost-conscious and prefer to commit to short-term rather than long-term contracts. Competition in the domestic out-of-home advertising sector is very intense and many local operators offer significant sales discounts to compete for market share.

According to Nielsen Market Research, in 2012 television remained the dominant advertising medium in the PRC for the foreseeable future, followed by newspaper, magazine and radio advertising. According to the latest figures released by CTR Market Research, in 2012, China's annual GDP grew by 7.8% and the growth of traditional advertising in China experienced is only 4.5%, reaching a five-year low. With the economic slowdown, as expected, China's advertising market also followed in step and realized slow but smooth growth.

In the past, we expended our resources to build an out-of-home media throughout different PRC cities. We believe that in order to increase our market share in out-of-home advertising in China we will have to increase our advertising locations, obtain more exclusive arrangements in desirable and prominent 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 and mega-size advertising panels in major cities of the PRC. In later half of 2008, we reassessed the commercial viability of each of our concession right contracts in order to address certain unfavorable market conditions and started to terminate those non-viable concession right contracts. During 2012, we have three concession right contracts, one of which is to operate 52 roadside advertising panels along the Nanjing Road in Shanghai, China. All those panels were installed and are owned by us. In February 2012, we acquired rights to operate a mega-sized traditional advertising billboard located at Raffles City, Shanghai, China and 2 mega-sized traditional advertising billboards located at different section along Nanjing Road and Henan Road in Shanghai, China. All these three mega-sized advertising panels are installed and maintained by the authorizing party. In October 2012, we acquired rights to operate the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone.

As of April 15, 2013, we only operate the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone.

Our Suppliers

In some of our current and past 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 in 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 assemble our advertising panels according to our specification. We select component suppliers based on price and quality. During the fiscal years ended December 31, 2012, 2011 and 2010, we did not install any advertising panels and billboards.

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During 2012, we had three concession right contacts, which is to operate 1) 52 roadside advertising panels along Nanjing Road in Shanghai, China, 2) a mega-sized advertising billboard located at Raffles City, Shanghai, China and two mega-sized advertising billboards located at different section along Nanjing Road and Henan Road in Shanghai, China and 3) the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone. The names of authorizing parties of these three concession right contracts are Shanghai Chuangtian Advertising Company Limited, Shanghai Shenpu Advertising & Decoration Co., Limited and Lek Pak Company Limited.

Our Customers

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

Name of Customer	Advertising Sales %
For the year ended December 31, 2012	
Shanghai Zhongchang Advertising Limited	12%
Shanghai Zhongteng Advertising Limited	11%
Shanghai Shengyi Advertising Limited	10%
For the year ended December 31, 2011	
Shanghai OCT Investment and Development Company Limited	19%
Shanghai Yifangda Advertising Limited	11%
Shanghai Etam Clothing Co., Ltd.	10%
For the year ended December 31, 2010	
Shanghai Wenchang Advertising Co., Ltd	16%
Nanjing Tourism Administration	11%

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 domestic 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 domestic advertising agencies enables us to leverage our direct sales resources and reach additional customers.

Competition

We compete with other advertising companies in China, including companies that operate out-of-home advertising media networks, such as JCDecaux, Clear Channel, Tom Outdoor 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 advertising 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 advertising sector. Our sector is characterized by low initial fixed costs for entrance in term of advertising panel requirements and it is uncommon for advertising clients to enter into exclusive arrangements. Additionally, 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.

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In addition, our business has been adversely affected by the global financial turmoil which began in late 2008. In order to enhance our competitive power, we will strictly control our operating costs and actively 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

During 2012, we had obtained the following patent rights from the PRC State Intellectual Property Office:

- the technology of a display module and settings method for colored LED panels;
- the technology of a display system with a blind spot checking function; and
- a methodology and system for light intensity tuning of out-of-home LED panels.

As of April 15, 2013, we do not have any registered trademarks, copyrights,licenses or patent rights.

Our Research and Development

No material costs have been incurred on research and development activities for the fiscal years 2012, 2011 and 2010. We do not expect to incur significant research and development costs in the coming future.

Employees

As of December 31, 2012, the Company and its subsidiaries and variable interest entity had approximately 22 employees at our offices located at our Hong Kong and Shanghai 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 employee benefit plans at specified percentages of the after-tax profit. In addition, we are required by the PRC law to cover our 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 Administrative Regulations on Foreign-invested Advertising Enterprises (2008).
- 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.

We started our advertising business in late 2006. As we did not fulfill the above requirements, our advertising business was initially provided through our contractual arrangements with our PRC operating entities, Quo Advertising, Bona and Botong. For details of arrangements, please refer to Item 1 – Business, “History” above. Since late of 2008, we have undergone a long application process for qualifying and registering Yi Gao, as a sino-foreign equity advertising joint venture, of which we held a 70% equity interest at the time, with the remaining 30% interest was controlled through trust arrangement with Quo Advertising, in Shanghai, and on August 4, 2009 the SAIC issued Yi Gao a business license which specifically includes operating an advertising business within its scope of operations. Accordingly, in early 2010, we began to restructure our organization by consolidating our PRC operations and advertising business into Yi Gao. In the early 2010, we terminated all the commercial agreements with Quo Advertising and Botong. Our current PRC operations and advertising business is conducted by Yi Gao.

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Although the existing contractual arrangements with Bona, 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 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 1A - Risk Factor for details.

Advertising Services

Business Licenses for Advertising Companies

The principal regulations governing the 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, foodstuffs, 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 have implemented procedures to ensure the content of our advertisement are properly reviewed and the advertisement would only be published upon the receipt of content approval from the relevant administrative authorities. However, we provide no assurance that all the content of the advertisement are true and in full compliance with applicable laws.

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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 additional 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.

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, prior to the placement and installation of LED billboards, installers are required to apply 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.

For our current advertising project located in Nanjing Road Pedestrian Street, Shanghai, China, the counterparty of our advertising operating right contract is obligated to obtain the out-of-home advertising registration certificate for each relevant billboard located in Shanghai that is to be installed by us. They are also obligated to fully compensate us for any loss as a result of their non-compliance. To the best of our knowledge, they have obtained the relevant advertising registration certificate from the relevant local authorities.

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Rules on Foreign Exchange Control (1996), as amended. Under these rules, Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment outside China without 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 exchange Renmimbi into foreign currencies (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:

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

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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, until such reserve funds have reached 50% of the enterprise's registered capital. These reserves are restricted and not distributable as cash dividends.

We have not received any dividends or fees from our PRC subsidiaries or affiliated Chinese entities in the past three years. As all our PRC subsidiaries are currently still operating at a net loss, we are unable to estimate the time to receive dividends or other fees.

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 were subject to the EIT Law from January 1, 2008. It applies a single income tax rate to all enterprises in the PRC. Under this EIT Law, enterprises that qualify as "new and high technology enterprises" ("high-tech companies") are entitled to a preferential tax rate of 15% and in other very limited situation entities may be subject to a EIT rate of 20%, but the general EIT rate is 25%.

We believe that each of our PRC operating entities were resident enterprises and subject to the enterprise income tax rate of 25% for their global income. We do not believe that any of our off-shore entities are resident enterprises as our off-shore entities didn't provide any services in the PRC and their management and controls are all located outside China; permanent establishment does not exist and hence they would not fall into the resident enterprise category. However, we cannot provide assurance that all our offshore operating entities are not "resident enterprises" as there are substantial uncertainties regarding the interpretation and implementation of current PRC tax rule and regulation.

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.

RISKS RELATED TO OUR BUSINESS

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

The recent global economic downturn and the debt crisis in certain countries in the European Union 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. The current European debt crisis and related financial restructuring efforts, are contributing to instability in global financial market, which adversely affects consumer confidence, the cost of borrowing and economic activity. All these will, 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 this economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or decide to reduce purchases, all of which could lead to reduced demand for our advertising services, reduced gross margins, and delays in collecting accounts receivable or customer defaults. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given the fixed costs associated with our operations. Therefore, the global economic downturn will and may 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.

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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. As a result, it may be difficult for you to evaluate the effectiveness of our management and other key employees and their ability to address future challenges to our business.

We have a history of operating losses and we need to raise additional funds in the near future. Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a "going concern".

We have a history of operating losses. We have incurred a net loss of $1,210,629 for fiscal year ended December 31, 2012 and our shareholders' deficit was $4,032,289 as of December 31, 2012. Our cash flow projections presently indicate that our current assets and projected revenues from existing project on hand will not be sufficient to fund operations over the next twelve months. These raise substantial doubt about our ability to continue as a going concern. Our independent registered public accounting firm has expressed uncertainty about our ability to continue as a going concern in its report. The consolidated financial statements included in this Annual Report do not include any adjustments that might result from the outcome of this uncertainty.

We need to raise substantial additional funds or take other measures within the next few months in order to continue our operations. It may be difficult for us to raise funds through sales of our equity securities or debt financing in the current economic environment. 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 or even cease our operations. 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.

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

We have issued 1% convertible promissory notes to certain investors and our related interest payments on such notes could impose financial burdens on us. Further, during 2012, we received certain short-term loans from some unrelated individuals with monthly interest rate from 1% to 1.5% to finance our operation. If further 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 additional 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.

An increase in interest rates could increase interest cost on new debt, and could materially adversely impact our ability to refinance existing debt, sell assets and limit our acquisition and development activities.

If interest rates increase, so could our interest costs for any new debt. This increased cost could make the financing of any acquisition or our development activity more costly. Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to adjust our position promptly in response to changes in economic or other conditions.

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 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 quarterly operating expenses by a corresponding amount, which would harm our operating results for that quarter relative to our operating results from other quarters.

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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 sales and marketing 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 as well as our sales, marketing and other key personnel. Because of significant competition in our industry for qualified managerial, sales and marketing personnel, we cannot assure you that we will be able to retain our key senior managerial, sales and marketing 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.

All of our directors and officers reside outside of 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 largely 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 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, there is uncertainty as to whether the courts of other jurisdictions would recognize or enforce judgments of United States courts obtained against us or our director and officer predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in other jurisdictions against us or our director and officer predicated upon the securities laws of the United States or any state thereof.

In order to grow at the pace planned 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 require additional working capital to support our long-term business plan, which includes identifying suitable targets for mergers or acquisitions, to enhance our 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. 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.

There may be unknown risks inherent in our acquisitions of Cityhorizon BVI and its PRC operating entities, namely Lianhe and Bona.

Although we conducted due diligence with respect to the acquisition of Cityhorizon BVI and its PRC operating entities, namely Lianhe and Bona which occurred in 2008, 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.

A significant portion of our growth and future financial performance depends on our ability to secure new advertising media projects and/or integrate acquired businesses into our organization and operations.

A component of our growth strategy involves securing new promising advertising media projects and achieving economies of scale and operating efficiencies by growing through acquisitions. We may not be able to achieve these goals unless we effectively and timely identify and implement new promising advertising media projects and combine the operations of acquired businesses with our existing operations. Our inability to identify and secure new advertising media projects and to complete acquisitions within the time frames that we expect may cause our operating results to be less favorable than expected, which could also impose a negative effect on our ability to raise funds.

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Our 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. We will continue to search for appropriate opportunities to acquire more businesses or to form joint ventures that are complementary to our core business. With each acquisition, our management may encounter difficulties during the integration of operations, services and personnel with our existing operations. We may also expose ourselves to potential risks including contingent or undisclosed liabilities of the acquired companies, the need to allocate resources from our existing business to the new operations, uncertainties in generating revenue, disruptions in employee relationships and difficulties in governing by new regulations after integration. The occurrence of any of these unfavorable events in our acquisitions could have an effect on our business, financial condition and results of operations.

We may incur significant costs as a result of operating as a public company, which could affect our operating results.

As a public company subject to legal, regulatory compliance, and reporting requirements of the Securities Exchange Act of 1934 and the other rules and regulations of the SEC, we have been working with independent legal, accounting and financial advisors to adjust our financial and management control systems in a way to manage our growth and our obligations as a public company. These areas include corporate governance, corporate control, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal controls over financial reporting. However, we cannot assure you that these and other measures we may take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis. If we do not comply with the relevant requirements, the market price of our common stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would entail expenditure of additional financial and management resources.

In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us, require the time and attention of our management, as well as the employment of additional personnel and outside consultants. We cannot predict or estimate the amount of such additional costs we may incur, the timing of such costs or the degree of impact it would have on our business.

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. 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.

We currently only committed to one advertising media project in China. Our operating result would depend on the success of this project in the event that we cannot secure new promising advertising projects.

Since late 2008, we have undertaken drastic cost-cutting measures and a process of continuously re-assessing the commercial viability of each of our concession right contracts. We determined that many of our concession rights were no longer commercially viable due to high annual fees. From May 2010 to Jan 2012, we only retained the right to operate 52 roadside advertising panels along the Nanjing Road in Shanghai, China and terminated all other concession right contracts. In 2011, we started to actively explore new advertising related projects. In Feb 2012, we successfully secured a new project with 3 mega-sized advertising billboards located in Shanghai, China. In October 2012, we secured a new media advertising project in Zhuhai, China to operate the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone for a period of a 34-month ending July 31, 2015. As of April 15, 2013, we only retained the media advertising project in Zhuhai.

In the event that the authorizing parties of this project breaches the contract terms by terminating the contract early or if the PRC government were to interpret the current rules and regulations differently or if it were to implement new rules and regulations, which limited the period during which we can operate the advertising panels under these three projects, our business, operating results and financial condition could be adversely affected.

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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 our insurance coverage is insufficient 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 jurisdictions 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.

Our current advertising business is conducted by Yi Gao only. Any non-compliance to the PRC laws, rules and regulation may suspend or revoke their business license which could adversely affect our business and operations.

Since early 2010 we have been restructuring our organization. We have consolidated all our advertising business within onePRC operating company, namely Yi Gao only. In the event that Yi Gao does not comply with PRC laws, rules and regulations, their business licenses may be suspended or even revoked, which could adversely affect our business and operations. As there are substantial uncertainties regarding to the interpretation and implementation of current PRC laws, rules and regulations, we cannot assure you that we are always in compliance with PRC laws, rules and regulation.

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 significantly impacted by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

l 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.

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A number of factors have contributed to this slow-down, including appreciation of the Renminbi, which adversely effects China's exports and the tightening macroeconomic measures and monetary policies adopted by the Chinese government to prevent overheating of the Chinese economy and control China's inflation. The slow-down has been exacerbated by the global crisis in the financial services and credit markets which began in 2008, and has caused significant volatility and dislocation of the global capital markets as well as increased rates of default and bankruptcy. 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 provided services.

Recently, there has been increased inflation in China. As a result, the PRC government adopted various measures designed to restrict the availability of credit and control prices which could inhibit economic activity in China and affect the Company's business operations and prospects.

If the PRC government finds that the agreements with Bona that establish part of 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 initially conducted by Lianhe, Botong (which was deconsolidated effective March 31, 2010), Bona and Quo Advertising (which was deconsolidated on January 1, 2010) through commercial agreements arrangement in an attempt to comply with PRC regulations. After having undergone a long application process to qualify and register Yi Gao as a sino-foreign equity advertising joint venture of which we held a 70% equity interest at the time, with the remaining 30% interest was controlled through trust arrangement with Quo Advertising, the SAIC issued Yi Gao a business license which specifically includes operating an advertising business within its scope of operations on August 4, 2009. Upon obtaining this registration, we restructured our operations so that all business is currently conducted through Yi Gao, which was subsequently approved to change to our wholly owned foreign enterprise by SAIC on January 20, 2011, and Bona, which we retained in the hope of utilizing its tax loss carry forwards in the near future.

Although our operating structure for Bona, in the opinion of our PRC legal counsel, is in compliance with all existing PRC laws, rules and regulations, there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulations. We cannot assure you that our existing PRC operating subsidiary 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. 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 PRC regulatory authorities, including SAIC, would have broad discretion in dealing with such violations, including:

l revoking the business and operating licenses of our PRC subsidiaries and affiliates;

l discontinuing or restricting our PRC subsidiaries' and affiliates' operations;

l imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply;

l requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operation; or

l 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 may cause disruption to our business operations and may adversely affect our business, financial condition and results of operation.

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 China Securities Regulatory Commission, 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 as the government now exerts 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 which sufficiently protects their interests.

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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 may form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price which is obviously lower than the appraised value of the PRC business or assets and in certain transaction structures may require that consideration 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.

Due to the above risks, we may 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 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 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 Bona and its shareholders for certain part of our operations, which may not be as effective in providing operational control as direct ownership.

In late 2009, we set up our directly owned PRC advertising subsidiary, Yi Gao. However, certain part of our current media operation was still conducted by our PRC operating company Bona, as we hope to utilize its tax loss carry forward in the near future. We, through contractual arrangements and commercial agreement arrangements, exert effective control on Bona, and transfer its 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. Under the current contractual arrangements if Bona and its registered PRC shareholders fail to perform their respective obligations under these contractual arrangements, we may incur substantial costs to enforce such arrangements, and even need to take legal action to compel their compliance. In the event we are unable to enforce these contractual arrangements, we may become unable to exert effective control over Bona and our ability to conduct our business may be negatively affected.

We may lose our priority right to receive proceeds from the sale or auction of the Bona's equity interest as we did not register Bona's equity pledge agreement with the relevant PRC authorities.

Certain part of our current media operation was currently still conducted by our PRC operating company, Bona, on which we exert effective control through contractual arrangements and commercial agreement arrangements. As part of these arrangements, each shareholder of Bona entered into an equity pledge agreement with Lianhe, pursuant to which each shareholder of Bona pledged its equity interest in Bona to Lianhe for the performance of payment obligations of Bona under the exclusive technology and management consulting services agreements. As we believed that the risk of the PRC shareholders of Bona failing to perform their respective obligation was not high, we didn't register such equity pledge agreement with the relevant PRC authorities. Besides, under the current practice in the PRC, we would be required to submit an application to the PRC Authorities for revoking any previously registered equity pledges before we could designate a new PRC shareholder to Bona. The process for such application varies on a case by case basis, but could last several months. As such, the registration of the equity pledge agreements with the relevant PRC authorities would incur more costs and time if at any time we want to designate other person as the new PRC shareholders. In the opinion of our local PRC counsel, although we did not register the equity pledge agreements, the agreements would still be enforceable under the PRC rules and regulations if the Bona shareholders breach their contractual obligations. However, since we did not register the equity pledge agreements, we may lose any priority right to receive proceeds from the sale or auction of the Bona equity interests.

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

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, "de facto managementbody" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Also, on April 22, 2009, the State Administration of Tax ("SAT") issued a Tax Circular, Guoshuifa [2009] No. 82, Notice on the Recognition of Overseas Incorporated Domestically Controlled Enterprises as PRC Resident Enterprises Based on the Place of Effective Management Criteria, or Circular 82, with retrospective effect from 1 January 2008. According to Circular 82, any enterprise established under the law of a country or region other than the PRC but whose main investor is a PRC enterprise or Group shall be recognized as a resident enterprise for PRC tax purposes if all the following criteria are met: (i) the senior executives responsible for its daily production or business operations and the place where such responsibilities are carried out are mainly located in China; (ii) decisions about its finances (such as borrowing, lending, financing and managing financial risk) and human resources (such as staff recruitment, termination, and remuneration policies) are made or approved by organizations or individuals located in China; (iii) its major properties, accounting books and records, company seal, board minutes and resolutions, shareholders' meeting minutes, etc. are kept in China; and (iv) 50% or more of its voting directors or its senior executives habitually reside in China. The principle of "substance over form" applies when determining the place of effective management. Although Circular 82 was issued to regulate the PRC tax resident judgment of companies established overseas and controlled by PRC companies, which is not applicable in our case, the criteria in Circular 82 should be used as a reference to the SAT's view on this issue. We believe the risk of being recognized as a PRC resident enterprise under the EIT Law is low.

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 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 1970s to emphasize 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 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 the allocation of 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, 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.

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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.

Essentially all of the Company's revenues and expenses are denominated in Renminbi which may on occasion need to be exchanged into other currencies, primarily U.S. dollars, and remitted outside of the PRC. Since July 1, 1996, foreign currency "current account" transactions by foreign investment enterprises and Sino-foreign joint ventures require 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 State Administration of Foreign Exchange, or 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 the ability of our operations 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 our sales of equity securities and debt financing are usually 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. 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 dividends we issue 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 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 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.

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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.

As aforementioned, our current media operations are conducted by our directly owned subsidiaries, namely Yi Gao and Lianhe, and Bona, through contractual arrangements with shareholders of Bona. As part of these arrangements, the shareholders of Bona hold some of the assets that are important to the operation of our business. If any of these entities files for bankruptcy or 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.

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 or 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 and how they would affect our ability to compete in the advertising industry in the PRC.

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 subsidiary, namely Yi Gao, in China. Yi Gao is 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 30 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 in terms of financial resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative court proceedings and the law enforcement actions than it would be in more developed legal systems. Such uncertainties, including the inability to enforce our contracts, especially our contractual arrangements among Lianhe and Bona which 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.

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

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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 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 onshore assets or equity interests before the implementation date of the SAFE Notice, a retroactive SAFE registration was 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 repayment 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.

Current PRC regulations only allow our subsidiaries to pay dividends to us 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 until the reserve is equal to 50% of the entities paid capital. 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.

We have not received any dividends or any other fees, including consulting fees, from our PRC subsidiaries or our affiliated Chinese entities in the past three years as all of our PRC operating companies, including our PRC subsidiaries and variable interest entities, are currently operating at an accumulated deficit and the regulations prevent us from receiving any dividends until they have retained earnings. As such, we can only receive funds from them through the repayment of intercompany loans by our PRC subsidiaries or charging them service fees through the provision of management services. If our PRC operating entities continue to operate at a net loss, we will need to raise funds through the issuance of equity and debt securities to satisfy future payment requirements, and there is no assurance that we will be successful in raising such funds.

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 also capable 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.

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The audit report included in this annual report is prepared by our auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, investors are deprived of the benefits of such inspection.

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States) (the "PCAOB"), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Our auditor is a Hong Kong-based PCAOB registrant, whose major clients are China-based companies. The PCAOB is currently unable to inspect the audits of China-based companies performed by Hong Kong-based PCAOB registrants, without the approval of the China authorities. As a result, our auditor is not inspected by PCAOB currently.

Inspections of other audit firms that the PCAOB has conducted have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections of our auditor.

The inability of the PCAOB to conduct inspections of our auditor makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors that are subject to PCAOB inspections. As a result, investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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:

l a general decline in economic conditions;

l a decline in economic conditions in the particular cities where we conduct business;

l a decision to shift advertising expenditures to other available advertising media; and

l 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 advertising 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 is becoming more difficult to increase the number of desirable installations in major cities because many of the locations have already been occupied by our competitors and limitation on certain locations from municipal zoning and planning policies. In other cities we project that additional locations would not generate sufficient economic return to the Company in the short term, though 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 actively exploring and acquiring prominent and well-established advertising company. We cannot assure that we will be able to compete against new or existing competitors to generate satisfactory profit.

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If the Company is unable to secure additional desirable locations for our media network, we may be unable to charge our advertisers rates sufficient for us to generate profits.

If we cannot enter into further agreements for advertising panels in other major cities in China, we may be unable to grow our revenue base and generate higher levels of revenue.

We currently only committed to one advertising media projects in Shanghai and one advertising media project in Zhuhai, China. Besides, we entered into two framework agreements for two more media projects in Shanghai, China. We need to continue geographic expansion of our media network market by entering into business cooperation agreements with local advertising companies to operate and manage advertising panels in China. We are currently searching for more opportunities but many of the most desirable locations in the major cities have been occupied by our competitors. If we are unable to enter into new agreements at economically advantageous terms, it may increase our costs of sales and increase the difficulty of convincing our advertisers to purchase advertising time so that we may generate profits.

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

We charge our advertisers based on the time that is used on our advertising panels. The desire of advertisers to advertise on our out-of-home media networks depends on the size and coverage of our networks, the desirability of the locations of the advertising panels, our brand name and our rates. If our network fails to meet 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 business if they are not satisfied with our services or for other reasons.

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 our high quality of service, 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 advertising clients may elect to terminate their relationships with us at any time if they are dissatisfied with our services. We have 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 relatively new concept in China in comparison with traditional media medium such as TV, newspaper, magazine etc. It is too early to conclude whether the public will accept this advertising medium. 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 are subject to government regulations in installing our out-of-home advertising panels.

The placement and installation of out-of-home advertising panels 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 out-of-home advertising panels. 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 out-of-home advertising panels on schedule, if at all, and we may incur additional installation costs or loss of advertising revenue.

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If we are unable to adapt to changing advertising trends and the technological needs of advertisers and consumers, we will not be able to compete effectively and 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 currently use medium-size roadside LED video panels and medium-size roller sheets. If we are unable to adapt to changing advertising trends and the technological needs of advertisers and consumers on 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 advertiser, we are obligated under PRC laws, rules and regulations to monitor the advertising content for compliance with applicable laws. Although the advertisements shown on our panels have previously been shown, 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 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 SAIC before dissemination. 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 was breached and unauthorized images, text or audio sounds are displayed on our advertising network which viewers or the PRC government find to be offensive, we may be subject 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 or other aspects of our 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.

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We may become 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 become 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.

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, 2012, was approximately 7,748 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, 2012 and December 31, 2012, the closing bid price of our common stock, as reported on the markets on which our securities have traded, ranged between $0.06 and $0.30. 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;

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- customer demand for our products;
- investor perceptions of our industry in general and our company in particular;
- 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 400,000,000 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.

Conversion of the Convertible Notes and/or exercise of Keywin Option will dilute the ownership interest of our existing stockholders.

The conversion of some or all of our outstanding New 1% Convertible Promissory Notes Due 2014, which is convertible at any time into shares of our common stock at an initial conversion price of $0.09304 per share, subject to customary anti-dilution adjustments, and the exercise of Keywin Option, pursuant to which Keywin Investment Holdings Limited is able to purchase an aggregate of 24,562,837 shares of our common stock for an aggregate purchase price of $2 million by January 1, 2014, will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion and exercise could adversely affect prevailing market prices of our common 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 the date of this report, the closing bid and asked price for our common stock was less than $5.00 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.

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.

An investment in our common stock is highly speculative.

An investment in our common stock is highly speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in our common stock. Additional risks not currently known to us or that we currently deem immaterial may also impair our operations.

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Our annual or special meeting of stockholders may be taken by written consent without a meeting.

According to the Company's Bye-law, any action required by the Delaware General Corporation law to be taken at any annual or special meeting of stockholders of a corporation, or any action which may be taken at any annual or special meeting of such stockholders, maybe taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. As such, not every one of our stockholders could vote on matters submitted to the stockholders for approval unless annual or special meetings were hold.

A significant percentage of our outstanding common stock is beneficially owned or controlled by Dr. Earnest Leung, our Chief Executive officer, and as a result, he may have significantly greater influence on our corporate actions by nature of the size of their stockholdings relative to our public stockholders.

Keywin Holdings Limited of which Dr. Earnest Leung, our Chief Executive Officer is the director, beneficially owns approximately 23% of our outstanding common stock as of April 15, 2013. Accordingly, Dr. Earnest Leung has voting control over those common stocks held by Keywin Holdings Limited. Excluding the Keywin Holdings Limited shares, Dr. Earnest Leung, our Chief Executive Officer beneficially own 6% of our outstanding ordinary shares, as of April 15, 2013. As such, he collectively owns and/or control an aggregate of approximately 29% of our outstanding common stock. Consequently, if he acts individually may exert a significant degree of influence in determining the outcome of any corporate transaction or other matter submitted to the stockholders 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 his consent, we could be prevented from entering into transactions or conducting business that could be beneficial to us. Accordingly, his control of the Company could hinder any change in control of our business, particularly where such change of control would benefit stockholders other than him. It would be difficult for us to change our corporate structure if any disputes arise between us and him or if he fails to carry out their contractual and fiduciary obligations to us. Thus, his interests as an officer and employee may differ from their interests as a shareholder or from the interests of our other stockholders, including you.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We occupy 2,043 square feet of executive office space at Rooms 2120 and 2122 on 21st Floor, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong, for $10,896 per month, including rent and operating charges, pursuant to an agreement commencing from January 3, 2012 to January 2, 2015 between the Company's wholly owned subsidiary NCN Gr