

NETWORK CN INC  
Form 10-Q  
August 10, 2009

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2009

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

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

Commission File Number: 000-30264

NETWORK CN INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of  
incorporation  
or organization)

90-0370486  
(I.R.S. Employer Identification No.)

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

(852) 2833-2186  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

Edgar Filing: NETWORK CN INC - Form 10-Q

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of July 27, 2009 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	378,677,071

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	44

PART II

OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	45
<u>Item 1A. Risk Factors</u>	45
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	45

---

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the following “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words “believe”, “expect”, “anticipate”, “project”, “targets”, “optimistic”, “i”, “aim”, “will” or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to 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”; changes in economic conditions, including a general economic downturn or a downturn in the securities markets; and any of the factors and risks mentioned in the “Risk Factors” sections of our Annual Report on Form 10-K for fiscal year ended December 31, 2008 and subsequent SEC filings. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

USE OF TERMS

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

- “BVI” are references to the British Virgin Islands;
- “China” and “PRC” are to the People’s Republic of China;
- the “Company”, “NCN”, “we”, “us”, or “our”, are references to Network CN Inc., a Delaware corporation and its direct and indirect subsidiaries: NCN Group Limited, or NCN Group, a BVI limited company; NCN Huamin Management Consultancy (Beijing) Company Limited, or NCN Huamin, a PRC limited company; Cityhorizon Limited, or Cityhorizon Hong Kong, a Hong Kong limited company, and its wholly owned subsidiaries, Cityhorizon Limited, or Cityhorizon BVI, a BVI limited company; and Huizhong Lianhe Media Technology Co., Ltd., or Lianhe, a PRC limited company; and the Company’s variable interest entities: Shanghai Quo Advertising Company Limited., or Quo Advertising, a PRC limited company and its 51% owned subsidiary, Xuancaiyi (Beijing) Advertising Company Limited, or Xuancaiyi, a PRC limited company; and Beijing Huizhong Bona Media Advertising Co., Ltd., or Bona, a PRC limited company; and Huizhi Botong Media Advertising Beijing Co., Ltd., or Botong, a PRC limited company;
- “NCN Landmark” are references to NCN Landmark International Hotel Group Limited, a British Virgin Islands 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 British Virgin Islands limited company;
- “RMB” are to the Renminbi, the legal currency of China;

Edgar Filing: NETWORK CN INC - Form 10-Q

- 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; and
  - “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States.

Table of Contents

PART I  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NETWORK CN INC.  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Condensed Consolidated Balance Sheets as of June 30, 2009 (unaudited) and as of December 31, 2008 (audited)	4
Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 30, 2009 and 2008 (Restated) (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008 (Restated) (unaudited)	7
Notes to Condensed Consolidated Financial Statements (unaudited)	9

Table of Contents

NETWORK CN INC. ("NCN")  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	Note	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
<b>ASSETS</b>			
Current Assets			
Cash		\$4,098,355	\$ 7,717,131
Accounts receivable, net	6	57,195	217,402
Prepayments for advertising operating rights, net	7	342,264	418,112
Prepaid expenses and other current assets, net	8	378,357	630,132
<b>Total Current Assets</b>		<b>4,876,171</b>	<b>8,982,777</b>
Equipment, Net		2,155,146	2,397,624
Intangible Assets, Net	9	398,445	449,307
Deferred Charges, Net		230,546	1,242,958
<b>TOTAL ASSETS</b>		<b>\$7,660,308</b>	<b>\$ 13,072,666</b>
<b>LIABILITIES AND EQUITY (DEFICIT)</b>			
Current Liabilities			
Accounts payable, accrued expenses and other payables		2,424,668	5,577,204
Current liabilities from discontinued operations		3,655	3,655
<b>Total Current Liabilities</b>		<b>2,428,323</b>	<b>5,580,859</b>
3% Convertible Promissory Notes Due 2011, Net	10	-	30,848,024
1% Convertible Promissory Note Due 2012, Net	10	3,650,227	-
<b>TOTAL LIABILITIES</b>		<b>6,078,550</b>	<b>36,428,883</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	11	-	-
<b>EQUITY (DEFICIT)</b>			
NCN Stockholders' Equity (Deficit)	12		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized None issued and outstanding		-	-
Common stock, \$0.001 par value, 800,000,000 shares authorized Issued and outstanding: 378,677,071 and 71,641,608 as of June 30, 2009 and December 31, 2008 respectively		378,677	71,642
Additional paid-in capital		118,334,805	59,578,612
Accumulated deficit		(118,778,955)	(84,653,932 )
Accumulated other comprehensive income		1,670,807	1,647,461
<b>Total NCN Stockholders' Equity (Deficit)</b>		<b>1,605,334</b>	<b>(23,356,217 )</b>
Noncontrolling Interests	12	(23,576 )	-

TOTAL EQUITY (DEFICIT)	1,581,758	(23,356,217 )
TOTAL LIABILITIES AND EQUITY(DEFICIT)	\$7,660,308	\$ 13,072,666

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



Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE  
LOSS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (RESTATED)  
(Unaudited)

	Note	For the three months ended		For the six months ended	
		June 30, 2009	June 30, 2008 (Restated (1))	June 30, 2009	June 30, 2008 (Restated (1))
<b>REVENUES</b>					
Advertising services		\$333,978	\$ 1,053,888	\$519,127	\$ 1,638,055
<b>COST OF REVENUES</b>					
Cost of advertising services		(501,058 )	(4,645,264 )	(953,317 )	(8,606,604 )
<b>GROSS LOSS</b>		(167,080 )	(3,591,376 )	(434,190 )	(6,968,549 )
<b>OPERATING EXPENSES</b>					
Selling and marketing		(159,421 )	(823,965 )	(325,407 )	(1,464,283 )
General and administrative		(1,009,995 )	(2,744,758 )	(2,477,666 )	(5,521,025 )
Total Operating Expenses		(1,169,416 )	(3,568,723 )	(2,803,073 )	(6,985,308 )
<b>LOSS FROM OPERATIONS</b>		(1,336,496 )	(7,160,099 )	(3,237,263 )	(13,953,857 )
<b>OTHER INCOME</b>					
Interest income		10,223	30,914	13,944	40,173
Other income		641	-	2,564	4
Total Other Income		10,864	30,914	16,508	40,177
<b>INTEREST AND OTHER DEBT-RELATED EXPENSES</b>					
Amortization of deferred charges and debt discount	10	(17,053,254)	(1,350,704 )	(18,630,600)	(2,698,988 )
Non-cash debt conversion charges	10	(10,204,627)	-	(10,204,627)	-
Loss on early extinguishment of debt	10	(1,696,684 )	-	(1,696,684 )	-
Interest expense	10	(20,525 )	(379,166 )	(395,525 )	(725,791 )
Total Interest and Other Debt-Related Expenses		(28,975,090)	(1,729,870 )	(30,927,436)	(3,424,779 )
<b>NET LOSS BEFORE INCOME TAXES</b>		(30,300,722)	(8,859,055 )	(34,148,191)	(17,338,459 )
Income taxes		-	-	-	-
<b>NET LOSS FROM CONTINUING OPERATIONS</b>		(30,300,722)	(8,859,055 )	(34,148,191)	(17,338,459 )
<b>DISCONTINUED OPERATIONS</b>					
Net loss from discontinued operations, net of income taxes	15	-	(56,865 )	-	(22,311 )
<b>NET LOSS FROM DISCONTINUED OPERATIONS</b>		-	(56,865 )	-	(22,311 )

NET LOSS	(30,300,722)	(8,915,920 )	(34,148,191)	(17,360,770 )
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF INCOME TAXES	1,401	27,799	23,168	101,135
NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS	\$(30,299,321)	\$ (8,888,121 )	\$(34,125,023)	\$(17,259,635 )

Table of Contents

		For the three months ended		For the six months ended	
		June 30,	June 30,	June 30,	June 30,
	Note	2009	2008 (Restated (1))	2009	2008 (Restated (1))
<b>OTHER COMPREHENSIVE INCOME</b>					
Total other comprehensive income		23,080	1,016,139	22,938	1,621,525
Less: foreign currency translation loss attributable to noncontrolling interests		(587 )	(2,958 )	(408 )	(6,890 )
Foreign currency translation gain attributable to NCN common stockholders		23,667	1,019,097	23,346	1,628,415
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS</b>					
		\$(30,275,654 )	\$(7,869,024 )	\$(34,101,677 )	\$(15,631,220)
<b>NET LOSS PER COMMON SHARE – BASIC AND DILUTED</b>					
Loss per common share from continuing operations attributable to NCN common stockholders	14	(0.08 )	(0.12 )	(0.16 )	(0.24 )
Loss per common share from discontinued operations attributable to NCN common stockholders	14	-	-	-	-
Net loss per common share – basic and diluted	14	\$(0.08 )	\$(0.12 )	\$(0.16 )	\$(0.24 )
<b>WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED</b>					
	14	361,806,991	71,546,608	217,525,861	71,482,405
<b>AMOUNTS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS</b>					
Loss from continuing operations, net of tax	14	(30,299,321 )	(8,840,506 )	(34,125,023 )	(17,230,216)
Discontinued operations, net of tax	14	-	(47,615 )	-	(29,419 )
<b>NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS</b>	14	\$(30,299,321 )	\$(8,888,121 )	\$(34,125,023 )	\$(17,259,635)

(1) See Note 4 – Restatement and Reclassification

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

Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (RESTATED)  
(Unaudited)

	For the six months ended June 30, 2009	For the six months ended June 30, 2008 (Restated (1))
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss from continuing operations	\$ (34,125,023 )	\$ (17,230,216 )
Net income from discontinued operations	-	(29,419 )
Net loss attributable to NCN common stockholders	(34,125,023 )	(17,259,635 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment and intangible assets	289,024	896,163
Deferred charges and debt discount	18,630,600	2,698,988
Non-cash debt conversion charges	10,204,627	-
Loss on early extinguishment of debt	1,696,684	-
Stock-based compensation for service	745,182	1,619,610
Loss on disposal of equipment	8,407	8,318
Loss on deconsolidation of a variable interest entity	8,178	-
Net write-back of allowance for doubtful debt	(229,440 )	-
Noncontrolling interests	(23,168 )	(42,807 )
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	279,835	(1,197,033 )
Prepayments for advertising operating rights	74,084	(246,524 )
Prepaid expenses and other current assets	361,587	(2,453,472 )
Accounts payable, accrued expenses and other payables	(1,268,284 )	2,087,017
Net cash used in operating activities	(3,347,707 )	(13,889,375 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(55,280 )	(3,260,027 )
Proceeds from sales of equipment	46,154	-
Net cash used in acquisition of subsidiaries	-	(2,708,928 )
Net cash used in investing activities	(9,126 )	(5,968,955 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of 3% convertible promissory note, net of costs	-	33,900,000
Repayment of 12% convertible promissory note	-	(5,000,000 )
Issuance costs for 1% convertible promissory note	(250,000 )	-
Net cash (used in) provided by financing activities	(250,000 )	28,900,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(11,943 )	1,500,905
NET (DECREASE) INCREASE IN CASH	(3,618,776 )	10,542,575
CASH, BEGINNING OF PERIOD	7,717,131	2,233,528

CASH, END OF PERIOD	\$ 4,098,355	\$ 12,776,103
---------------------	--------------	---------------

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes	-	-
Interest paid for 12% convertible promissory note	-	69,041

Table of Contents

SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITIES:

1) NON-CASH INVESTING ACTIVITIES

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

2) NON-CASH FINANCING ACTIVITIES

In April 2009, the Company issued an aggregate of 307,035,463 shares of the Company's restricted common stock with par value of \$0.001 each and an option to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period to a new investor in exchange for 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon (\$1,665,675). Pursuant to a note exchange agreement dated April 2, 2009, the Company and the investors canceled the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the investors including all accrued and unpaid interest thereon (\$185,075), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000. For more details, please refer to Note 10 – Convertible Promissory Notes and Warrants.

(1) See Note 4 – Restatement and Reclassification

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

Table of Contents

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

NOTE 1. INTERIM FINANCIAL STATEMENT

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

The condensed consolidated financial statements for the three and six months ended June 30, 2009 and 2008 were not audited. It is management’s opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the Securities and Exchange Commission on March 27, 2009.

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

NCN is principally engaged in the provision of out-of-home advertising in China. Since late 2006, the Company has been operating an advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities.

Network CN Inc., originally incorporated on September 10, 1993 under the name EC Capital Limited, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the PRC. The Company was operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. Between 2004 and 2006, the Company operated under the name Teda Travel Group Inc., which was primarily engaged in the provision of management services to hotels and resorts in China. On August 1, 2006, the Company changed its name to “Network CN Inc.” in order to better reflect its new vision to build a nationwide information and entertainment network in China through its business in Travel Network and Media Network. In 2008, the Company disposed of its entire travel network in order to focus on Media Network. Accordingly, such travel business has been classified as discontinued operations for all periods presented (see Note 15 – Discontinued Operations for details).

Details of the Company’s principal subsidiaries and variable interest entities as of June 30, 2009 are described in Note 5 – Subsidiaries and Variable Interest Entities.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation and Preparation

These condensed consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

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



Table of Contents

(B) Principles of Consolidation

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

(C) Use of Estimates

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

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2009 and 2008, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

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

(F) Prepayments for Advertising Operating Rights, Net

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

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

(G) Equipment, Net

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

Media display

equipment 5 - 7 years

Office equipment

3 - 5 years

Furniture and fixtures

3 - 5 years

Leasehold improvements

Over the unexpired

lease terms

## Table of Contents

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

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

### (H) Intangible Assets, Net

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

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

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

### (J) Deferred Charges, Net

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

### (K) Convertible Promissory Notes and Warrants

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

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

recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with EITF Issue No. 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio” and EITF Issue No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”.

Table of Contents

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

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

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

For the remaining 3% convertible promissory notes in the principal amount of \$5,000,000, the Company and the holders of the 3% Convertible Promissory Notes agreed to cancel the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000 (the "New Note"). The New Notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at an fixed conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. Pursuant to EITF Issue No. 96-19, "Debtor's Accounting For a Modification or Exchange of Debt Instruments", EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues" and EITF Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments", the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of New Note.

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

## (L) Early Redemption of Convertible Promissory Notes

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

Table of Contents

(M) Revenue Recognition

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with EITF Issue No. 99-17 "Accounting for Advertising Barter Transactions", which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions. Total revenues and expenses from advertising barter transactions for the three and six months ended June 30, 2009 and 2008 were \$nil.

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

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

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

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

Tianma is the principal in such transactions and the primary obligor to the third-party providers regardless of whether it has received full payment from its customers. In addition, Tianma is also liable to the customers for any claims

relating to the tours such as accidents or tour services. Tianma has adequate insurance coverage for accidental loss arising during the tours. The Company utilizes a network of sub-agents who operate strictly in Tianma's name and can only advertise and promote the business of Tianma with the prior approval of Tianma.



Table of Contents

(N) Stock-based Compensation

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

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

(O) Income Taxes

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

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

(P) Comprehensive Income (Loss)

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

(Q) Earnings (Loss) Per Common Share

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

(loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

The diluted net loss per share is the same as the basic net loss per share for the three and six months ended June 30, 2009 and 2008 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

(R) Operating Leases

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

Table of Contents

(S) Foreign Currency Translation

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

(T) Fair Value of Financial Instruments

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

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

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

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

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

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

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

(U) Concentration of Credit Risk

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

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

Table of Contents

(V) Segmental Reporting

SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company’s operating segments are organized internally primarily by the type of services rendered. In September 2008, the Company disposed of its entire travel business and focus on developing its media business in the PRC. Accordingly, it is management’s view that the services rendered by the Company are of one operating segment: Media Network.

(W) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. Effective January 1, 2008, the Company adopted the measurement and disclosure other than those requirements related to nonfinancial assets and liabilities in accordance with guidance from FASB Staff Position 157-2 “Effective Date of FASB Statement No. 157”, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of fiscal year 2009. In April 2009, the FASB issued Staff Position No. FAS 157-4 “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP FAS No. 157-4”). FSP FAS No. 157-4 clarifies the methodology used to determine fair value when there is no active market or where the price inputs being used represent distressed sales. FSP FAS No. 157-4 also reaffirms the objective of fair value measurement, as stated in SFAS No. 157 “Fair Value Measurements”, which is to reflect how much an asset would be sold for in an orderly transaction. It also reaffirms the need to use judgment to determine if a formerly active market has become inactive, as well as to determine fair values when markets have become inactive. FSP FAS No. 157-4 is applied prospectively and is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of SFAS No. 157 did not have a material impact on our financial statements.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1 “Employers’ Disclosures about Postretirement Benefit Plan Assets” (“FSP FAS 132(R)-1”). FSP FAS 132(R)-1 requires more detailed disclosures about employers’ plan assets in a defined benefit pension or other postretirement plan, including employers’ investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also requires, for fair value measurements using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. As this pronouncement is only disclosure-related, it will not have an impact on the financial position and results of operations.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB No. 28-1 “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS No. 107-1 and APB Opinion No. 28-1”). FSP FAS No. 107-1 and APB Opinion No. 28-1 requires fair value disclosures for financial instruments that are not reflected in the condensed consolidated balance sheets at fair value. Prior to the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed only once each year. With the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the Company will now be required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the condensed consolidated balance sheets at fair value. FSP FAS No. 107-1 and APB Opinion No. 28-1 is effective for interim reporting periods that end after June 15, 2009. As this pronouncement is only disclosure-related, it had no impact on the financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165 “Subsequent Events” (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for the interim report and annual periods that end after June 15, 2009. The adoption of SFAS 165 had no impact on the Financial Statements as management already followed a similar approach prior to the adoption of this standard.

Table of Contents

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”). SFAS 166 amends various provisions of SFAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125” by removing the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. SFAS 166 will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 166 on the financial statements.

In June 2009, the FASB issued SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 amends FASB Interpretation No. 46 (Revised December 2003) “Consolidation of Variable Interest Entities—an interpretation of ARB No. 51” (FIN 46(R)) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. SFAS 167 will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 167 on the financial statements.

In June 2009, the FASB issued SFAS No. 168 “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or EITF Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 will be effective for interim and annual periods that end after September 15, 2009. Management has determined that the adoption of SFAS 168 will not have an impact on the financial statements.

NOTE 4.                    RESTATEMENT AND RECLASSIFICATION

(A)                    Restatement of Financial Results

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

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



Table of Contents

The restatement affected our previously reported non-cash interest and other debt-related expenses, net loss, long-term debt and stockholders' equity but had no effects on our cash flow. There was no change to each subtotal (operating, investing and financing activities) in the Company's condensed consolidated statements of cash flows as a result of the restatement. Certain balances related to line items within certain cash flows were corrected as part of the restatement. The restatement in the condensed consolidated financial statements as of June 30, 2008 and for the three and six months ended June 30, 2008 is as follows:

	As Previously Reported	Restatement Adjustments	As Restated
For the three months ended June 30, 2008			
<b>Interest and Other Debt-Related Expenses</b>			
Amortization of deferred charges and debt discount	\$ 541,573	\$ 809,131	\$ 1,350,704
Net loss attributable to NCN common stockholders	(8,078,990 )	(809,131 )	(8,888,121)
Comprehensive loss	(7,059,893 )	(809,131 )	(7,869,024)
Net loss per common share – basic and diluted	\$ (0.11 )	\$ (0.01 )	\$ (0.12 )

	As Previously Reported	Restatement Adjustments	As Restated
For the six months ended June 30, 2008			
<b>Interest and Other Debt-Related Expenses</b>			
Amortization of deferred charges and debt discount	\$ 12,332,103	\$ (9,633,115 )	\$ 2,698,988
Net loss attributable to NCN common stockholders	(26,892,750 )	9,633,115	(17,259,635)
Comprehensive loss	(25,264,335 )	9,633,115	(15,631,220)
Net loss per common share – basic and diluted	\$ (0.38 )	\$ 0.14	\$ (0.24 )

	As Previously Reported	Restatement Adjustments	As Restated
As of June 30, 2008			
<b>Liabilities</b>			
3% convertible promissory notes due 2011, net	\$ 42,471,397	\$ (14,293,075)	\$ 28,178,322
Total liabilities	49,448,968	(14,293,075)	35,155,893
<b>Stockholders' Equity</b>			
Accumulated deficit	(56,721,809 )	14,293,075	(42,428,734)
Total stockholder's equity	\$ 2,912,555	\$ 14,293,075	\$ 17,205,630

## (B) Reclassification

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

In addition, the Company completed the disposal of travel network during the year ended December 31, 2008. As a result of the disposal, the condensed consolidated financial statements of the Company reflect travel network operation as discontinued operations for all presented periods. Accordingly, revenues and costs and expenses of travel network have been excluded from the respective accounts in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes, as “Net income from Discontinued Operations, Net of Income Taxes”. For details, please refer to Note 15 – Discontinued Operations.

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



Table of Contents

## NOTE 5. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal consolidated subsidiaries and variable interest entities as of June 30, 2009 were as follows:

Name	Place of Incorporation	Ownership interest attributable to the Company	Principal activities
NCN Group Limited	BVI	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
Crown Winner International Limited	Hong Kong	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative and management services
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Provision of administrative and management services
Shanghai Quo Advertising Company Limited	PRC	100%	Provision of advertising services
Teda (Beijing) Hotels Management Limited	PRC	100%	Dormant; undergoing liquidation process
NCN Travel Services Limited	BVI	100%	Dormant
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	100%	Dormant
Cityhorizon Limited	BVI	100%	Investment holding
Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Provision of high-tech services
Beijing Huizhong Bona Media Advertising Co., Ltd.	PRC	100%	Provision of advertising services
Huizhi Botong Media Advertising Beijing Co., Ltd.	PRC	100%	Provision of advertising services
Crown Eagle Investment Limited	Hong Kong	100%	Dormant
Profit Wave Investment Limited	Hong Kong	100%	Dormant
Qingdao Zhongan Boyang Advertising Co., Ltd.	PRC	60%	Provision of advertising services

## Remarks:

During the three months ended June 30, 2009, the Company's variable interest entity, Quo Advertising disposed of its entire 51% equity interests of Xuancaiye, a PRC advertising company which has maintained minimal operation since the beginning of 2009, to the minority shareholders of Xuancaiye at \$nil consideration. Accordingly, the Company recorded a loss on deconsolidation of variable interest entity of \$8,178 included in general and administrative expenses on the condensed consolidated statements of operations during the three months ended June 30, 2009.

## NOTE 6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of June 30, 2009 and December 31, 2008 were as follows:

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Accounts receivable	\$ 362,394	\$ 817,643
Less: allowance for doubtful debts	(305,199 )	(600,241 )
<b>Total</b>	<b>\$ 57,195</b>	<b>\$ 217,402</b>

For the three months ended June 30, 2009 and 2008, the Company recorded an allowance for doubtful debts for accounts receivable of \$2,560 and \$nil respectively while for the six months ended June 30, 2009 and 2008, the Company recorded a net write-back of allowance for doubtful debts for accounts receivable of \$119,628 and \$nil respectively. Such allowance for doubtful debt and net write-back of allowance for doubtful debts were included in general and administrative expenses on the condensed consolidated statements of operations.

Table of Contents

The Company recorded a write-off of certain allowance for doubtful debts for accounts receivable of \$nil for the three months ended June 30, 2009 and 2008, while for the six months ended June 30, 2009 and 2008 amounted to \$175,593 and \$nil respectively.

## NOTE 7. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of June 30, 2009 and December 31, 2008 were as follows:

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Gross carrying amount	\$ 4,264,668	\$ 24,606,150
Less: accumulated amortization	(1,631,894 )	(16,275,735 )
Less: provision for impairment	(2,290,510 )	(7,912,303 )
Prepayments for advertising operating rights, net	\$ 342,264	\$ 418,112

Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended June 30, 2009 and 2008 were \$253,723 and \$4,291,182 respectively, while for the six months ended June 30, 2009 and 2008 amounted to \$483,015 and \$7,787,430 respectively. The amortization expense of prepayments for advertising operating rights was included as cost of advertising services in the condensed consolidated statements of operations.

As several commercially non-viable concession rights contracts were terminated, the Company recorded a write-off of provision for impairment losses of \$nil against cost and accumulated amortization of certain prepayments for advertising operating rights for the three months ended June 30, 2009 and 2008 while for the six months ended June 30, 2009 and 2008 amounted to \$5,624,447 and \$nil respectively.

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

Prepaid expenses and other current assets, net as of June 30, 2009 and December 31, 2008 were as follows:

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Rental deposits	\$ 157,378	\$ 93,294
Deposits paid for soliciting potential media projects	-	3,109,609
Payments from customers withheld by a third party	1,402,503	1,402,751
Other receivables	37,763	2,937,228
Prepaid expenses	191,795	222,679
Sub-total	1,789,439	7,765,561
Less: allowance for doubtful debts	(1,411,082 )	(7,135,429 )
Total	\$ 378,357	\$ 630,132

For the three months ended June 30, 2009 and 2008, the Company recorded a write-back of allowance for doubtful debts for prepaid expenses and other current assets of \$nil while for the six months ended June 30, 2009 and 2008 amounted to \$109,812 and \$nil respectively. Such write-back of allowance for doubtful debts was included in general and administrative expenses on the condensed consolidated statements of operations.

The Company recorded a write-off of certain allowance for doubtful debts for prepaid expenses and other current assets of \$nil for the three months ended June 30, 2009 and 2008, while for the six months ended June 30, 2009 and 2008 amounted to \$5,613,760 and \$nil respectively.

Table of Contents

## NOTE 9. INTANGIBLE ASSETS, NET

Intangible assets, net as of June 30, 2009 and December 31, 2008 were as follows:

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Amortized intangible rights		
Gross carrying amount	\$ 551,031	\$ 7,137,097
Less: accumulated amortization	(152,586 )	(1,312,790 )
Less: provision for impairment loss	-	(5,375,000 )
Amortized intangible rights, net	398,445	449,307
Amortized acquired application systems		
Gross carrying amount	1,973,865	1,973,865
Less: accumulated amortization	(197,388 )	(197,388 )
Less: provision for impairment loss	(1,776,477 )	(1,776,477 )
Amortized acquired application systems, net	-	-
Intangible assets, net	\$ 398,445	\$ 449,307

Total amortization expense of intangible assets of the Company for the three months ended June 30, 2009 and 2008 were \$25,431 and \$259,665 respectively, while for the six months ended June 30, 2009 and 2008 amounted to \$50,862 and \$519,330 respectively.

During the three months ended June 30, 2009 and 2008, the Company recorded a write-off of provision for impairment loss of \$5,375,000 and \$1,527,514 respectively against cost and accumulated amortization of certain intangible rights while for the six months ended June 30, 2009 and 2008 amounted to \$5,375,000 and \$1,527,514 respectively.

## NOTE 10. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

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

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

On February 13, 2008, the Company fully redeemed 12% Convertible Promissory Note due May 2008 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. No penalty or premium was charged for such early redemption.

As of June 30, 2009, none of the warrants associated with 12% Convertible Promissory Note was exercised.

(B) 3% Convertible Promissory Notes and Warrants

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



Table of Contents

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

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

The 3% Convertible Promissory Notes bore interest at 3% per annum payable semi-annually in arrears and were convertible into shares of common stock at an initial conversion price of \$1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price was subject to adjusted downward on an annual basis if the Company should fail to meet certain annual EPS targets described in the Purchase Agreement. The EPS targets for fiscal 2008, 2009 and 2010 are \$0.081, \$0.453, and \$0.699 respectively. In the event of a default, or if the Company's actual EPS as defined in the Purchase Agreement for any fiscal year is less than 80% of the respective EPS target, certain Investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. The Warrants were to expire on June 30, 2011 and granted the holders the right to acquire shares of common stock at \$2.50 and \$3.50 per share, subject to customary anti-dilution adjustments. The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward. In connection with the issuance of the 3% Senior Secured Convertible Notes, the Company also entered into registration rights agreement with the Investors, pursuant to which, as amended, the Company agreed to file at their request, a registration statement registering for resale any shares issued to the Investor upon conversion of the 3% Convertible Promissory Notes or exercise of the Warrants.

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

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

(C) Debt Restructuring and 1% Convertible Promissory Note

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

Pursuant to a note exchange and option agreement, dated April 2, 2009, between the Company and Keywin Holdings Limited (“Keywin”), Keywin exchanged the 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company’s common stock and an option to purchase an aggregate of 122,814,185 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period commencing on April 2, 2009. As of June 30, 2009, such option to purchase the Company’s common stock has not been exercised. However, pursuant to the terms of an amendment dated July 1, 2009, the Company agreed to extend the exercise period for such option to purchase the Company’s common stock from a three-month period ending on July 1, 2009, to a six-month period ending October 1, 2009.

Table of Contents

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

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

	12% Convertible Promissory Note	3% Convertible Promissory Notes (first and second tranches)	3% Convertible Promissory Notes (third tranche)	1% Convertible Promissory Note	Total
Proceeds of convertible promissory notes	\$5,000,000	\$15,000,000	\$35,000,000	\$5,000,000	\$60,000,000
Allocation of proceeds:					
Allocated relative fair value of warrants	(333,670 )	(2,490,000 )	(5,810,000 )	-	(8,633,670 )
Allocated intrinsic value of beneficial conversion feature	-	(4,727,272 )	(11,030,303)	(1,447,745)	(17,205,320)
Total net proceeds of the convertible promissory notes	4,666,330	7,782,728	18,159,697	3,552,255	34,161,010
Repayment of 12% convertible promissory note	(5,000,000)	-	-	-	(5,000,000 )
Conversion of 3% convertible promissory notes of \$45 millions	-	(15,000,000)	(30,000,000)	-	(45,000,000)
Cancellation of 3% convertible promissory notes of \$5 millions	-	-	(5,000,000 )	-	(5,000,000 )
Amortization of debt discount	333,670	7,217,272	16,840,303	97,972	24,489,217
Net carrying value of convertible promissory notes as of June 30, 2009 (Unaudited)	\$-	\$-	\$-	\$3,650,227	\$3,650,227

## Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended June 30, 2009 was as follows (Unaudited):

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$ -	\$ -	\$ -	\$ -
3% convertible promissory notes	5,495,959	10,434,095	1,005,774	16,935,828
1% convertible promissory note	-	97,972	19,454	117,426
Total	\$ 5,495,959	\$ 10,532,067	\$ 1,025,228	\$ 17,053,254



Table of Contents

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

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$-	\$-	\$-	\$-
3% convertible promissory notes	426,195	809,131	115,378	1,350,704
1% convertible promissory note	-	-	-	-
Total	\$426,195	\$809,131	\$115,378	\$1,350,704

The amortization of deferred charges and debt discount for the six months ended June 30, 2009 was as follows: (Unaudited):

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$-	\$-	\$-	\$-
3% convertible promissory notes	5,996,878	11,385,091	1,131,205	18,513,174
1% convertible promissory note	-	97,972	19,454	117,426
Total	\$5,996,878	\$11,483,063	\$1,150,659	\$18,630,600

The amortization of deferred charges and debt discount for the six months ended June 30, 2008 was as follows: (Unaudited):

	Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	\$259,204	\$-	\$80,700	\$339,904
3% convertible promissory notes	735,942	1,397,188	225,954	2,359,084
1% convertible promissory note	-	-	-	-
Total	\$995,146	\$1,397,188	\$306,654	\$2,698,988

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

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

carrying value of the convertible promissory notes against additional paid-in capital. As the 3% convertible promissory notes and 1% convertible promissory note has stated redemption date, the respective debt discount is amortized over the term of the notes from the respective date of issuance using the effective yield method.

On February 13, 2008, the Company fully redeemed 12% Convertible Promissory Note due May 2008 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. Accordingly, all the associated unamortized deferred charges and unamortized debt discount of \$48,261 and \$149,885 respectively at the date of redemption were immediately recognized as expenses and included in amortization of deferred charges and debt discount on the condensed consolidated statements of operations during the three months and six months ended June 30, 2008.

Table of Contents

On April 2, 2009, Keywin exchanged 3% convertible promissory notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock. All the associated unamortized deferred charges and unamortized debt discount of the 3% convertible promissory notes in the principal amount of \$45,000,000 amounting to \$1,005,774 and \$15,930,054 respectively at the date of conversion were immediately recognized as expenses and included in amortization of deferred charges and debt discount on the condensed consolidated statements of operations during the six months ended June 30, 2009.

## Non-cash debt conversion charges

Pursuant to the debt restructuring in April 2009, the Company provided an inducement conversion offer to Keywin who exchanged 3% Convertible Promissory Notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock. To induce conversion, the Company has reduced the conversion price and additionally granted an option to Keywin to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period. Accordingly, for the three months ended June 30, 2009, the Company recognized a non-cash debt conversion charge of \$10,204,627 equal to the fair value of the incremental consideration (including both reduction in the conversion price and grant of the purchase option). The fair value of the purchase option was determined utilizing Black-Scholes option pricing model. The following assumptions and estimates were used: volatility of 129%; an average risk-free interest rate of 0.22%; dividend yield of 0%; and an expected life of 3 months.

## Loss on early extinguishment of debt

As aforementioned, on April 2, 2009, the Company, the Investors agreed to cancel the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the Investors (including all accrued and unpaid interest thereon), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000. The Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of New Note. Accordingly, all the associated unamortized deferred charges and unamortized debt discount of the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 amounted to \$111,753 and \$1,770,006 respectively at the date of extinguishment were immediately recognized as expenses and all the accrued and unpaid interest of \$185,075 at the date of extinguishment were recognized as income. Such expenses, net of income amounted to \$1,696,684 were included in the loss on early extinguishment of debt in the condensed consolidated statements of operations during the three months and six months ended June 30, 2009.

## Interest Expense

The following table details the interest expenses:

	For the three months ended		For the six months ended	
	June 30,	June 30,	June 30,	June 30,
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
12% convertible promissory note	\$ -	\$ -	\$-	\$69,041
3% convertible promissory notes	8,333	379,166	383,333	656,750
1% convertible promissory note	12,192	-	12,192	-
Total	\$ 20,525	\$ 379,166	\$395,525	\$725,791

NOTE 11. COMMITMENTS AND CONTINGENCIES

## (A) Commitments

## 1. Rental Lease Commitment

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of June 30, 2009:

Six months ending December 31, 2009	\$284,699
Fiscal years ending December 31,	
2010	454,603
2011	-
2012	-
Total	\$739,302



Table of Contents

## 2. Annual Advertising Operating Rights Fee Commitment

Since November 2006, the Company, through its subsidiaries and variable interest entities, NCN Media Services Limited, Quo Advertising, Xuancaiyi, Bona and Botong, has acquired advertising rights from third parties to operate different types of advertising panels for certain periods.

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of 1,122 roadside advertising panels and 5 mega-size advertising panels that the Company held as of June 30, 2009:

Six months ending December 31, 2009	\$1,244,902
Fiscal years ending December 31,	
2010	1,036,767
2011	769,370
2012	485,697
2013	210,423
Thereafter	80,673
Total	\$3,827,832

## 3. Capital commitments

As of June 30, 2009, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$18,000.

## (B) Contingencies

The Company accounts for loss contingencies in accordance with SFAS No. 5 “Accounting for Loss Contingencies” and other related guidelines. Set forth below is a description of certain loss contingencies as of June 30, 2009 and management’s opinion as to the likelihood of loss in respect of loss contingency.

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

In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of \$280,000. The Company is considering appealing the decision. Management does not believe that the outcome of this litigation will have a material impact on the Company’s consolidated financial statements, or the Company’s results of operations.



Table of Contents

## NOTE 12. EQUITY (DEFICIT)

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

1. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price \$0.70 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of the warrant recognized \$nil for the three months and six months ended June 30, 2009 and 2008. As of June 30, 2009, none of the associated warrants was exercised.

2. In July 2007, NCN Group Management Limited entered into Executive Employment Agreements (the "Agreements") with Godfrey Hui, Deputy Chief Executive Officer (former Chief Executive Officer), Daniel So, former Managing Director, Daley Mok, former Chief Financial Officer, Benedict Fung, former President, and Stanley Chu, former General Manager. Pursuant to the Agreements, each executive was granted shares of the Company's common stock subject to annual vesting over five years in the following amounts: Mr. Hui, 2,000,000 shares; Mr. So, 2,000,000 shares; Dr. Mok 1,500,000 shares; Mr. Fung 1,200,000 shares and Mr. Chu, 1,000,000 shares. However, Mr. So, Mr. Fung and Mr. Chu resigned from their respective positions in January 2009 and Mr. Mok was removed as the Company's Chief Financial Officer in June 2009. Accordingly, they are no longer entitled to those shares that will be vested on December 31, 2009, 2010 and 2011 in the following amounts: Mr. So 1,500,000 shares; Mr. Fung 970,000 shares, Mr. Chu 790,000 shares and Mr. Mok 1,200,000. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$64,749 and \$699,300 included in general and administrative expenses on the condensed consolidated statements of operations for the three months ended June 30, 2009 and 2008 respectively while during the six months ended June 30, 2009 and 2008 were \$517,999 and \$1,398,600 respectively. Out of the total shares granted under the Agreements, on January 2, 2008, an aggregate of 660,000 S-8 shares with par value of \$0.001 each were vested and issued to the concerned executives.

3. In September 2007, the Company entered into a service agreement with independent directors Peter Mak, Ronglie Xu (who hold office until July 2, 2009), Joachim Burger (who resigned as a director of the Company on September 30, 2008), Gerd Jakob (who resigned as a director of the Company on May 5, 2009) and Edward Lu (who hold office until July 2, 2009). Pursuant to the service agreements, each independent director was granted shares of the Company's common stock subject to a vesting period of ten months in the following amounts: Peter Mak: 15,000 shares; Ronglie Xu: 15,000 shares; Joachim Burger: 15,000 shares, Gerd Jakob: 10,000 shares and Edward Lu: 10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized \$nil and \$43,485 of non-cash stock-based compensation included in general and administrative expenses on the condensed consolidated statements of operations for the three months ended June 30, 2009 and 2008 respectively while during the six months ended June 30, 2009 and 2008 were \$nil and \$86,970. On July 21, 2008, an aggregate of 65,000 S-8 shares of common stock of par value of \$0.001 each were vested and issued to the independent directors.

4. In November 2007, the Company issued a warrant to purchase up to 300,000 shares of restricted common stock to a placement agent for provision of agency services in connection with the issuance of 3% convertible promissory notes at an exercise price \$3.0 per share which are exercisable for a period of two years. The fair value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 182%, a risk-free rate of 4.05 % and an expected life of two (2) year. The value of the warrant recognized for the three months ended June 30, 2009 and 2008 were \$31,958 and \$31,958 respectively while during the six months ended June 30, 2009 and 2008 were \$63,917 and \$63,917 respectively. As of June 30, 2009, none of the associated warrants was exercised.

5. In December 2007, the Company committed to grant 235,000 S-8 shares of common stock to certain employees of the Company for their services rendered during the year ended December 31, 2007. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$nil in general and administrative expenses on the condensed consolidated statements of operations for the three months and six months ended June 30, 2009 and 2008. Such 235,000 S-8 shares of par value of \$0.001 each were issued on January 2, 2008. In addition, the Company committed to grant another 30,000 S-8 shares of common stock to an employee pursuant to his employment contract for service rendered. The Company recognized the non-cash stock-based compensation of \$nil and \$70,123 for the three and six months ended June 30, 2009 and 2008 for such 30,000 S-8 shares granted. In October 2008, such 30,000 S-8 shares of common stock of par value of \$0.001 each were vested and issued to the employee.

Table of Contents

6. In June 2008, the Board of Directors resolved to grant 110,000 shares of common stock to the board of directors, Peter Mak, Ronglie Xu, Joachim Burger, Gerd Jakob, Edward Lu, Godfrey Hui, Daniel So, Daley Mok and Stanley Chu, as part of their directors' fee for their service rendered during the period from July 1, 2008 to June 30, 2009. Each director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak: 15,000 shares; Ronglie Xu: 15,000 shares; Joachim Burger: 15,000 shares; Gerd Jakob: 10,000 shares; Edward Lu: 10,000 shares; Godfrey Hui: 15,000 shares; Daniel So: 10,000 shares; Daley Mok: 10,000 shares and Stanley Chu: 10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized \$27,500 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the condensed consolidated statements of operations for the three months ended June 30, 2009 and 2008 respectively while \$75,000 and \$nil for the six months ended June 30, 2009 and 2008 respectively.

7. In July 2008, the Company committed to grant 170,000 S-8 shares of common stock to certain employees of the Company for their services rendered. One of the employees effectively resigned in January 2009 and his entitlement to 70,000 shares was canceled. Accordingly, in connection with these stock grants, the Company recorded a non-cash stock based compensation of \$29,700 and \$nil for the three months ended June 30, 2009 and 2008 respectively while \$25,442 and \$nil for the six months ended June 30, 2009 and 2008 respectively.

8. In August 2008, the Company committed to grant 100,000 S-8 shares of common stock to a consultant for services rendered. The value of stock grant recognized for the three months ended June 30, 2009 and 2008 were \$31,412 and \$nil respectively while \$62,824 and \$nil for the six months ended June 30, 2009 and 2008 respectively.

(B) Stock Issued for Acquisition

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

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

On November 12, 2007, pursuant to the 12% Note and Warrant Purchase Agreement of \$5,000,000, the Company issued warrants to purchase up to 250,000 shares of the Company's common stock at the exercise price of \$2.30 per share, which are exercisable for a period of two years to Wei An. The allocated proceeds to the warrants of \$333,670 based on the relative fair value of 12% Convertible Promissory Notes and warrants were recorded as reduction in the carrying value of the note against additional-paid in capital. As the effective conversion price is higher than the Company's market price of common stock at commitment date, no beneficial conversion existed. Please refer to Note 10 – Convertible Promissory Notes and Warrants for details.

On November 19, 2007, pursuant to the 3% Note and Warrant purchase Agreement, the Company issued warrants to purchase up to 2,400,000 shares of the Company's common stock at the exercise price of \$2.5 per share and 1,714,285 shares of the Company's common stock at the exercise price of \$3.5 per share associated with the convertible notes of \$6,000,000 in the first closing. On November 28, 2007, the Company also issued warrants to purchase up to 3,600,000 shares of the Company's common stock at the exercise price of \$2.5 per share and 2,571,430 shares of the Company's common stock at the exercise price of \$3.5 per share. The allocated proceeds to these warrants were \$2,490,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$4,727,272 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 10 – Convertible Promissory Notes and Warrants for details.

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company's common stock at \$2.50 per share and warrants to purchase 10,000,000 shares of the Company's common stock at \$3.50 per share. The allocated proceeds to these warrants were \$5,810,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$11,030,303 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 10 – Convertible Promissory Notes and Warrants for details.

Table of Contents

## (D) Debt Restructuring

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

As part of new financing arrangement, the Company also issued \$5,000,000 in 1% unsecured convertible promissory note on April 2, 2009. As the conversion price was less than the Company’s market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$1,447,745 recorded as a reduction in the carrying values of the notes against additional paid-in capital. For details, please refer to Note 10 – Convertible Promissory Notes and Warrants.

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

## (E) Changes in Equity (Deficit)

The following table summarizes the changes in equity (deficit) for the three months ended June 30, 2009:

	Noncontrolling Interests	NCN Common Stockholders	Total
Total deficit as of March 31, 2009 (unaudited)	\$ (21,588 )	\$ (26,622,378 )	\$ (26,643,966 )
Net loss	(1,401 )	(30,299,321 )	(30,300,722 )
Other comprehensive income (loss)	(587 )	23,667	23,080
Preferred stock	-	-	-
Common stock	-	307,035	307,035
Additional paid-in capital	-	58,196,331	58,196,331
Total Equity (deficit) as of June 30, 2009 (unaudited)	\$ (23,576 )	\$ 1,605,334	\$ 1,581,758

The following table summarizes the changes in equity (deficit) for the six months ended June 30, 2009:

	Noncontrolling Interests	NCN Common Stockholders	Total
Total deficit as of December 31, 2008 (audited)	\$ -	\$ (23,356,217 )	\$ (23,356,217 )
Net loss	(23,168 )	(34,125,023 )	(34,148,191 )
Other comprehensive income (loss)	(408 )	23,346	22,938
Preferred stock	-	-	-
Common stock	-	307,035	307,035
Additional paid-in capital	-	58,756,193	58,756,193
Total Equity (deficit) as of June 30, 2009 (unaudited)	\$ (23,576 )	\$ 1,605,334	\$ 1,581,758

Table of Contents

## NOTE 13. RELATED PARTY TRANSACTIONS

Except as set forth below, during the six months ended June 30, 2009 and 2008, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

In connection with debt restructuring in April 2009, Statezone Ltd. of which Mr. Earnest Leung, the Company's Chief Executive Officer and Director (being appointed on July 15, 2009 and May 11, 2009 respectively) is the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000 of which \$250,000 is recorded as issuance costs for 1% convertible promissory note and \$100,000 is recorded as prepaid expenses and other current assets, net during the three months ended June 30, 2009.

On July 1, 2009, the Company and Keywin, of which Mr. Earnest Leung is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ending on July 1, 2009, to a six-month period ending October 1, 2009.

## NOTE 14. NET LOSS PER COMMON SHARE

Net loss per share information for the three and six months ended June 30, 2009 and 2008 was as follows:

	For the three months ended June 30, 2009 (Unaudited)	For the three months ended June 30, 2008 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2008 (Unaudited)
Numerator:				
Net loss from continuing operations attributable to NCN common stockholders	\$(30,299,321 )	\$(8,840,506 )	\$(34,125,023 )	\$(17,230,216 )
Net loss from discontinued operations attributable to NCN common stockholders	-	(47,615 )	-	(29,419 )
Net loss attributable to NCN common stockholders	(30,299,321 )	(8,888,121 )	(34,125,023 )	(17,259,635 )
Denominator:				
Weighted average number of shares outstanding, basic	361,806,991	71,546,608	217,525,861	71,482,405
Effect of dilutive securities				
Options and warrants	-	-	-	-
Weighted average number of shares outstanding, diluted	361,806,991	71,546,608	217,525,861	71,482,405
Net loss per common share – basic and diluted				
Continuing operations	(0.08 )	(0.12 )	(0.16 )	(0.24 )
Discontinued operations	-	-	-	-
Net loss per common share – basic and diluted	\$(0.08 )	\$(0.12 )	\$(0.16 )	\$(0.24 )



The diluted net loss per common share is the same as the basic net loss per common share for the three and six months ended June 30, 2009 and 2008 as the ordinary shares to be issued under stock options and warrants outstanding are anti-dilutive and are therefore excluded from the computation of diluted net loss per common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of June 30, 2009 and 2008 were summarized as follows:

30

---

Table of Contents

	For the three months ended June 30, 2009 (Unaudited)	For the three months ended June 30, 2008 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2008 (Unaudited)
Potential common equivalent shares:				
Stock warrants for services (1)	-	63,368	-	63,368
Conversion feature associated with convertible promissory notes to common stock	214,961,307	30,303,030	214,961,307	30,303,030
Common stock to be granted to directors executives and employees for services (including non-vested shares)	2,185,000	7,105,000	2,185,000	7,105,000
Common stock to be granted to consultants for services (including non-vested shares)	100,000	-	100,000	-
Stock options granted to Keywin	84,323,964	-	84,323,964	-
Total	301,570,271	37,471,398	301,570,271	37,471,398

## Remarks:

- (1) As of June 30, 2009, the number of potential common equivalent shares associated with warrants issued for services was nil, which was related to a warrant to purchase 100,000 common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of \$0.70, which expired in August 2016.

## NOTE 15. DISCONTINUED OPERATIONS

In September 2008, the Company disposed of its entire travel network which was classified as one of the Company's business segments in order to focus on its media business. Accordingly, the Company entered into stock purchase agreements to dispose of its entire travel network which included the sale of NCN Management Services Group (including Tianma) and NCN Landmark Group.

The Company treated the sale of entire travel network as discontinued operations. Accordingly, revenues, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes, as "Net Loss from Discontinued Operations, Net of Income Taxes".

Table of Contents

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

	For the three months ended June 30, 2009 (Unaudited)	For the three months ended June 30, 2008 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2008 (Unaudited)
Revenues	\$-	\$9,727,135	\$-	\$18,185,617
Cost of revenues	-	(9,628,249)	-	(17,930,072)
Gross profit	-	98,886	-	255,545
Operating expenses	-	(179,410 )	-	(320,635 )
Other income	-	23,077	-	40,811
Interest income	-	582	-	1,968
Net loss from discontinued operations, net of income taxes	\$-	\$(56,865 )	\$-	\$(22,311 )

## NOTE 16. BUSINESS SEGMENTS FROM CONTINUING OPERATIONS

In September 2008, the Company disposed of its entire travel business. Accordingly, the Company now operates in one single business segment: Media Network, providing out-of home advertising services.

## NOTE 17. SUBSEQUENT EVENT

On July 27, 2009, the Company filed an Amended and Restated Certificate of Incorporation with the Delaware Secretary of State, pursuant to which, the Company restated and integrated into a single document its previous Certificate of Incorporation, as amended, and amended its previous Certificate of Incorporation to increase the total number of shares of common stock that the Company has the authority to issue from 800,000,000 to 2,000,000,000 shares.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary Statements

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

Overview

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. We seek to acquire rights to install and operate roadside advertising panels and mega-size advertising panels in the major cities in China. In most cases, we will be 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 either directly or through advertising agencies. 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. LED (known as "Light Emitting Diode") technology has evolved to become a new and popular form of advertising in China, capable of delivering crisp, super-bright images both indoors and outdoors.

Our net advertising revenues for the six months ended June 30, 2009 and 2008 amounted to \$519,127 and \$1,638,055 respectively. Our net loss for the six months ended June 30, 2009 and 2008 amounted to \$34,148,191 and \$17,360,770 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 first two quarter of 2009, including the following:

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

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

We also completed debt restructuring exercise in April 2009 which has directly lessened our cash constraints. For details, please refer to below "Restructuring of Convertible Debt". With the support of new investors, we believed that the Company could turn into a new chapter and bring in the best interest to our shareholders. In July 2009, the

Company restructured its board composition to better equip for the Company's success. On July 15, 2009, the board appointed Mr. Ernest Leung as the Company's chief executive officer. Mr. Leung has over 20 years experience in the investment banking industry. He is the director of our major shareholder, Keywin Holdings Limited and also the director and chief executive officer of Vision Tech International Holdings Limited, which is listed on Hong Kong Main Board engaging in the distribution of consumer electronic products and home appliances in Hong Kong. Management is actively formulating a series of business development strategies and exploring more prominent advertising related projects, aiming to expand the Company and improve its financial performance.

For more information relating to our business, please see the section entitled "Business" in our Annual Report on Form 10-K for the fiscal year ending December 31, 2008 as filed with the United States Securities and Exchange Commission on March 27, 2009.

## Table of Contents

### Recent Developments

#### Restructuring of Convertible Debt

On November 19, 2007, we entered into a Note and Warrant Purchase Agreement, as amended, or the Purchase Agreement, with our subsidiary Quo Advertising and affiliated investment funds of Och-Ziff Capital Management Group, or the Investors, pursuant to which we agreed to issue in three tranches, 3% Senior Secured Convertible Notes, due June 30, 2011, in the aggregate principal amount of up to \$50,000,000, or the "Notes", and warrants to acquire an aggregate amount of 34,285,715 shares of our Common Stock, or the Warrants. On November 19, 2007, we issued Notes in the aggregate principal amount of \$6,000,000, Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share. On November 28, 2007, we issued Notes in the aggregate principal amount of \$9,000,000, Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share.

On January 31, 2008, we amended and restated the previously issued Notes and issued to the Investors 3% Senior Secured Convertible Notes in the aggregate principal amount of \$50,000,000, or the Amended and Restated Notes, Warrants to purchase shares of our common stock at \$2.50 per share and Warrants to purchase shares of our common stock at \$3.50 per share, or the Third Closing. In connection with the Third Closing, the parties entered into the First Amendment to the Purchase Agreement, dated as of January 31, 2008, to, among other things, establish additional funding channels between the Company and its subsidiaries in China and provide for certain other modifications in connections with the Third Closing. Concurrently with the Third Closing, we loaned substantially all the proceeds from the Amended and Restated Notes to our wholly-owned direct subsidiary, NCN Group, and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company, or the NCN Group Note. In connection with the Amended and Restated Notes, we entered into a Security Agreement, dated as of January 31, 2008, or the Security Agreement, pursuant to which we granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of our assets, including the NCN Group Note and 66% of the equity interest of NCN Group. In addition, NCN Group and certain of our indirect wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.

On April 2, 2009, we entered into a new financing arrangement with the Investors and a new investor, memorialized in the following documents.

#### Note Exchange Agreement

On April 2, 2009, we entered into a Note Exchange Agreement with certain of the Investors, or the Note Exchange Agreement, pursuant to which the parties agreed to cancel Amended and Restated Notes in the principal amount of \$5 million held by such Investors (including accrued and unpaid interest thereon), and all the Warrants, in exchange for our issuance of new 1% Unsecured Senior Convertible Notes due 2012 in the principal amount of \$5 million, or the New Notes. The New Notes bear interest at 1% per annum, payable semi-annually in arrears, and mature on April 1, 2012. They are convertible at any time into shares of our common stock at an initial conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the holders of the New Notes, or the Note Holders, will have the right to redeem the New 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.

#### Notes Exchange and Option Agreement

On April 2, 2009, we also entered into a Note Exchange and Option Agreement, or the Note Exchange and Option Agreement, with Keywin Holdings Limited, a transferee of the Investors, Keywin, pursuant to which we agreed to exchange the remaining Amended and Restated Notes in the principal amount of \$45 million (including all accrued and unpaid interest thereon) for (i) 307,035,463 shares of our common stock, or the Keywin Shares, and (ii) an option to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, originally exercisable for a three-month period commencing on April 2, 2009, or the Keywin Option. Pursuant to an amendment dated as of July 1, 2009, between the Company and Keywin, we agreed to extend the exercise period for the Keywin Option to a six-month period ending October 1, 2009.

## Table of Contents

### Registration Rights Agreement

In connection with the Note Exchange Agreement and the Note Exchange and Option Agreement, we agreed to provide Keywin and the Note Holders, pursuant to a Registration Rights Agreement, dated April 2, 2009, or the Registration Rights Agreement, among the Company, the Note Holders and Keywin, demand and piggy-back registration rights in respect of the Keywin Shares, shares of our common stock issuable upon exercise of the Keywin Option and shares of our common stock issuable upon conversion of the New Note.

### Letter Agreement and Termination of Investor Rights Agreement

On April 2, 2009, we also entered into a Letter Agreement and Termination of Investor Rights Agreement with the Investors and Keywin, or the Letter Agreement, pursuant to which the parties agreed to terminate the Investor Rights Agreement, dated November 19, 2007, entered into between us and the Investors in connection with the Purchase Agreement.

Pursuant to the Letter Agreement, we also agreed to provide certain co-sale rights to the Investors. In the event that Keywin, its affiliates and/or any of the officers or directors of the Company (collectively, referred to as the Controlling Stockholders) propose to transfer, sell, assign or otherwise dispose of, directly or indirectly, any of its or their securities in the Company in a transaction which, together with previous transfers or sales, would constitute a Change in Control (as defined in the Letter Agreement), then each of the Investors (and their assigns) will have the right to sell, at their sole election, together with such selling Controlling Stockholder, up to their entire interest in the Company (including either the New Note or the securities issuable upon conversion of the New Note, except that any such co-sale must be on the same terms and conditions agreed to by the selling Controlling Stockholder.

Pursuant to the Letter Agreement, the parties also agreed to certain limitations on conversion of the New Note. The Investors agreed that they would not convert, and we agreed that we would not issue any shares of our common stock upon any attempted conversion or exercise of, any portion of the New Note, if after giving effect to such conversion, the Investors (together with their affiliates) collectively would have acquired, through the conversion of the New Note or otherwise, beneficial ownership of a number of shares of our common stock in excess of 9.99% of the aggregate number of shares of common stock outstanding immediately after giving effect to such conversion or exercise.

### Restatements of Consolidated Financial Statements

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

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



restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27.

The aggregate net effect of the restatement was to (1) increase stockholders' equity by approximately \$14.3 million as of June 30, 2008; (2) Increase both non-cash interest and other debt-related expenses and net loss for the three months ended June 30, 2008 by approximately \$0.8 million while decrease both non-cash interest and other debt-related expenses and net loss for the six months ended June 30, 2008 by approximately \$9.6 million. Accordingly, the net loss per common share (basic and diluted) for the three months ended June 30, 2008 increased from \$0.11 to \$0.12, while decreased from \$0.38 to \$0.24 for the six months ended June 30, 2008.

Table of Contents

Results of Operations

Comparison of Three Months Ended June 30, 2009 and June 30, 2008

Revenues – In the three months ended June 30, 2009, our revenues were derived from provision of advertising services. Revenues from advertising services for the three months ended June 30, 2009 were \$333,978 as compared to \$1,053,888 for the corresponding prior year period, a decrease of 68%. The decrease was mainly attributed to the decrease in the advertising sales orders as a result of the worldwide financial crisis and deteriorating economic conditions in China.

Cost of Advertising Services – Cost of advertising services for the three months ended June 30, 2009 was \$501,058, a decrease of 89% compared to \$4,645,264 for the corresponding prior year period. This significant decrease was mainly attributable to the decrease in amortization of advertising operating rights fees. The amortization of advertising operating rights fees for the three months ended June 30, 2009 was \$365,876, a decrease of 92% compared to \$4,483,477 for the corresponding prior year period. The decrease in the amortization of advertising operating rights fees was resulted from the termination of commercially non-viable concession right contracts in late 2008 and early 2009 as well as the renegotiation of certain concession advertising operating right fees to a lower price.

Selling and Marketing Expenses – Selling and marketing expenses for the three months ended June 30, 2009 decreased by 81% to \$159,421 compared to \$823,965 for the corresponding prior year period, primarily due to a decrease in advertising services provided by the Company.

General and Administrative Expenses – General and administrative expenses for the three months ended June 30, 2009 decreased by 63% to \$1,009,995, compared to \$2,744,758 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to drastic cost cutting measures, including reduction of the Company's workforce, rental, and other general and administrative expenses, since the latter half of 2008.

Interest and Other Debt-Related Expenses – Interest and other debt-related expenses for the three months ended June 30, 2009 increased to \$28,975,090, or by 1,575 %, compared to \$1,729,870 for the corresponding prior year period. The significant increase was primarily due to the Company entering into debt restructuring in April 2009 from which the Company recorded a one-time non-cash debt conversion charges, one-time loss on early extinguishment of debt and one-time write-off on unamortized deferred charges and debt discount of \$10,204,627, \$1,696,684 and \$16,935,828 respectively during the three months ended June 30, 2009.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the three months ended June 30, 2009 and 2008 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net loss from Continuing Operations – The Company incurred a net loss from continuing operations of \$30,300,722 for the three months ended June 30, 2009, an increase of 242% compared to a net loss of \$8,859,055 for the corresponding prior year period. The significant increase in net loss was mainly due to one-time effect of debt restructuring, amounting to \$28,837,140 offset by the decrease in the cost of advertising services, selling and marketing expenses and general and administrative expenses as a result of our cost cutting measures.

Comparison of Six Months Ended June 30, 2009 and June 30, 2008

Revenues – In the six months ended June 30, 2009, our revenues were derived from provision of advertising services. Revenues from advertising services for the six months ended June 30, 2009 were \$519,127 as compared to \$1,638,055 for the corresponding prior year period, a decrease of 68%. The decrease was mainly attributed to the decrease in the

advertising sales orders as a result of the worldwide financial crisis and deteriorating economic conditions in China.

Table of Contents

Cost of Advertising Services – Cost of advertising services for the six months ended June 30, 2009 was \$953,317, a decrease of 89% compared to \$8,606,604 for the corresponding prior year period. The significant decrease was mainly attributable to the decrease in amortization of advertising operating rights fees. The amortization of advertising operating rights fees for the six months ended June 30, 2009 was \$678,736, a decrease of 92% compared to \$8,084,126 for the corresponding prior year period. The decrease in the amortization of advertising operating rights fees was resulted from the termination of commercially non-viable concession right contracts in late 2008 and early 2009 as well as the renegotiation of certain concession advertising operating right fees to a lower price.

Selling and Marketing Expenses – Selling and marketing expenses for the six months ended June 30, 2009 decreased by 78% to \$325,407 compared to \$1,464,283 for the corresponding prior year period, primarily due to a decrease in advertising services provided by the Company.

General and Administrative Expenses – General and administrative expenses for the six months ended June 30, 2009 decreased by 55% to \$2,477,666, compared to \$5,521,025 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to drastic cost cutting measures, including reduction of the Company's workforce, rental, and other general and administrative expenses, since the latter half of 2008. The write-back of allowance for doubtful debts of \$229,440 included in general and administrative expenses also led to the decrease in general and administrative expenses.

Interest and Other Debt-Related Expenses – Interest and other debt-related expenses for the six months ended June 30, 2009 increased to \$30,927,436, or by 803 %, compared to \$3,424,779 for the corresponding prior period. The significant increase was primarily due to the Company entering into debt restructuring in April 2009 from which the Company recorded a one-time non-cash debt conversion charges, one-time loss on early extinguishment of debt and one-time write-off on unamortized deferred charges and debt discount of \$10,204,627, \$1,696,684 and \$16,935,828 respectively during the six months ended June 30, 2009.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the six months ended June 30, 2009 and 2008 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net loss from Continuing Operations – The Company incurred a net loss from continuing operations of \$34,148,191 for the six months ended June 30, 2009, an increase of 97% compared to a net loss of \$17,338,459 for the corresponding prior year period. The increase in net loss was mainly due to one-time effect of debt restructuring, amounting to \$28,837,140, offset by the decrease in the cost of advertising services, selling and marketing expenses and general and administrative expenses as a result of our cost cutting measures.

Discontinued Operations

In 2008, our Board of Directors determined that it was in the best interests of the Company to focus on developing its media business and to explore ways of divesting its travel business. In September 2008, we sold our entire non-media business division, which included the sale of NCN Management Services Group (including Tianma) and NCN Landmark Group.

We treated the sales of entire travel network as discontinued operations. Accordingly, revenues, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. Summary operating results for the discontinued operations for travel network as follows:



Table of Contents

	For the three months ended June 30, 2009 (Unaudited)	For the three months ended June 30, 2008 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2008 (Unaudited)
Revenues	\$-	\$9,727,135	\$-	\$18,185,617
Cost of revenues	-	(9,628,249)	-	(17,930,072)
Gross profit	-	98,886	-	255,545
Operating expenses	-	(179,410 )	-	(320,635 )
Other income	-	23,077	-	40,811
Interest income	-	582	-	1,968
Net loss from discontinued operations, net of income taxes	-	(56,865 )	-	(22,311 )
Less: net income (loss) attributable to noncontrolling interests	-	9,250	-	(7,108 )
Net loss from discontinued operations, net of income taxes and noncontrolling interests	\$-	\$(47,615 )	\$-	\$(29,419 )

## Liquidity and Capital Resources

As of June 30, 2009, we had cash of \$4,098,355, compared to \$7,717,131 as of December 31, 2008, representing a decrease of \$3,618,776. The decrease was mainly attributable to the cash utilized by operating activities.

## Operating Activities

Net cash utilized by operating activities for the six months ended June 30, 2009 was \$3,347,707, as compared with \$13,889,375 for the corresponding prior year period. The decrease in net cash used in operating activities was mainly attributable to our drastic cost-cutting measures and the decrease in the payments for advertising operating rights fees as a result of commercially non-viable concession right contracts were being terminated in 2009.

## Investing Activities

Net cash used in investing activities for the six months ended June 30, 2009 was \$9,126, compared with \$5,968,955 for the corresponding prior year period. The decrease was mainly attributable to less equipment being purchased and no acquisition being taken during the six months ended June 30, 2009. For the six months ended June 30, 2008, the investing activities consisted primarily of the purchase of equipment related to our media business and costs associated with the acquisition of Cityhorizon BVI.

## Financing Activities

Net cash used in financing activities was \$250,000 for the six months ended June 30, 2009, compared with \$28,900,000 net cash provided by financing activities for the corresponding prior year period. For the six months ended June 30, 2009, the cash used in financing activities consisted primarily of issuance costs related to 1% convertible promissory note while for the six months ended June 30, 2008, the cash provided by financing activities primarily consisted of the issuance of \$35,000,000 in 3% Convertible Promissory Notes, offset by \$5,000,000 paid to redeem the outstanding 12% convertible promissory note due May 2008.

## Capital Expenditures

During the six months ended June 30, 2009, we acquired assets of \$55,280, which were financed through proceeds from the issuance of convertible promissory notes.

Commitments

Rental Lease Commitment

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of June 30, 2009:

Six months ending December 31, 2009	\$284,699
Fiscal years ending December 31,	
2010	454,603
2011	-
2012	-
Total	\$739,302

Table of Contents

## Annual Advertising Operating Rights Fee Commitment

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

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of 1,122 roadside advertising panels and 5 mega-size advertising panels that the Company held as of June 30, 2009:

Six months ending December 31, 2009	\$1,244,902
Fiscal years ending December 31,	
2010	1,036,767
2011	769,370
2012	485,697
2013	210,423
Thereafter	80,673
Total	\$3,827,832

Due to the unexpected unfavorable market conditions described above, cash inflows from advertising revenues were less than we expected. We have to raise additional funds in order to further expand our media network though we have completed debt restructuring in April 2009 which has lessened our cash constraints and we should be able to satisfy our requirements during the next 12 months if we scale down our operations. Because we presently have only limited revenue from operations, we intend to continue to rely primarily on financing through the issuance of our equity and debt securities to satisfy future capital requirements to enable us to finance ongoing operations. There can be no assurance that we will be able to enter into such agreements. Current global financial conditions and unfavorable conditions in our existing notes described above make securing a financing difficult to achieve. Failure to raise additional funds would have a material adverse effect on our financial condition. Furthermore, the issuance of equity or debt securities which are or may become convertible into equity securities in connection with such financing could result in substantial additional dilution to the stockholders.

To address our cash constraints, our management will continue to strictly control our operating costs. We will also continue to allocate resources to commercially viable projects as well as explore new prominent advertising related projects.

## Advertising Operating Rights Fees

Advertising operating rights fees are the major cost of our advertising revenue. To maintain the advertising operating rights, we are required to pay advertising operating rights fees in accordance with payment terms set forth in contracts we entered into with various parties. These parties generally require us to prepay advertising operating rights fees for a period of time. The details of our advertising operating rights fees as of June 30, 2009 and 2008 were as follows:

	For the three months ended June 30, 2009 (Unaudited)	For the three months ended June 30, 2008 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2008 (Unaudited)
--	--	--	---	---



Edgar Filing: NETWORK CN INC - Form 10-Q

Total payment for advertising operating rights	\$ 168,028	\$ 1,227,379	\$ 1,180,650	\$ 7,122,560
Total advertising operating rights fee recognized	\$ 365,876	\$ 4,483,477	\$ 678,736	\$ 8,084,126

Table of Contents

	As of June 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Prepayments for advertising operating rights, net	\$ 342,264	\$ 418,112
Accrued advertising operating rights fees	\$ 126,139	\$ 733,000

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

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

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

#### Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of June 30, 2009:

	Payments due by fiscal years ending December 31,				
	Total	2009	2010 - 2012	2013 - 2014	After 2014
Long-term Debt Obligations	5,000,000	-	5,000,000	-	-
Operating Lease Obligations	739,302	284,699	454,603	-	-
Annual Advertising Operating Rights Fee Obligations	3,827,832	1,244,902	2,291,834	291,096	-
Purchase Obligations	18,000	18,000	-	-	-

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

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

**Annual Advertising Operating Rights Fee Obligations.** Since November 2006, the Company, through its subsidiaries or variable interest entities, NCN Media Services Limited, Quo Advertising, Xuancaiyyi, Bona and Botong, has acquired rights from third parties to operate roadside advertising panels and mega-size advertising panels whose lease terms expiring between 2009 and 2024.

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



## Table of Contents

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial conditions and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Except for below new addition to accounting policy for debt restructuring in April 2009, there have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

### Debt Restructuring

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

For the remaining 3% convertible promissory notes in the principal amount of \$5,000,000, the Company and the holders of the 3% Convertible Promissory notes agreed to cancel the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000. The New Note bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at an fixed conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. Pursuant to EITF Issue No. 96-19, "Debtor's Accounting For a Modification or Exchange of Debt Instruments", EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues" and EITF Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments", the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of New Note.

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

Table of Contents

## Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. Effective January 1, 2008, the Company adopted the measurement and disclosure other than those requirements related to nonfinancial assets and liabilities in accordance with guidance from FASB Staff Position 157-2 “Effective Date of FASB Statement No. 157”, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of fiscal year 2009. In April 2009, the FASB issued Staff Position No. FAS 157-4 “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP FAS No. 157-4”). FSP FAS No. 157-4 clarifies the methodology used to determine fair value when there is no active market or where the price inputs being used represent distressed sales. FSP FAS No. 157-4 also reaffirms the objective of fair value measurement, as stated in SFAS No. 157 “Fair Value Measurements”, which is to reflect how much an asset would be sold for in an orderly transaction. It also reaffirms the need to use judgment to determine if a formerly active market has become inactive, as well as to determine fair values when markets have become inactive. FSP FAS No. 157-4 is applied prospectively and is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of SFAS No. 157 did not have a material impact on our financial statements.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1 “Employers’ Disclosures about Postretirement Benefit Plan Assets” (“FSP FAS 132(R)-1”). FSP FAS 132(R)-1 requires more detailed disclosures about employers’ plan assets in a defined benefit pension or other postretirement plan, including employers’ investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also requires, for fair value measurements using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. As this pronouncement is only disclosure-related, it will not have an impact on the financial position and results of operations.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB No. 28-1 “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS No. 107-1 and APB Opinion No. 28-1”). FSP FAS No. 107-1 and APB Opinion No. 28-1 requires fair value disclosures for financial instruments that are not reflected in the condensed consolidated balance sheets at fair value. Prior to the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed only once each year. With the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the Company will now be required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the condensed consolidated balance sheets at fair value. FSP FAS No. 107-1 and APB Opinion No. 28-1 is effective for interim reporting periods that end after June 15, 2009. As this pronouncement is only disclosure-related, it had no impact on the financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165 “Subsequent Events” (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for the interim report and annual periods that end after June 15, 2009. The adoption of SFAS 165 had no impact on the Financial Statements as management already followed a similar approach prior to the adoption of this standard.

In June 2009, the FASB issued SFAS No. 166 “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS 166”). SFAS 166 amends various provisions of SFAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125” by removing the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. SFAS 166 will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 166 on the financial statements.

Table of Contents

In June 2009, the FASB issued SFAS No. 167 “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 amends FASB Interpretation No. 46 (Revised December 2003) “Consolidation of Variable Interest Entities—an interpretation of ARB No. 51” (FIN 46(R)) to require an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity’s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. SFAS 167 will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is currently evaluating the potential impact of SFAS 167 on the financial statements.

In June 2009, the FASB issued SFAS No. 168 “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or EITF Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 will be effective for interim and annual periods that end after September 15, 2009. Management has determined that the adoption of SFAS 168 will not have an impact on the financial statements.

Off Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Interest Rate Risk

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





## Table of Contents

### Foreign Currency Exchange Risk

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

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

### Inflation Risk

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

## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2009. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that as of June 30, 2009, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective to satisfy the objectives for which they are intended.

### Changes in Internal Control Over Financial Reporting

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

activities, and migrating processes.

During the six months ended June 30, 2009, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

44

---

Table of Contents

PART II  
OTHER INFORMATION

ITEM LEGAL PROCEEDINGS.

1.

On March 20, 2008, our wholly-owned subsidiary, NCN Huamin, entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd., or Chengtian, pursuant to which a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008 due to the fact that Chengtian had breached several provisions of the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of approximately \$505,000 for unpaid rental-related expenses, plus accrued interest, as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian, seeking an aggregate of approximately \$155,000 from Chengtian for overpayment of rental expenses and compensation for Chengtian's breach of contract. In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of \$280,000. We are considering appealing the decision. We do not believe that the outcome of this litigation will have a material impact on our consolidated financial statements, or our results of operations.

Other than as described above, there are no material legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition.

ITEM RISK FACTORS.

1A.

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 27, 2009.

ITEM UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

2.

None.

ITEM DEFAULTS UPON SENIOR SECURITIES.

3.

None.

ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

4.

No matters were submitted during the second quarter of 2009 to a vote of security holders, through the solicitation of proxies or otherwise.

ITEM OTHER INFORMATION.

5.

On June 19, 2009 we reported our Board of Directors' removal, on June 15, 2009, of Daley Mok as our Chief Financial Officer and from all other offices of the Company held by him, effective immediately. In connection with this removal, the Board also terminated Mr. Mok's employment agreement with the Company and the vesting of shares thereunder.

Under the terms of an amendment dated as of July 1, 2009, between the Company and Keywin, we agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 122,814,185 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ending on July 1, 2009, to a six-month period ending October 1, 2009.

On July 15, 2009, we entered into separate executive employment agreements with each of Earnest Leung and Gofrey Hui, in connection with their services to the Company as our Chief Executive Officer and Deputy Chief Executive Officer, respectively. Under the terms of the agreements, each of Mr. Leung and Mr. Hui will receive a monthly salary of HK\$60,000 (approximately \$7,741) and a monthly allowance of HK\$40,000 (approximately, \$5,161) and we have agreed to grant an incentive bonus to each of Mr. Leung and Mr. Hui, of 30 million shares and 10 million shares of our common stock, respectively, for their first two years of service to the Company. Each of the executives has also agreed to customary non-competition and confidentiality provisions and the agreements may be terminated by the Company at any time without notice or payment, in the event that any of the executives engage in misconduct or dereliction of duty.

**ITEM 6. EXHIBITS.**

6.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit

No.	Description
10.1	Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company.
10.2	Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung.
10.3	Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui.
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



Table of Contents

SIGNATURES

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

Date: August 10, 2009

NETWORK CN INC.

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

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

Table of Contents

EXHIBIT INDEX

Exhibit

No.	Description
10.1	Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company.
10.2	Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung.
10.3	Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui.
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---