

NETWORK CN INC  
Form 10KSB/A  
October 22, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB/A  
(Amendment No. 2 )

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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.  
(Name of small business issuer 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)

(852) 2833-2186  
(Registrant's Telephone Number, including Area Code)

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

NONE

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

Title of Each Class  
Common Stock, \$0.001 Par Value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES<sup>1</sup>  
NO<sup>x</sup>

Check whether the issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act 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<sup>x</sup> NO<sup>1</sup>

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

YES  NO

The issuer's revenues for the fiscal year ended December 31, 2007 were \$27,582,907.

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the closing price of the common stock on March 6, 2008, as reported by OTC Bulletin Board, was approximately \$108,294,000. All executive officers, directors and each person who owns 5% or more of the outstanding common stock, based on the filings with the Securities and Exchange Commission, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 6, 2008, the issuer had 71,546,608 shares of common stock, \$0.001 par value, outstanding.

Documents Incorporated by Reference:

None

Transitional Small Business Disclosure Format (Check one): YES  NO

## EXPLANATORY NOTE

This Amendment No. 2 to Form 10-KSB (this “Amendment No. 2”) amends the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, originally filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 24, 2008 (the “Original Report”) as subsequently amended by Amendment No. 1 to Form 10-KSB filed on August 11, 2008 (the “Amendment No. 1”), of Network CN Inc., a Delaware corporation (the “Company”, “our”, “we”, or “we”). We are filing this Amendment No. 2 to amend (1) Part II - Item 6 “Management’s Discussion and Analysis or Plan of Operation”; (2) Part II - Item 7 “Financial Statements and Supplementary Data”; and (3) Part II - Item 8A (T) “Controls and Procedures”.

### Background

On October 10, 2008, we filed a Current Report on Form 8-K to announce that our Board of Directors, based upon the consideration of issues addressed in the SEC review and the recommendation of the Audit Committee, determined that we should restate our previously issued 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 our misapplication of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. The Company initially amortized the discount according to Financial Accounting Standards Board’s Emerging Issues Task Force Issue No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio” (“EITF Issue No. 98-5”), which stated that discount resulting from allocation of proceeds to the beneficial conversion feature should be recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion. As the notes are convertible at the date of issuance, the Company fully amortized such discount through interest expense at the date of issuance accordingly. However, according to Issue 6 of EITF Issue No. 00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments”, EITF Issues No. 98-5 should be modified to require the discount related to the beneficial conversion feature to be accreted from the date of issuance to the stated redemption date regardless of when the earliest conversion date occurs using the effective interest method. The restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27.

### Effects of Restatement

The aggregate net effect of the restatement was to increase stockholders’ equity by approximately \$4.7 million as of December 31, 2007 and decrease both non-cash interest expense and net loss for the year ended December 31, 2007 by approximately \$4.7 million. The net loss per common share (basic and diluted) for the year ended December 31, 2007 decreased from \$0.28 to \$0.21 accordingly. The restatement has no effect on our cash flow. See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information as included in Part II - Item 7 “Financial Statements and Supplementary Data”.

We are aware that the occurrence of a restatement of previously issued consolidated financial statements to reflect the correction of a misstatement indicated material weaknesses in internal control over financial reporting. Specifically, the Company did not maintain effective controls to ensure the correct application of accounting policies to the discount associated with the beneficial conversion feature attributed to the issuance of 3% convertible promissory notes. See Part II – Item 8A (T) “Controls and Procedures”.

The Original Report was previously amended by Amendment No. 1 to Form 10-KSB to include the comments received from the Staff of the SEC with respect to (1) amendment to the Report of Independent Registered Public Accounting Firms as a result of Webb & Company, P.A. being replaced with Jimmy C.H. Cheung & Co as our

principal independent auditor; and (2) additional disclosure on the accounting policies for prepayments of advertising operating rights and convertible promissory notes and warrants.

Other than the revisions referred to above and related consents and certifications, all other information included in the Original Report remains unchanged. This Amendment No. 2 is not intended to, nor does it, reflect events that have occurred since the filing of the Original Report, and does not modify or update the disclosures therein in any way other than as required to reflect the changes described above.

## PART II

### ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

6.

The following discussion and analysis is based on, and should be read in conjunction with our audited historical consolidated financial statements, which are included elsewhere in this Annual Report. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. Actual results could differ materially because of the factors discussed in Item 1. "Description of Business –Risks and Uncertainties" and elsewhere in this Annual Report, and some of which we may not know. All amounts are expressed in United States dollars .

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## 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 the Audit Committee, determined that we should restate our 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 our misapplication of generally accepted accounting principles to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. We amortized the entire discount at the date of issuance instead of amortizing the discount over the term of the notes from the date of issuance.

The restatement affected our previously reported non-cash interest expense, net loss, long-term debt and stockholders' equity but had no effects on our cash flow. The effects of the restatement are reflected in our consolidated financial statements and accompanying notes included herein. See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information as included in Part II - Item 7 “Financial Statements and Supplementary Data”.

Set forth below is the impact of the restatement on our previously issued consolidated financial statements:

Consolidated Statements of Operations	Amortization of Deferred Charges and Debt Discounts		Net Loss	
	As Previously Reported		As Previously Reported	
	As Restated	As Restated	As Restated	As Restated
For the year ended December 31, 2007	\$ 4,866,351	\$ 206,391	\$ (19,306,579)	\$ (14,646,619)
For the three months ended March 31, 2008	11,790,530	1,348,284	(18,813,760)	(8,371,514)
For the three months ended June 30, 2008	\$ 541,573	\$ 1,350,704	\$ (8,078,990)	\$ (8,888,121)

Consolidated Balance Sheets	3% Convertible Promissory Notes, Net		Stockholders' Equity	
	As Previously Reported		As Previously Reported	
	As Restated	As Restated	As Restated	As Restated
As of December 31, 2007	\$ 12,545,456	\$ 7,885,496	\$ 5,978,976	\$ 10,638,936
As of March 31, 2008	42,045,203	26,942,997	9,127,580	24,229,786
As of June 30, 2008	\$ 42,471,397	\$ 28,178,322	\$ 2,912,555	\$ 17,205,630

The impact of the restatement on our net loss per shares is as follows:

Net Loss Per Common Share – Basic and Diluted	As Previously Reported	As Restated
For the year ended December 31, 2007	\$ (0.28)	\$ (0.21)
For the three months ended March 31, 2008	(0.26)	(0.12)
For the three months ended June 30, 2008	\$ (0.11)	\$ (0.12)

## OVERVIEW

Network CN Inc. (“we” or “the Company”), originally incorporated on September 10, 1993, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the People’s Republic of China (“the PRC” or “China”). It

was operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. The most recent former name was Teda Travel Group, Inc. On August 1, 2006, the Company changed its name to “Network CN Inc.” in order to better reflect the Company’s vision under its new and expanded management team.

Our business plan is to build a nationwide information and entertainment network in the PRC. To achieve this goal, we have established two business divisions: our Media Business division and our Non-Media Business division. During the latter half of 2006, we adjusted our primary focus away from our Non-Media Business to our Media Business and began building a media network with the goal of becoming a nationwide leader in out-of-home, digital display advertising, roadside LED digital video panels and mega-size video billboards. We took the first step in November 2006 by securing a media-related contract for installing and managing outdoor LED advertising video panels. In 2007, we acquired Shanghai Quo Advertising Company Limited (“Quo Advertising”), an advertising agency in Shanghai, China and Xuancaiye (Beijing) Advertising Company Limited (“Xuancaiye”), an advertising agency in Beijing, China. In addition, in 2007 we secured rights to operate mega-size digital video billboards and roadside LED panels in prominent cities in the PRC and began generating revenues from our Media Business. We intend to continue to focus on our Media Business and actively pursue the acquisition of additional LED operating rights and advertising contracts with prominent customers. In 2008, we expect to place additional LED panels into operation, which we expect will further contribute to our revenues in the second or third quarters. See Item 1. “Description of Business – Media Business” for more details.

Our Non-Media Business is comprised of two sectors: Travel Network and e-Network. Through our Travel Network we provide agency tour services and hotel management services. In 2006, we acquired 55% of the equity interest in Guangdong Tianma International Travel Service Co., Ltd. (“Tianma”), a company organized under the laws of the PRC and engaged in the provision of tour services to customers both inside and outside of the PRC. In 2006 and 2007, we earned substantially all of our revenues from tour services. Our Travel Network also provides day-to-day management services to hotels and resorts in the PRC. Revenue from hotel management services declined in 2007 as a result of a decrease in the number of hotel properties that we manage.

Through our e-Network, we plan to establish a fully integrated and comprehensive business-to-business (B2B) and business-to-consumer (B2C) travel network by providing a broad range of products and services. The development of our e-Network is still in the planning stage and we do not expect to generate substantial revenues from our e-Network in the near future. See Item 1. “Description of Business – Non-Media Business” for more details.

#### CONSOLIDATED RESULTS OF OPERATIONS (RESTATED)

Cost of travel services primarily represents expenses directly incurred for arranging tour or travel packages, including service fees charged by airlines, bus operators, hotels, restaurants and other providers.

Cost of advertising services primarily consists of fees to obtain rights to operate advertising panels, advertising agency service fees and other miscellaneous expenses.

Professional fees primarily consist of consultancy service fees paid to consultants and legal counsel, stock-based compensation expense for stock, options and warrants granted to consultants and legal counsel for services rendered calculated in accordance with Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“SFAS 123R”), audit fees, and fees associated with the registration of securities with the Securities and Exchange Commission.

Payroll primarily consists of salaries paid to executives and employees, stock-based compensation expense for stock granted to directors, executive officers and employees for services rendered calculated in accordance with SFAS 123R and employee bonuses.

Other selling, general & administrative expenses primarily consist of amortization expenses of intangible rights, rental expenses, depreciation expenses, miscellaneous staff welfare and other benefits, travel expenses and miscellaneous office expenses.



Fiscal Year Ended December 31, 2007 (Restated) Compared to Fiscal Year Ended December 31, 2006:

The following table highlights certain key financial information in our consolidated statements of operations:

	2007		2006
	Restated(1)		
Revenues	\$ 27,582,907	\$	4,442,602
Costs and Expenses	41,990,807		9,515,590
Loss from Operations	(14,407,900)		(5,072,988)
Net Loss from Continuing Operations	(14,646,619)		(4,995,002)
Net Income from Discontinued Operations	-		526,296
Net loss	\$ (14,646,619)	\$	(4,468,706)

- (1) See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information as included in Part II - Item 7 “Financial Statements and Supplementary Data”

### Revenues

Revenues increased by 521% to \$27,582,907 for the year ended December 31, 2007 as compared to \$4,442,602 for the year ended December 31, 2006, primarily as a result of an increase in sales of travel services in fiscal 2007. Travel services revenue increased by 502% to \$26,140,355 for the year ended December 31, 2007 compared to \$4,342,124 for the year ended December 31, 2006 primarily due to the acquisition of Tianma in June 2006 and the growth of Tianma’s revenues in fiscal 2007. In addition, advertising services revenue increased by 100% to \$1,442,552 for the year ended December 31, 2007, primarily as a result of the acquisition of Quo Advertising and Xuancai yi in January 2007 and September 2007, respectively.

#### Cost of Travel Services

Cost of travel services increased by 510% to \$25,830,401 for the year ended December 31, 2007 compared to \$4,231,952 for the year ended December 31, 2006 as a result of an increase in the sale of travel services.

#### Cost of Advertising Services

Cost of advertising services increased by 100% to \$2,795,188 for the year ended December 31, 2007 due to the acquisition of Quo Advertising and Xuancai yi in 2007.

#### Professional Fees

Professional fees for the year ended December 31, 2007 increased by 72% to \$5,612,810 compared to \$3,260,103 for the year ended December 31, 2006, primarily due to an increase in the services rendered by our legal counsel and consultants in fiscal 2007 in order to cope with the Company's expansion. In addition, the increase was also driven by an increase in stock-based compensation expense for services rendered by legal counsel and consultants in accordance to SFAS 123R.

#### Payroll

Payroll increased by 308% to \$4,098,842 for the year ended December 31, 2007 as compared to \$1,004,731 for the year ended December 31, 2006, primarily due to an increase in the number of employees and more stocks were granted to directors, executives and employees for their services rendered, resulting an increase in the amount of non-cash stock-based compensation in accordance to SFAS 123R.

#### Non-cash impairment charges

Non-cash impairment charges increased by 521% to \$1,332,321 for the year ended December 31, 2007 as compared to \$214,600 for the year ended December 31, 2006, primarily due to an increase in the impairment loss recorded for our intangible rights. In 2007, we recorded an impairment loss of \$516,419 and \$815,902 for the intangible rights of Quo Advertising and Tianma respectively as a result of continuous operating loss recorded by non-LED business of Quo Advertising and tour business of Tianma. In 2006, we recorded an impairment loss of \$214,600, which mainly represents the impairment loss recorded for the intangible right of our 99.9% owned subsidiary, NCN Landmark International Hotel Group Limited.

#### Other Selling, General and Administrative

Other selling, general and administrative expenses increased by 189% to \$2,321,245 for the year ended December 31, 2007 compared to \$804,204 for the year ended December 31, 2006 primarily due to an increase in amortization expense of \$212,816 as a result of the acquisition of intangible rights in 2007. In addition, staff welfare benefits and the Company's office rental expense and other miscellaneous administrative expenses increased due to the Company's expansion, including an increase in personnel.

#### Interest Expense

Interest expense increased to \$329,194 for the year ended December 31, 2007 compared to \$1,416 for the year ended December 31, 2006. Of the \$329,194 recorded in the year ended December 31, 2007, \$206,391 was attributed to amortization of deferred charges and debt discount associated with convertible promissory notes issued in late 2007 and \$122,803 was attributed to interest expense on these convertible promissory notes. The amount of interest expense for the year ended December 31, 2006 represented interest expense associated with capital lease obligations which

were fully paid in fiscal 2007.

#### Income Taxes

The Company derives all of its income in the PRC and is subject to income tax in the PRC. Income tax for the year ended December 31, 2007 was \$7,668 as compared to \$6,984 for the year ended December 31, 2006. Minimum income tax was recorded as the Company and its subsidiaries operated at a loss in both fiscal 2007 and fiscal 2006.

#### Net Loss from Continuing Operations

The Company incurred a net loss from continuing operations of \$14,646,619 for the year ended December 31, 2007, an increase of 193% compared to a net loss of \$4,995,002 for the year ended December 31, 2006. Generally, the significant increase in the loss from continuing operations was driven by several major factors: (1) the amortization of deferred charges and a debt discount of \$206,391 associated with the issuance of convertible promissory notes, (2) an increase in stock-based compensation of \$3,631,787 for services rendered by consultants, legal counsels, directors, executives and employees, (3) an increase in impairment charges of intangible rights of \$1,117,721, (4) a loss of \$1,352,636 related to our media business in 2007 and (5) an increase in professionals fees, payroll and other selling, general and administrative expenses recorded by the Company as a result of our expansion.

### Net Income from Discontinued Operations

The Company recorded a one-time gain of \$579,870 on the disposal of the Company's interest in Tianjin Teda Yide Industrial Company Limited ("Yide") for the year ended December 31, 2006.

### Net Loss

The Company recorded a net loss of \$14,646,619 for the year ended December 31, 2007, an increase of 228% compared to \$4,468,706 for the year ended December 31, 2006, due to a loss from continuing operations discussed above in "Loss from Continuing Operations" and one-time gain on the disposal of the Company's interest in Yide in 2006.

### CONSOLIDATED FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 2007, current assets were \$20,064,547, current liabilities were \$8,235,037 and we had net working capital of \$11,829,510. Cash at December 31, 2007 was \$2,233,528 compared to \$2,898,523 at December 31, 2006, a decrease of \$664,995.

Net cash used by operating activities for the year ended December 31, 2007 was \$21,320,216 compared to \$2,318,366 for the year ended December 31, 2006, an increase of \$19,001,850. The increase in net cash used by operating activities was attributable to an increase in both the net loss recorded by the Company and an increase in fees paid to acquire rights to install and operate LED panels and billboards.

Net cash used in investing activities for the year ended December 31, 2007 was \$523,319 compared to net cash used in investing activities of \$3,898,847 for the year ended December 31, 2006, a decrease of \$3,375,528. The net cash used in investing activities in 2006 was mainly driven by the one-time acquisition of an intangible right in the amount of \$6,000,000 associated with the Changning Project, offset by a one-time gain of \$3,000,000 received from the sale of the Company's interest in Yide. Cash used in investing activities in fiscal 2007 mainly comprised the purchase of equipment and the acquisition of subsidiaries.

Net cash provided by financing activities was \$21,119,380 in fiscal 2007 compared to \$9,026,337 in fiscal 2006, an increase of \$12,093,043. The increase was primarily attributable to the issuance of convertible promissory notes in fiscal year 2007, which included \$5,000,000 in 12% convertible promissory notes, less a commitment fee of \$100,000 and \$15,000,000 in 3% convertible promissory notes less a placement agent fee of \$300,000.

### Capital Expenditures

We continue to seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions. During the years ended December 31, 2007 and 2006, we acquired assets of \$207,371 and \$90,888 respectively, financed through working capital.

During fiscal 2007, the Company contracted with Guiding Media ("Bona") to construct 120 LED panels at various locations in the PRC at Bona's cost. Upon completion of the installation of such 120 LED panels on or before December 31, 2007, the Company had an option to acquire the LED panels at the installation cost plus 15%. Instead of exercising the option to acquire the LED panels, the Company, through its subsidiary, Lianhe, entered into a series of commercial agreements with Bona and the registered shareholders of Bona on January 1, 2008, pursuant to which Lianhe is able to effectively control and manage Bona and receive the net profits of Bona. As a result, the Company expects to be able to consolidate the results of Bona as a variable interest entity pursuant to FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities." See Item 6. "Management's Discussion and Analysis or Plan of Operation - Subsequent Events" for details.

Commitments

Since November 2006, the Company, through its subsidiaries, NCN Media Services Limited, Quo Advertising and Xuancaiye, acquired rights from third parties to operate 1,845 roadside advertising panels and 11 mega-size advertising panels for periods ranging from 16 months to 20 years.

The following table sets forth the estimated future annual commitment of the Company with respect to these rights as of December 31, 2007, although the Company's obligations to install the advertising panels are not subject to any specific timetable:

Fiscal years ending December 31,	(In millions)
2008	\$ 16.5
2009	13.9
2010	4.0
2011	3.9
2012	3.6
Thereafter	23.7
<b>Total commitments</b>	<b>\$ 65.6</b>

The Company is responsible for a portion of the cost of installing the 1,845 roadside advertising panels and 11 mega-size advertising panels. The Company estimates that the capital investment, including installation costs, for each roadside LED panel is approximately \$20,000 to \$25,000, and approximately \$600,000 to \$2,000,000 for each mega-size digital billboard, depending on its size.

In order to meet these capital commitments in 2007 the Company issued \$5,000,000 in a 12% convertible note due in 2008 and in late 2007 and January 2008 the Company issued \$50,000,000 in 3% convertible promissory notes due 2011. See Item 6. "Management's Discussion and Analysis or Plan of Operation – Material Subsequent Events."

## Financing Activities

In 2007, we raised additional funds through the issuance of equity and convertible promissory notes.

### 1. Issuance of Common Stock

In April 2007, the Company issued and sold 500,000 shares of restricted common stock, par value \$0.001 per share, for an aggregate amount of \$1,500,000 in a private placement. No investment-banking fees were paid with respect to this transaction.

### 2. Issuance of Convertible Promissory Notes

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

On November 12, 2007, the Company entered into a Note and Warrant Purchase Agreement with Wei An Developments Limited ("Wei An") pursuant to which the Company issued and sold to Wei An a 12% convertible promissory note in the principal amount of \$5,000,000 (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 connection with this transaction, the Company issued warrants to purchase up to 250,000 shares of the Company's common stock at an exercise price of \$2.30 per share, exercisable for a period of two years.

On February 13, 2008, the Company prepaid the 12% Convertible Promissory Note in full. No prepayment penalty was incurred.

#### b) 3% Convertible Promissory Notes and Warrants

On November 19, 2007, the Company, Quo Advertising and the Designated Holders (as defined in the Purchase Agreement), entered into a 3% Note and Warrant Purchase Agreement (the "Purchase Agreement") with affiliated investment funds of Och-Ziff Capital Management Group (the "Investors"). Pursuant to the Purchase Agreement, the Company issued 3% Senior Secured Convertible Notes due June 30, 2011 in the aggregate principal amount of US\$50,000,000 (the "3% Convertible Promissory Notes") and warrants to acquire an aggregate amount of 34,285,715 shares of Common Stock of the Company (the "Warrants"). The 3% Convertible Promissory Notes and Warrants were issued in three tranches, with 3% Convertible Promissory Notes in the aggregate principal amount of US\$6,000,000, Warrants exercisable for 2,400,000 shares at \$2.50 per share and Warrants exercisable for 1,714,285 shares at \$3.50 per share, issued on November 19, 2007, 3% Convertible Promissory Notes in the aggregate principal amount of

US\$9,000,000, Warrants exercisable for 3,600,000 shares at \$2.50 per share and Warrants exercisable for 2,571,430 shares at \$3.50 per share issued on November 28, 2007, and 3% Convertible Promissory Notes in the aggregate principal amount of US\$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 issued on January 31, 2008. See Item 6. "Management's Discussion and Analysis or Plan of Operation – Material Subsequent Events." The warrants expire on June 30, 2011.

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

The Company believes that the issuance of the above notes enhances our plans for aggressive expansion of our operations with significant financial support and market-wise counseling. It will accelerate our project and make us to becoming the market leader of out-of-home digital media network in China.

#### MATERIAL SUBSEQUENT EVENTS

On January 1, 2008, the Company and its wholly owned subsidiary CityHorizon Limited, a Hong Kong company (“CityHorizon Hong Kong”), entered into a Share Purchase Agreement with CityHorizon Limited, a British Virgin Islands company (“CityHorizon BVI”), Hui Zhong Lian He Media Technology Co., Ltd., a wholly owned subsidiary of CityHorizon BVI (“Lianhe”), Beijing Hui Zhong Bo Na Media Advertising Co., Ltd., a wholly owned subsidiary of CityHorizon BVI (“Bona”), and Liu Man Ling, an individual and sole shareholder of CityHorizon BVI pursuant to which the Company, through its subsidiary CityHorizon Hong Kong, acquired 100% of the issued and outstanding shares of CityHorizon BVI from Liu Man Ling. Pursuant to the Share Purchase Agreement, the Company paid Liu Man Ling US\$5,000,000 in cash and issued Liu Man Ling 1.5 million duly authorized, validly issued, fully paid and non-assessable shares of the Company’s common stock.

In connection with the Company’s financing transaction with affiliated investment funds of Och-Ziff Capital Management Group, effective January 1, 2008 the Company caused its subsidiary, Lianhe, to enter into a series of commercial agreements with Quo Advertising, pursuant to which Lianhe provides exclusive technology and management consulting services to Quo Advertising in exchange for services fees, which amount to substantially all of the net income of Quo Advertising. Each of the registered PRC shareholders of Quo Advertising also entered into equity pledge agreements and option agreements, which cannot be amended or terminated except by written consent of all parties, with Lianhe. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged such shareholder’s interest in Quo Advertising for the performance of such Quo Advertising’s payment obligations under its respective exclusive technology and management consulting services agreements. In addition, Lianhe has been assigned all voting rights by the shareholders of Quo Advertising and has the option to acquire the equity interests of Quo Advertising at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders. At the same time, Quo Advertising terminated its trust arrangement with Crown Winner International Limited. Effective January 1, 2008, Lianhe also entered into a series of similar commercial agreements with Bona and Hui Zhi Bo Tong Media Advertising Beijing Co., Ltd (“Botong”), a company organized under the laws of the PRC, and their respective registered shareholders.

The effect of these contractual arrangements is to give effective control of Quo Advertising, Bona and Botong to Lianhe and to allow the Company to consolidate the results of these entities as variable interest entities pursuant to FASB Interpretation No. 46 (Revised), “Consolidation of Variable Interest Entities”.

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company’s common stock at \$2.50 per share and warrants to purchase 10,000,000 shares of the Company’s common stock at \$3.50 per share. Concurrently with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its direct wholly owned subsidiary, NCN Group Limited (“NCN Group”), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the “NCN Group Note”). The Company entered into a Security Agreement, dated as of January 31, 2008 pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company’s indirect wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.



On February 13, 2008, the Company fully paid the 12% Convertible Promissory Note due May 2008 issued in November 2007 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. No penalty or premium was charged for such prepayment.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including but not limited to those related to income taxes and impairment of long-lived assets. We base our estimates on historical experience and on various other assumptions and factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Based on our ongoing review, we plan to adjust to our judgments and estimates where facts and circumstances dictate. Actual results could differ from our estimates.

We believe the following critical accounting policies are important to the portrayal of our financial condition and results and require our management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain.

1. Prepayments for advertising operating rights

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are in general charged to the consolidated statements of operations on a straight-line basis over the operating period. The operating periods of the existing advertising operating rights range from 16 months to 20 years. 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.

2. Equipment, net

Equipment is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets, which is from three to five years. When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in the statement of operations. Repairs and maintenance costs on equipment are expensed as incurred.

3. Intangible rights, net

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

4. Impairment of Long-Lived Assets

Long-lived assets, including intangible rights 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 right 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 right 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.

5. Convertible Promissory Notes and Warrants

In 2007, the Company issued 12% convertible promissory note and warrants and 3% convertible promissory notes and warrants. As of December 31, 2007, the warrants and embedded conversion feature were classified as equity under EITF 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 133, "Accounting for Derivative Instruments and Hedging Activities". Such classification will be reassessed at each balance sheet date. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to

warrants associated with convertible promissory notes based on their relative fair values at commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in according to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ..

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

#### 6. 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 the early redemption premium, if any, will be recognized as an expense upon its occurrence. All such related charges, if material, would be aggregated and included in a separate line, charges on early redemption of convertible promissory notes, which would be included in ordinary activities on the consolidated statements of operations as required by SFAS No.145,"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections".

Pursuant to the provisions of agreements in connection with 3% convertible promissory notes, certain of 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 in the event of a default, or if the Company's actual EPS in any fiscal year is less than 80% of the respective EPS target. The Company accounts for such potential liability of 20% internal rate of return on the then outstanding principal amount in accordance with SFAS No. 5, "Accounting for Contingencies".

## 7. Revenue Recognition

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

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

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

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

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

only advertise and promote the business of Tianma with the prior approval of Tianma.

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

#### 8. Stock-based Compensation

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

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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.

#### 9. Income Taxes

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

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### 10. Foreign Currency Translation

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

#### 11. Consolidation of variable interest entity

In accordance with FIN 46R, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

APPENDIX A

NETWORK CN INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS

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PAGE F-5	<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006</u>
PAGE F-6	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006</u>
PAGES F-7 – F-26	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006</u>

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:  
Network CN, Inc. and Subsidiaries

We have audited the accompanying balance sheet of Network CN, Inc. as of December 31, 2007 (Restated), and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2007 (Restated) and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Network CN, Inc. as of December 31, 2007 (Restated) and the results of its operations and its cash flows for the years ended December 31, 2007 (Restated) and 2006 in conformity with accounting principles generally accepted in the United States of America.

WEBB & COMPANY, P.A.  
Certified Public Accountants

Boynton Beach, Florida

March 12, 2008, except for notes 2,9,10,14,16,17,19 to which the date is October 14, 2008

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Jimmy C.H. Cheung & Co  
Certified Public Accountants  
(A member of Kreston International)

Registered with the Public Company  
Accounting Oversight Board

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:  
Network CN Inc.

We have audited the consolidated balance sheet of Network CN Inc. and subsidiaries as of December 31, 2007 (restated) and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 2007 (restated) and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the ultimate holding company, which statements reflect total assets of \$2.1 million for 2007. Those statements were audited by other accountants whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the ultimate holding company is based on the reports of other accountants.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network CN Inc. and subsidiaries as of December 31, 2007 (restated) and the results of its operations and its cash flows for the years ended December 31, 2007 (restated) and 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company restated its consolidated financial statements for the year ended December 31, 2007.

JIMMY C.H. CHEUNG & CO  
Certified Public Accountants

Hong Kong

Date: July 29, 2008 except for Notes 2, 9, 10, 14, 16, 17 and 19, to which the date is October 14, 2008

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NETWORK CN INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007 (RESTATED) (1)

## ASSETS

Current Assets	Note	
Cash		\$ 2,233,528
Accounts receivable, net	4	1,093,142
Prepayments for advertising operating rights		13,636,178
Prepaid expenses and other current assets		3,101,699
Total Current Assets		20,064,547
Equipment, Net	5	257,403
Intangible Rights, Net	6	6,114,550
Deferred Charges, Net	7	670,843
<b>TOTAL ASSETS</b>		<b>\$ 27,107,343</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable, accrued expenses and other payables	8	\$ 3,490,586
Current liabilities from discontinued operations	15	3,655
12% convertible promissory note, net	10	4,740,796
Total Current Liabilities		8,235,037
3% Convertible Promissory Notes Due 2011, Net	10	7,885,496
<b>TOTAL LIABILITIES</b>		<b>16,120,533</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>11</b>	
<b>MINORITY INTERESTS</b>		<b>347,874</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value, 5,000,000 shares none issued and outstanding		-
Common stock, \$0.001 par value, 800,000,000 shares 69,151,608 shares issued and outstanding		69,152
Additional paid-in capital	12	35,673,586
Accumulated deficit		(25,169,099)
Accumulated other comprehensive income		65,297
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>10,638,936</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$ 27,107,343</b>

(1) See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information of Consolidated Financial Statements.

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

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NETWORK CN INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006

	Note	2007 (Restated)(1)	2006
<b>REVENUES</b>			
Travel services		\$ 26,140,355	\$ 4,342,124
Advertising services		1,442,552	-
Related parties	13	-	100,478
Total Revenues		27,582,907	4,442,602
<b>COSTS AND EXPENSES</b>			
Cost of travel services		25,830,401	4,231,952
Cost of advertising services		2,795,188	-
Professional fees		5,612,810	3,260,103
Payroll		4,098,842	1,004,731
Non-cash impairment charges	6	1,332,321	214,600
Other selling, general & administrative		2,321,245	804,204
Total Costs and Expenses		41,990,807	9,515,590
<b>LOSS FROM OPERATIONS</b>		<b>(14,407,900)</b>	<b>(5,072,988)</b>
<b>OTHER INCOME</b>			
Interest income		26,811	38,395
Other income		9,284	23,334
Total Other Income		36,095	61,729
<b>INTEREST EXPENSE</b>			
Amortization of deferred charges and debt discount	10	206,391	-
Interest expense		122,803	1,416
Total Interest Expense		329,194	1,416
<b>NET LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS</b>			
		<b>(14,700,999)</b>	<b>(5,012,675)</b>
Income taxes	17	(7,668)	(6,984)
Minority interests		62,048	24,657
<b>NET LOSS FROM CONTINUING OPERATIONS</b>		<b>(14,646,619)</b>	<b>(4,995,002)</b>
<b>DISCONTINUED OPERATIONS</b>			
Loss from discontinued operations	15	-	(53,574)
Gain on disposal of an affiliate	15	-	579,870
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>		<b>-</b>	<b>526,296</b>
<b>NET LOSS</b>		<b>(14,646,619)</b>	<b>(4,468,706)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation gain		61,817	3,480
<b>COMPREHENSIVE LOSS</b>		<b>\$ (14,584,802)</b>	<b>\$ (4,465,226)</b>

NET INCOME (LOSS) PER COMMON SHARE – BASIC AND DILUTED			
Loss per common share from continuing operations	14	\$ (0.21)	\$ (0.10)
Income per common share from discontinued operations	14	-	0.01
Net loss per common share – basic and diluted	14	\$ (0.21)	\$ (0.09)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED			
	14	68,556,081	52,489,465

(1) See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information of Consolidated Financial Statements.

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

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## NETWORK CN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Share	Amount					
Balance as of December 31, 2005	21,846,885	\$ 21,847	\$ 8,087,078	\$ (66,355)	\$ (6,053,774)	\$ -	\$ 1,988,796
Issuance of stock for private placement	42,086,333	42,086	9,615,959	-	-	-	9,658,045
Issuance of stock for acquisition of a subsidiary	362,500	363	102,587	-	-	-	102,950
Issuance of stock for service rendered by consultants and legal counsel	3,005,000	3,005	4,873,995	(2,845,000)	-	-	2,032,000
Contribution from a stockholder	-	-	16,781	-	-	-	16,781
Stock-based compensation for stock options/warrants issued to consultant and legal counsel for service	-	-	25,551	-	-	-	25,551
Amortization of deferred stock-based compensation	-	-	-	66,355	-	-	66,355
Translation adjustment	-	-	-	-	-	3,480	3,480
Net loss for the year	-	-	-	-	(4,468,706)	-	(4,468,706)
Balance as of December 31, 2006	67,300,718	\$ 67,301	\$ 22,721,951	\$ (2,845,000)	\$ (10,522,480)	\$ 3,480	\$ 9,425,252
Issuance of stock for private placement	500,000	500	1,499,500	-	-	-	1,500,000
Issuance of stock for acquisition of	300,000	300	843,300	-	-	-	843,600



a subsidiary								
Issuance of stock for service rendered by directors and officers	607,260	607	166,227	-	-	-	166,834	
Issuance of stock for service rendered by consultants	218,630	219	441,785	-	-	-	442,004	
Exercise of warrants by a consultant	225,000	225	22,275	-	-	-	22,500	
Stock-based compensation for stock granted to directors, officers and employees for service	-	-	2,378,380	-	-	-	2,378,380	
Stock-based compensation for stock option/warrants issued to consultants for service			27,921				27,921	
Stock-based compensation for stock warrants issued to a placement agent for service	-	-	21,305	-	-	-	21,305	
Amortization of deferred stock-based compensation	-	-	-	2,845,000	-	-	2,845,000	
Value of warrants associated with convertible notes	-	-	2,823,670	-	-	-	2,823,670	
Value of beneficial conversion feature of convertible notes to common stock	-	-	4,727,272	-	-	-	4,727,272	
Translation adjustment	-	-	-	-	-	61,817	61,817	
Net loss for the year (Restated) (1)	-	-	-	-	(14,646,619)	-	(14,646,619)	
Balance as of	69,151,608	\$ 69,152	\$ 35,673,586	\$	-	\$(25,169,099)	\$ 65,297	\$ 10,638,936

December 31,  
2007

(1) See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information of Consolidated Financial Statements.

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

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NETWORK CN INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006

	2007 (Restated)(1)	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(14,646,619)	\$(4,468,707)
Add: Loss from discontinued operations	-	53,574
	(14,646,619)	(4,415,133)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment and intangible rights	528,635	289,148
Deferred charges and debt discount	206,391	-
Stock-based compensation for service	5,755,693	2,123,906
Allowance for doubtful debts	10,716	15,542
Non-cash impairment charges	1,332,321	214,600
Loss on disposal of equipment	5,350	-
Gain on disposal of subsidiaries / affiliate	(10,096)	(579,870)
Minority interests	(62,048)	(8,081)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(614,589)	(134,659)
Prepayments for advertising operating rights	(13,636,178)	-
Prepaid expenses and other current assets	(2,375,340)	(7,306)
Accounts payable, accrued expenses and other payables	2,185,548	276,626
Net cash used in continuing operations	(21,320,216)	(2,225,227)
Net cash used in discontinued operations	-	(93,139)
Net cash used in operating activities	(21,320,216)	(2,318,366)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of an affiliate	-	3,000,000
Proceeds from disposal of subsidiaries	551	-
Proceeds from disposal of equipment	2,668	-
Purchase of equipment	(207,371)	(90,888)
Purchase of intangible right	-	(6,000,000)
Net cash used in acquisition of subsidiaries, net	(319,167)	(807,959)
Net cash used in investing activities	(523,319)	(3,898,847)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in amounts due to related parties	-	(639,130)
Proceeds from issuance of common stock in private placement, net of costs	1,500,000	9,658,045
Proceeds from exercise of warrants issued for service	22,500	-
Proceeds from issuance of 12% convertible promissory note, net of costs	4,900,000	-
Proceeds from issuance of 3% convertible promissory notes, net of costs	14,700,000	-
Repayment of capital lease obligation	(3,120)	(9,359)
Contribution from a stockholder	-	16,781
Net cash provided by financing activities	21,119,380	9,026,337
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>59,160</b>	<b>3,480</b>

NET (DECREASE) INCREASE IN CASH	(664,995)	2,812,604
CASH, BEGINNING OF PERIOD	2,898,523	85,919
CASH, END OF PERIOD	\$ 2,233,528	\$ 2,898,523

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

## Cash paid during the year for:

Income taxes	\$ -	\$ 19,450
Interest paid for 12% convertible promissory note	\$ 78,934	\$ -
Interest paid for capital lease arrangement	\$ 421	\$ 5,423

## Non-cash activities:

Issuance of common stock for acquisition of a subsidiary (Note 9)	\$ 843,600	\$ 102,950
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(1) See Note 2 – Restatement and Reclassification and Note 19 – Restated Financial Information of Consolidated Financial Statements.

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

NETWORK CN INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 (RESTATED) AND 2006

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) ORGANIZATION AND PRINCIPAL ACTIVITIES

Network CN Inc., originally incorporated on September 10, 1993, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the People's Republic of China ("the PRC" or "China"). Network CN Inc. and its subsidiaries (collectively "NCN" or the "Company") were operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. The most recent former name was Teda Travel Group, Inc. On August 1, 2006, the Company was renamed from "Teda Travel Group, Inc." to "Network CN Inc." in order to better reflect the Company's vision under the new and expanded management team. The Company is mainly engaged in building a nationwide information and entertainment network in China through its businesses in Travel Network and Media Network.

To take advantage of China's booming travel market, in June 2006, the Company, through its subsidiary NCN Management Services Limited ("NCN Management Services"), acquired 55% of the equity interests of Tianma International Travel Service Co., Ltd ("Tianma"), a travel agency headquartered in Guangdong Province in the PRC. In order to comply with certain PRC laws relating to foreign entities' ownership of travel agencies in the PRC, the former owner of Tianma holds 55% of the equity interests in Tianma in trust for the benefit of NCN Management Services. The laws of the PRC govern the agreements by which the Company acquired Tianma and by which the former owner of Tianma holds such equity interest in trust. Through the contractual arrangements, NCN Management Services is deemed the primary beneficiary of Tianma and Tianma being deemed a subsidiary of NCN Management Services under the requirements of FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities" ("FIN 46(R)").

PRC regulations currently limit foreign ownership of companies that provide advertising services. In order to help the Company to grow its advertising business in China, on January 31, 2007, pursuant to a Purchase and Sales Agreement and Trust Agreements, Crown Winner International Limited ("Crown Winner"), a wholly-owned subsidiary of the Company, is deemed the primary beneficiary of Shanghai Quo Advertising Company Limited ("Quo Advertising") resulting in Quo Advertising being deemed a subsidiary of Crown Winner under the requirements of FIN 46(R). On September 1, 2007, Quo Advertising acquired 51% of the equity interests of Xuancaiye (Beijing) Advertising Company Limited ("Xuancaiye"), an advertising agency in Beijing, China.

Accordingly, the effect of the above contractual arrangements is to give the Company effective control of Tianma and Quo Advertising and to allow the Company to consolidate the results of Tianma, Quo Advertising and Xuancaiye pursuant to FIN 46(R).

Details of the Company's principal subsidiaries as of December 31, 2007 are described in Note 3 – Subsidiaries.

(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

(B) Principles of Consolidation

The consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and its variable interest entities (VIEs). In May 2006, the management of the Company decided to discontinue the business and wind down the operations of Teda (Beijing) Hotels Management Limited, a wholly owned subsidiary which has been accounted for as discontinued operations since the fourth quarter of 2006 and the wind down process was yet to be completed as of December 31, 2007. All significant intercompany transactions and balances have been eliminated upon consolidation.

In accordance with Interpretation No. 46R, Consolidation of Variable Interest Entities (“FIN 46R”), VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIEs for financial reporting purposes. The Company has concluded that Tianma and Quo Advertising are VIEs and that the Company is the primary beneficiary. Under the requirements of FIN 46R the Company consolidated the financial statements of Tianma and Quo Advertising as VIEs of the Company.

(C) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, 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 financial statements taken as a whole.

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of December 31, 2007 and 2006, the Company had no cash equivalents.

(E) Prepayments for advertising operating rights

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are in general charged to the consolidated

statements of operations on a straight-line basis over the operating period. The operating periods of the existing advertising operating rights range from 16 months to 20 years. 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.

(F) Equipment, Net

Equipment is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets, which is from three to five years. When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in the statement of operations. Repairs and maintenance costs on equipment are expensed as incurred.

(G) Intangible Rights, Net

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

(H) Impairment of Long-Lived Assets

Long-lived assets, including intangible rights 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 right 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 right exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(I) Deferred Charges, Net

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

(J) Convertible Promissory Notes and Warrants

In 2007, the Company issued 12% convertible promissory note and warrants and 3% convertible promissory notes and warrants. As of December 31, 2007, the warrants and embedded conversion feature were classified as equity under EITF 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 133, "Accounting for Derivative Instruments and Hedging Activities". Such classification will be reassessed at each balance sheet date. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the



proceeds equal to the intrinsic value of that feature to additional paid-in capital in according to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments".

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

(K) 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 the early redemption premium, if any, will be recognized as an expense upon its occurrence. All such related charges, if material, would be aggregated and included in a separate line, charges on early redemption of convertible promissory notes, which would be included in ordinary activities on the consolidated statements of operations as required by SFAS No.145,"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections"

Pursuant to the provisions of agreements in connection with 3% convertible promissory notes, certain of 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 in the event of a default, or if the Company's actual EPS in any fiscal year is less than 80% of the respective EPS target. The Company accounts for such potential liability of 20% internal rate of return on the then outstanding principal amount in accordance with SFAS No. 5, "Accounting for Contingencies".

(L) Revenue Recognition

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

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

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

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

confirmation and request full payment. All payments received by the appointed sub-agents are paid to Tianma prior to the commencement of the tours.

6. Tianma will then make or finalize corresponding bookings with outside service providers such as airlines, bus operators, hotels, restaurants, etc. and pay any unpaid fees or deposits to such providers.

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

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

#### (M) Stock-based Compensation

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

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

#### (N) Income Taxes

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

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### (O) Comprehensive Income (Loss)

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

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

Basic earnings (loss) per common share are computed by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

The diluted net loss per share is the same as the basic net loss per share for the years ended December 31, 2007 and 2006 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.

(Q) Operating Leases

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

(R) Foreign Currency Translation

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

(S) Fair Value of Financial Instruments

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

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

(T) Concentration of Credit Risk

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

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

(U) 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 2007, the Company changed their operating segments as a result of change of internal organization structure by management. It is the management's view that the services rendered by the Company are of three operating segments: Media Network, Travel Network and Investment Holding in 2007.

(V) Recent Accounting Pronouncements

In September 2006, FASB issued SFAS 157, "Fair Value Measurements". This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. More precisely, this statement sets forth a standard definition of fair value as it applies to assets or liabilities, the principal market (or most advantageous market) for determining fair value (price), the market participants, inputs and the application of the derived fair value to those assets and liabilities. The effective date of this pronouncement is for all full fiscal and interim periods beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" which permit entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its financial statements and related

disclosures.

In December 2007, the FASB issued SFAS No. 141 (Revised), “Business Combinations” (“SFAS No. 141 (R)”), replacing SFAS No. 141, “Business Combinations” (“SFAS No. 141”), and SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51”. SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 establishes accounting and reporting standards for non controlling interests (i.e. minority interests) in a subsidiary, including changes in a parent’s ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of adopting SFAS No. 141 (R) and SFAS No. 160 on its financial statements and related disclosures.

## NOTE 2 RESTATEMENT AND RECLASSIFICATION

### (a) Restatement of Financial Results

On October 10, 2008, we filed a Current Report on Form 8-K to announce that our Board of Directors, based upon the consideration of issues addressed in the SEC review and the recommendation of the Audit Committee, determined that we should restate our previously issued 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. The Company initially amortized the discount according to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio", which stated that discount resulting from allocation of proceeds to the beneficial conversion feature should be recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion. As the notes are convertible at the date of issuance, the Company fully amortized such discount through interest expense at the date of issuance accordingly. However, according to Issue 6 of EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", EITF Issues No. 98-5 should be modified to require the discount related to the beneficial conversion feature to be accreted from the date of issuance to the stated redemption date regardless of when the earliest conversion date occurs using the effective interest method. The restatement adjustments were to reflect the retrospective application of the Issue 6 of EITF Issue No. 00-27.

The restatement affected our previously reported non-cash interest expense, 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 consolidated statements of cash flows as a result of the restatement. Certain balances related to line items within certain cash flows were corrected as part of the restatement. The restatement in the consolidated financial statements as of and for the year ended December 31, 2007 is as follows:

For the year ended December 31, 2007	As Previously Reported	Restatement Adjustments	As Restated
<b>Interest Expense</b>			
Amortization of deferred charges and debt discount	\$ 4,866,351	\$ (4,659,960)	\$ 206,391
Net loss from continuing operations	(19,306,579)	4,659,960	(14,646,619)
Net loss	(19,306,579)	4,659,960	(14,646,619)
Comprehensive loss	(19,244,762)	4,659,960	(14,584,802)
Net loss per common share – basic and diluted	\$ (0.28)	\$ 0.07	\$ (0.21)

As of December 31, 2007	As Previously Reported	Restatement Adjustments	As Restated
<b>Liabilities</b>			
3% convertible promissory notes due 2011, net	\$ 12,545,456	\$ (4,659,960)	\$ 7,885,496
Total liabilities	20,780,493	(4,659,960)	16,120,533
<b>Stockholders' Equity</b>			
Accumulated deficit	(29,829,059)	4,659,960	(25,169,099)
Total stockholder's equity	\$ 5,978,976	\$ 4,659,960	\$ 10,638,936

(b) Reclassification

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





## NOTE 3 SUBSIDIARIES

Details of the Company's principal consolidated subsidiaries as of December 31, 2007 were as follows:

Name	Place of incorporation	Ownership interest attributable to the Company	Principal activities
NCN Group Limited	British Virgin Islands	100%	Investment holding
NCN Media Services Limited	British Virgin Islands	100%	Investment holding
NCN Management Services Limited	British Virgin Islands	100%	Investment holding
Crown Winner International Limited	Hong Kong	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative services
NCN Huamin Management Consultancy (Beijing) Company Limited	The PRC	100%	Provision of administrative services
Shanghai Quo Advertising Company Limited	The PRC	100%	Provision of advertising services
Xuancaiye (Beijing) Advertising Company Limited	The PRC	51%	Provision of advertising services
Guangdong Tianma International Travel Service Co., Ltd.	The PRC	55%	Provision of tour services
NCN Landmark International Hotel Group Limited	British Virgin Islands	99.9%	Provision of hotel management
Beijing NCN Landmark Hotel Management Limited	The PRC	99.9%	Provision of hotel management
Teda (Beijing) Hotels Management Limited	The PRC	100%	Dormant and undergo winding up
NCN Asset Management Services Limited	British Virgin Islands	100%	Dormant
NCN Travel Services Limited	British Virgin Islands	100%	Dormant
NCN Financial Services Limited	British Virgin Islands	100%	Dormant
NCN Hotels Investment Limited	British Virgin Islands	100%	Dormant
NCN Pacific Hotels Limited	British Virgin Islands	100%	Dormant
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	100%	Dormant

## Remarks:

1) The Company disposed of Know Win Investments Inc. and Simple Win Limited in the fourth quarter of 2007 and recorded a gain of \$10,096 accordingly.

2) The Company acquired Shanghai Quo Advertising Company Limited and Linkrich Enterprise Advertising and Investment Limited in 2007. In addition, the Company also acquired 51% of the equity interest of Xuancaiye (Beijing) Advertising Company Limited in 2007. The Company also established its wholly owned subsidiary, Cityhorizon Limited, in 2007.

## NOTE 4 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of December 31, 2007 consisted of the following:

Accounts receivable	\$ 1,093,142
Less: allowance for doubtful debts	-
Total	\$ 1,093,142

For the years ended December 31, 2007 and 2006, the Company recorded a provision for doubtful debts for accounts receivable of \$nil and \$15,542 respectively.

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## NOTE 5 EQUIPMENT, NET

Equipment, net as of December 31, 2007 consisted of the following:

Office equipment	\$ 315,367
Furniture and fixtures	75,177
Less: accumulated depreciation	(133,141)
Total	\$ 257,403

Depreciation expenses for the years ended December 31, 2007 and 2006 amounted to \$56,603 and \$29,926 respectively.

## NOTE 6 INTANGIBLE RIGHTS, NET

The following table set forth information for intangible rights subject to amortization and intangible right not subject to amortization as of December 31, 2007:

Amortized intangible rights	
Gross carrying amount	\$ 7,825,267
Less: accumulated amortization	(999,106)
Less: provision for impairment loss	(711,611)
Amortized intangible rights, net	6,114,550
Unamortized intangible right	
Gross carrying amount	815,902
Less: provision for impairment	(815,902)
Unamortized intangible right, net	-
Intangible rights, net	\$ 6,114,550

Total amortization expense of intangible rights of the Company for the years ended December 31, 2007 and 2006 amounted to \$472,032 and \$259,216 respectively and is expected to be as follows over the next five years:

Fiscal years ending December 31,	
2008	\$ 739,550
2009	300,000
2010	300,000
2011	300,000
2012	300,000
Thereafter	4,175,000
	\$ 6,114,550

In 2007, the Company performed an impairment review on its intangible rights and recorded an aggregate impairment loss of \$1,332,321 for the intangible rights of Shanghai Quo Advertising Company Limited (“Quo Advertising”) and Tianma for the year ended December 31, 2007.

The Company compared the undiscounted cash flows to the carrying value of Quo Advertising’s intangible right as a result of the non-LED business of Quo Advertising is shrinking and recording a continuous operating loss. The Company determined that the intangible right of Quo

Advertising which associated with non-LED advertising business should be fully provided with impairment loss. An impairment loss of \$516,419 included in non-cash impairment charges on the consolidated statements of operation for the year ended December 31, 2007 was recorded accordingly.

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

NOTE 7 DEFERRED CHARGES, NET

Deferred charges, net as of December 31, 2007 were as follows:

Deferred charges	\$ 700,000
Less: accumulated amortization	(29,157)
Total	\$ 670,843

Amortization of deferred charges included in interest expense for the years ended December 31, 2007 and 2006 amounted to \$29,157 and \$nil respectively.

## NOTE 8 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of December 31, 2007 consisted of the following:

Accounts payable	\$ 1,303,941
Accrued professional fee	17,530
Accrued staff benefit and related fees	638,899
Other accrued expenses	614,838
Other payables	915,378
Total	\$ 3,490,586

## NOTE 9 BUSINESS COMBINATION

## (a) Acquisition of Quo Advertising

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

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

The allocation of the purchase price is as follows:

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

Identifiable intangible right of \$536,540 is measured at fair value as of the date of the acquisition and amortized over 20 years. The intangible right of Quo Advertising was fully provided with impairment loss in 2007. For details, please refer to Note 6 – Intangible Rights, Nets for details.

## (b) Acquisition of Xuancai yi

Effective September 1, 2007, the Company, through Quo Advertising, acquired 51% of the equity interests of Xuancai yi (Beijing) Advertising Company Limited (“Xuancai yi”), an advertising agency in Beijing, China, for a consideration of up to RMB 12,245,000 (equivalent to US\$1,666,943) in cash. Xuancai yi secured the rights to operate a 758 square-meter mega-size high resolution LED advertising billboard in a prominent location in Beijing, China. The investment in Xuancai yi will strengthen the Company's Media Network in China. The acquisition

has been accounted for using the purchase method of accounting and the results of operations of Xuancai yi have been included in the Company's consolidated statement of operations since the acquisition date on September 1, 2007.

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

1. An initial payment of RMB2,500,000 (approximately US\$330,128);
2. Up to RMB 2,454,300 (approximately US\$336,680) based on Xuancai yi's net profit for the four months ended December 31, 2007;
3. Up to RMB 1,834,500 (approximately US\$251,656) based on Xuancai yi's net profit for the first quarter of fiscal year 2008;
4. Up to RMB 1,827,400 (approximately US\$250,682) based on Xuancai yi's net profit for the second quarter of fiscal year 2008;
5. Up to RMB1,819,100 (approximately US\$249,543) based on Xuancai yi's net profit for the third quarter of fiscal year 2008; and
6. Up to RMB1,809,700 (approximately US\$248,254) based on Xuancai yi's net profit for the fourth quarter of fiscal year 2008.

The initial payment of RMB2,500,000 (equivalent to US\$330,128) was made in September 2007. The allocation of the initial payment is as follows:

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

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

As of December 31, 2007, based on the net profits for the four months ended December 31, 2007 of Xuancai yi, no further cash payment is expected to be made with respect to the first earn-out consideration. Pursuant to SFAS 141 "Business Combinations", the earn-out consideration is considered contingent consideration, which will not become certain until the net profits of Xuancai yi for the coming quarters have been determined. As a result, the obligation to pay the contingent consideration has not been reflected in the consolidated financial statements of the Company as of December 31, 2007.

#### Unaudited Pro forma Consolidated Financial Information

The table below summarizes the unaudited pro forma results of operations assuming the acquisitions of Quo Advertising and Xuancai yi were completed on January 1, 2007 and 2006. These unaudited pro forma results have been prepared for information purposes only and do not purport to be indicative of what the operating results would have been had the acquisitions actually taken place on January 1, 2007 and 2006, and may not be indicative of future operating results.

	Years ended December 31	
	2007 (Unaudited) (Restated)	2006 (Unaudited)
Revenues	\$ 27,619,599	\$ 6,712,060
Loss before income taxes and minority interests	(14,807,565)	(4,663,042)
Net loss	\$ (14,753,561)	\$ (4,119,211)
Net loss per share		
Basic and diluted	\$ (0.22)	\$ (0.08)

#### 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.

(b) 3% Convertible Promissory Notes and warrants

On November 19, 2007, the Company, Quo Advertising and the Designated Holders (as defined in the Purchase Agreement), entered into a 3% Note and Warrant Purchase Agreement (the “Purchase Agreement”) with affiliated investment funds of Och-Ziff Capital Management Group (the “Investors”). Pursuant to the Purchase Agreement, the Company agreed to issue 3% Senior Secured Convertible Notes due June 30, 2011 in the aggregate principal amount of up to \$50,000,000 (the “3% Convertible Promissory Notes”) and warrants to acquire an aggregate amount of 34,285,715 shares of common stock of the Company (the “Warrants”). The 3% Convertible Promissory Notes and Warrants are issued and issuable in three tranches, with Convertible Notes in the aggregate principal amount of \$6,000,000, Warrants exercisable for 2,400,000 shares at \$2.50 per share and Warrants exercisable for 1,714,285 shares at \$3.50 per share, issued on 19 November, 2007, Convertible Notes in the aggregate principal amount of \$9,000,000, Warrants exercisable for 3,600,000 shares at \$2.50 per share and Warrants exercisable for 2,571,430 shares at \$3.50 per share issued on 28 November 2007, and Convertible Notes in the aggregate principal amount of \$35,000,000, Warrants exercisable for 14,000,000 shares at \$2.50 per share and Warrants exercisable for 10,000,000 shares at \$3.50 per share to be issued in the third tranche, which was completed in January 2008. Please refer to Note 18 - Subsequent Events for details. The warrants shall expire on June 30, 2011, pursuant to the Purchase Agreement.

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

As of December 31, 2007, none of the conversion options and warrants associated with the above convertible promissory notes was exercised.

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

	12% Convertible Promissory Note	3% Convertible Promissory Notes	Total
Proceeds of convertible promissory notes	\$ 5,000,000	\$ 15,000,000	\$ 20,000,000
Allocation of proceeds:			
Allocated relative fair value of warrants	(333,670)	(2,490,000)	(2,823,670)
Allocated intrinsic value of beneficial conversion feature	-	(4,727,272)	(4,727,272)
Total net proceeds of the convertible promissory notes as of December 31, 2007	4,666,330	7,782,728	12,449,058
Amortization of debt discount for the year ended December 31, 2007	74,466	102,768	177,234
Net carrying value of convertible promissory notes	\$ 4,740,796	\$ 7,885,496	\$ 12,626,292

#### Warrant and Beneficial Conversion Features

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

Both the warrants and embedded conversion features issued in connection with 12% convertible promissory note and 3% convertible promissory notes meet the criteria of EITF

00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" for equity classification and also met the other criteria in paragraph 11(a) of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" as of December 31, 2007. Accordingly, the conversion features do not require derivative accounting. The intrinsic value of beneficial conversion feature is calculated in according to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments". For 3% convertible promissory note, as the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature while for 12% convertible promissory note, no beneficial conversion feature existed. The value of beneficial conversion feature is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As the 3% convertible promissory notes has stated redemption date, the respective debt discount being equal to the value of beneficial conversion feature of \$4,727,272 is amortized over the term of the notes from the respective date of issuance using the effective yield method.

## Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the year ended December 31, 2007 were as follows: (Restated)

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

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 December 31, 2007:

Fiscal years ending December 31,	
2008	\$ 445,583
2009	325,360
2010	109,943
Total	\$ 880,886

Total rental expense associated with operating leases for the years ended December 31, 2007 and 2006 were \$593,441 and \$118,423 respectively.

## 2. Annual Rights and Operating Fee Commitment

Since November 2006, the Company, through its subsidiaries NCN Media Services Limited, Quo Advertising and Xuancaiye, has acquired rights from third parties to operate 1,845 roadside advertising panels and 11 mega-size advertising panels for periods ranging from 16 months to 20 years.

The following table sets forth the estimated future annual commitment of the Company with respect to the rights 1,845 roadside advertising panels and 11 mega-size advertising panels that the Company held as of December 31, 2007:

Fiscal years ending December 31,	(In millions)
2008	\$ 16.5
2009	13.9
2010	4.0
2011	3.9
2012	3.6
Thereafter	23.7

Total	\$	65.6
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(b) Contingencies

The Company accounts for loss contingencies in accordance with SFAS 5, "Accounting for Loss Contingencies" and other related guidelines. Set forth below is a description of certain loss contingencies as of December 31, 2007 and management's opinion as to the likelihood of loss in respect of loss contingency.

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

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

Tianma is now appealing the court's decision. The Company believes that there is a reasonably high chance of overturning the court's decision. In addition, the Company has been indemnified for any future liability upon the acquisition by the prior owners of Tianma. Accordingly, no provision has been made by the Company to the above claims as of December 31, 2007.

NOTE STOCKHOLDERS' EQUITY

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(a) Stock, Options and Warrants Issued for Services

1. In February 2006, the Company issued an option to purchase up to 225,000 shares of common stock to its legal counsel at an exercise price of \$0.10 per share. So long as the counsel's relationship with the Company continues, one-twelfth of the shares underlying the option vest and become exercisable each month from the date of issuance. The option may be exercised for 120 days after termination of the relationship. The fair market value of the option was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 147%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of an option recognized during the years ended December 31, 2007 and 2006 was approximately \$1,317 and \$11,010 respectively. The options were exercised in April 2007.
2. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price \$0.70 per share. One-fourth of the shares underlying the warrant become exercisable every 45 days beginning from the date of issuance. The warrant shall remain exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value recognized for the years ended December 31, 2007 and 2006 was approximately \$26,604 and \$14,451 respectively.
3. In April 2007, the Company issued 45,000 S-8 shares of common stock of par value of \$0.001 each, totaling \$18,000 to its legal counsel for services rendered.
4. In April 2007, the Company issued 377,260 S-8 shares of common stock of par value of \$0.001 each, totaling \$85,353 to its directors and officers for services rendered.
5. In July 2007, NCN Group Management Limited entered into Executive Employment Agreements (the "Agreements") with Godfrey Hui, Chief Executive Officer, Daniel So, Managing Director, Daley Mok, Chief Financial Officer, Benedict Fung, the President, and Stanley Chu, General Manager. Pursuant to the Agreements, each executive was granted shares of the Company's common stock subject to annual vesting over five years in the following amounts: Mr. Hui, 2,000,000 shares; Mr. So, 2,000,000 shares; Dr. Mok 1,500,000 shares; Mr. Fung 1,200,000 shares and Mr. Chu, 1,000,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$1,709,400 included in Payroll on the consolidated statement of operations for the year ended December 31, 2007. The Company issued an aggregate 660,000 S-8 shares of common stock to them on January 2, 2008.
6. In August 2007, the Company issued 173,630 shares of restricted common stock of par value of \$0.001 each, totaling \$424,004 to a consultant for services rendered. The value of stock grant is fully amortized and recognized during the year ended December 31, 2007.
7. In August 2007, the Company issued 230,000 S-8 shares of common stock of par value of \$0.001 each, totaling \$69,500 to its directors and officers for services rendered.
- 8.

In September, 2007, the Company entered into a service agreement with independent directors, Peter Mak, Gerd Jakob, Edward Lu, Ronglie Xu and Joachim Burger. Pursuant to the service agreements, each independent director was granted shares of the Company's common stock subject to a vesting period of ten months in the following amounts: Peter Mak:15,000 shares; Ronglie Xu:15,000 shares; Joachim Burger:15,000 shares, Gerd Jakob:10,000 shares and Edward Lu:10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized \$57,980 of non-cash stock-based compensation included in Payroll on the consolidated statement of operation for the year ended December 31, 2007.

9. In November 2007, the Company was obligated to issue a warrant to purchase up to 300,000 shares of restricted common stock to a placement agent for provision of agency services in connection with the issuance of 3% convertible promissory notes as mentioned in Note 10 – Convertible Promissory Notes and Warrants at an exercise price \$3.0 per share which are exercisable for a period of two years. The fair value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 182 %, a risk-free rate of 4.05 % and an expected life of two (2) year. The value of the warrant recognized for the years ended December 31, 2007 was \$21,305.

10. In December 31, 2007, the Company committed to grant 235,000 S-8 shares of common stock to certain employees of the Company for their services rendered during the year ended December 31, 2007. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of \$611,000 included in Payroll on the consolidated statement of operation for the year ended December 31, 2007. Such 235,000 S-8 shares were issued on January 2, 2008.

The amortization for the deferred stock-based compensation recorded in the Company for the years ended December 31, 2007 and 2006 was \$2,845,000 and \$66,355 respectively.

(b) Stock Issued for Acquisition

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

(c) Stock Issued for Private Placement

In April 2007, the Company issued and sold 500,000 shares of restricted common stock of par value of \$0.001 each, totaling \$1,500,000 in a private placement. No investment banking fees were incurred as a result of this transaction.

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

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

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

NOTE RELATED PARTY TRANSACTIONS



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

During the years ended December 31, 2007 and 2006, the Company received hotel management service fees of \$nil and \$100,478 respectively from two properties it manages that are owned by a stockholder.

During the years ended December 31, 2007 and 2006, the Company paid rent of \$nil and \$47,489 respectively for office premises leased from a director and stockholder.

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

## NOTE NET LOSS PER COMMON SHARE

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Net loss per share information for the years ended December 31, 2007 (Restated) and 2006 was as follows:

	2007 (Restated)	2006
Numerator:		
Net loss from continuing operations	\$ (14,646,619)	\$ (4,995,002)
Net income from discontinued operations	-	526,296
Net loss attributable to stockholders	\$ (14,646,619)	\$ (4,468,706)
Denominator:		
Weighted average number of shares outstanding, basic	68,556,081	52,489,465
Effect of dilutive securities		
Options and warrants	-	-
Weighted average number of shares outstanding, diluted	68,556,081	52,489,465
Earnings/(Losses) per ordinary share – basic and diluted		
Continuing operations	\$ (0.21)	\$ (0.10)
Discontinued operations	-	0.01
Net loss per share – basic and diluted	\$ (0.21)	\$ (0.09)

The diluted net loss per share is the same as the basic net loss per share for the years ended December 31, 2007 and 2006 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share. The securities that could potentially dilute basic earnings (loss) per share in the future that were not included in the computation of diluted earnings (loss) per share because of anti-dilutive effect during the years ended December 31, 2007 and 2006 were summarized as follows:

	2007	2006
Potential common equivalent shares:		
Stock options for services	-	205,501
Stock warrants for services (1)	122,394	39,337
Warrants associated with convertible promissory notes	364,436	-
Conversion feature associated with convertible promissory notes to common stock	11,174,242	-
Common stock to be granted to directors executives and employees for services (including nonvested shares)	8,000,000	937,260
Total	19,661,072	1,182,098

## Remarks:

(1) As of December 31, 2007, the number of potential common equivalent shares associated with warrants issued for services was 122,394, which was related to (1) a warrant to purchase 200,000 common stock issued to a consultant in 2004 for service rendered at an exercise price of \$2.00, which expired in March 2009 and (2) 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 INVESTMENT HELD FOR DISCONTINUED OPERATIONS

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(a) Tianjin Teda Yide Industrial Company Limited

On April 29, 2006, the Company completed the sale of all of its equity interest in a PRC real estate joint venture, namely Tianjin Teda Yide Industrial Company Limited (“Yide”, formerly Tianjin Yide Real Estate Company Limited) pursuant to a Purchase and Sale of Stock Agreement (the “Agreement”) entered with Far Coast Asia Limited (“Far Coast”). Far Coast paid the Company a deposit of \$800,000 in respect of the sale in January 2006 and a balance payment of \$2.2 million was paid on March 31, 2006 (the “Purchase Price”). The Purchase Price was paid to the Company in Hong Kong dollars. Far Coast and its affiliated entities have no prior relationship to the Company and its affiliated entities.

In accordance with FASB Interpretation No. 35, “Criteria for Applying the Equity Method of Accounting for Investments in Common Stock—an interpretation of APB Opinion No. 18” (“FIN 35”), the use of the equity method of accounting for the investment is required if the investor has the ability to exercise significant influence over the operating and financial policies of the investee. However, management of the Company has determined that the failure by the Company to obtain financial information subsequent to September 30, 2005 has resulted in the loss of significant influence over the operating and financial policies of Yide. As such, the use of the equity method was therefore no longer appropriate and the Company accounted for its investment from October 1, 2005 to April 29, 2006, the date of completion of the sale, under the cost method.

On April 29, 2006, the Company completed the sale of all of its equity interest in Yide and recorded a gain on the disposal of the affiliate of \$579,870 in 2006 accordingly.

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## (b) Teda (Beijing) Hotels Management Limited

With equity holding of 100%, Teda (Beijing) Hotels Management Limited (“Teda BJ”) has been accounted for as a wholly owned subsidiary. In later half of 2006, because of a change in business direction, the Company determined to dispose Teda BJ and began winding down its operations. No further transaction associated with Teda BJ was recorded during the year ended December 31, 2007 and the process of winding down Teda BJ was yet to be completed as of December 31, 2007. We treated it as discontinued operations and the effect on financial statements are as follows:

Effect on Consolidated Balance Sheet	2007	2006
Current liabilities from discontinued operations	\$ (3,655)	\$ (3,655)
Effect on Consolidated Statements of Operations		
Revenues	\$ -	\$ 142,557
Professional fee	-	(376)
Payroll	-	(109,550)
Other selling, general and administrative	-	(86,359)
Other income	-	93
Interest income	-	61
Loss from discontinued operations	\$ -	\$ (53,574)

## N O T EBUSINESS SEGMENTS

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The Company has changed their operating segments in 2007 as a result of change of internal organization structure by management. The Company currently operates three operating segments instead of two operating segments in 2006. Each segment operates exclusively. The Company’s Media Network segment provides marketing communications consultancy services to customers in China. The Company’s Travel Network segment provides tour services as well as management services to hotels and resorts in China. The Company’s Investment Holding segment represents the companies which provide administrative and management services to its subsidiaries or fellow subsidiaries. The accounting policies of the segments are the same as described in the summary of significant accounting policies. There are no inter-segment sales.

2007 (Restated)	Media Network	Travel Network	Investment Holding	Total
Revenue	\$ 1,442,552	\$ 26,140,355	\$ -	\$ 27,582,907
Net loss from continuing operations	(4,457,881)	(953,905)	(9,234,833)	(14,646,619)
Depreciation and amortization				
Equipment and intangible rights	483,750	9,505	35,380	528,635
Deferred charges and debt discount	-	-	206,391	206,391
Non-cash impairment charges	516,419	815,902	-	1,332,321
Interest expense	-	-	122,803	122,803
Assets	23,509,377	2,119,999	1,477,967	27,107,343
Capital Expenditures	\$ 137,960	\$ 3,007	\$ 66,404	\$ 207,371

2006	Property Management	Travel Agency	Total
Revenue	\$ 214,108	\$ 4,228,494	\$ 4,442,602
Net loss from continuing operations	(4,939,516)	(55,486)	(4,995,002)
Net gain from discontinued operations	526,296	-	526,296
Depreciation and amortization	288,344	804	289,148
Assets	9,849,607	677,527	10,527,134
Capital Expenditures	\$ 72,010	\$ 18,878	\$ 90,888

NOTE INCOME TAXES

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Income is subject to taxation in various countries in which the Company operate. The loss before income taxes and minority interests by geographical locations for the years ended December 31, 2007 and 2006 was summarized as follows:

	2007 (Restated)	2006
United States	\$ 4,275,859	\$ 2,395,882
Foreign	10,425,140	2,616,793
	\$ 14,700,999	\$ 5,012,675

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Income tax expenses by geographical locations for the years ended December 31, 2007 and 2006 was summarized as follows:

	2007	2006
Current		
United States	\$ -	\$ -
Foreign	7,668	6,984
	\$ 7,668	\$ 6,984
Deferred		
United States	\$ -	\$ -
Foreign	-	-
	\$ -	\$ -

The reconciliation of the effective income tax of the Company to the U.S. federal statutory rate (the principal tax jurisdiction of the Company) was as follows:

	2007 (Restated)	2006
Expected income tax benefit	\$ 4,998,340	\$ 1,519,360
Operating loss carried forward	(1,453,792)	(814,600)
Tax effect on foreign income which is not subject U.S. federal corporate income tax rate of 34%	(3,536,880)	(711,744)
	\$ 7,668	\$ 6,984

An analysis of the Company's deferred tax liabilities and deferred tax assets as of December 31, 2007 and 2006 was as follows:

	2007 (Restated)	2006
Deferred tax assets:		
Net operating loss carried forward	\$ 3,807,148	\$ 2,353,356
Less: valuation allowance	(3,807,148)	(2,353,356)
Net deferred tax assets	\$ -	\$ -

The Company provided a full valuation allowance against the deferred tax assets as of December 31, 2006 and 2007 due to the uncertainty surrounding the realizability of these benefits in future tax returns.

#### NOTE SUBSEQUENT EVENTS

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On January 1, 2008, the Company and its wholly owned subsidiary CityHorizon Limited, a Hong Kong company ("CityHorizon Hong Kong"), entered into a Share Purchase Agreement with CityHorizon Limited, a British Virgin Islands company ("CityHorizon BVI"), Hui Zhong Lian He Media Technology Co., Ltd., a wholly owned subsidiary of CityHorizon BVI ("Lianhe"), Beijing Hui Zhong Bo Na Media Advertising Co., Ltd., a wholly owned subsidiary of CityHorizon BVI ("Bona"), and Liu Man Ling, an individual and sole shareholder of CityHorizon BVI pursuant to which the Company, through its subsidiary CityHorizon Hong Kong, acquired 100% of the issued and outstanding shares of CityHorizon BVI from Liu Man Ling. Pursuant to the Share Purchase Agreement, the Company paid the Liu Man Ling US\$5,000,000 in cash and issued Liu

Man Ling 1.5 million duly authorized, validly issued, fully paid and non-assessable shares of the Company's common stock.

In connection with the Company's financing transaction with affiliated investment funds of Och-Ziff Capital Management Group, effective January 1, 2008 the Company caused its subsidiary, Lianhe, to enter into a series of commercial agreements with Quo Advertising, pursuant to which Lianhe provides exclusive technology and management consulting services to Quo Advertising in exchange for services fees, which amount to substantially all of the net income of Quo Advertising. Each of the registered PRC shareholders of Quo Advertising also entered into equity pledge agreements and option agreements, which cannot be amended or terminated except by written consent of all parties, with Lianhe. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged such shareholder's interest in Quo Advertising for the performance of such Quo Advertising's payment obligations under its respective exclusive technology and management consulting services agreements. In addition, Lianhe has been assigned all voting rights by the shareholders of Quo Advertising and has the option to acquire the equity interests of Quo Advertising at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders. At the same time, Quo Advertising terminated its trust arrangement with Crown Winner International Limited. Effective January 1, 2008, Lianhe also entered into a series of similar commercial agreements with Bona and Hui Zhi Bo Tong Media Advertising Beijing Co., Ltd ("Botong"), a company organized under the laws of the PRC, and their respective registered shareholders.

The effect of these contractual arrangements is to give effective control of Quo Advertising, Bona and Botong to Lianhe and to allow the Company to consolidate the results of these entities as variable interest entities pursuant to FIN 46 (Revised), "Consolidation of Variable Interest Entities".

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company's common stock at \$2.50 per share and warrants to purchase 10,000,000 shares of the Company's common stock at \$3.50 per share. Concurrently with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its direct wholly owned subsidiary, NCN Group Limited ("NCN Group"), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the "NCN Group Note"). The Company entered into a Security Agreement, dated as of January 31, 2008 pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company's indirect wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.

On February 13, 2008, the Company fully redeemed 12% promissory notes due May 2008 which was issued in November 2007 at a redemption price equal to 100% of the principal amount of \$5,000,000 plus accrued and unpaid interest. No penalty or premium was charged for such early redemption.

NOTE RESTATED FINANCIAL INFORMATION

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The following tables set forth the effects of the restatement as described in Note 2 of the Company's consolidated balance sheet as of December 31, 2007 and the Company's statement of operations for the year ended December 31, 2007. There was no change to each subtotal (operating, investing and financing) in the Company's consolidated statement of cash flows for the year ended December 31, 2007 as a result of the restatement.

CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007

	ASSETS	
	As Previously Reported	As Restated
Current Assets		
Cash	\$ 2,233,528	\$ 2,233,528
Accounts receivable, net	1,093,142	1,093,142
Prepayments for advertising operating rights	13,636,178	13,636,178
Prepaid expenses and other current assets	3,101,699	3,101,699
Total Current Assets	20,064,547	20,064,547
Equipment, Net	257,403	257,403
Intangible Rights, Net	6,114,550	6,114,550
Deferred Charges, Net	670,843	670,843
<b>TOTAL ASSETS</b>	<b>\$ 27,107,343</b>	<b>\$ 27,107,343</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities



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Accounts payable, accrued expenses and other payables	\$	3,490,586	\$	3,490,586
Current liabilities from discontinued operations		3,655		3,655
12% convertible promissory note, net		4,740,796		4,740,796
Total Current Liabilities		8,235,037		8,235,037
3% Convertible Promissory Notes Due 2011, Net		12,545,456		7,885,496
<b>TOTAL LIABILITIES</b>		<b>20,780,493</b>		<b>16,120,533</b>
<b>COMMITMENTS AND CONTINGENCIES</b>				
MINORITY INTERESTS		347,874		347,874
<b>STOCKHOLDERS' EQUITY</b>				
Preferred stock, \$0.001 par value, 5,000,000 shares none issued and outstanding		-		-
Common stock, \$0.001 par value, 800,000,000 shares 69,151,608 shares issued and outstanding		69,152		69,152
Additional paid-in capital		35,673,586		35,673,586
Accumulated deficit		(29,829,059)		(25,169,099)
Accumulated other comprehensive income		65,297		65,297
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>5,978,976</b>		<b>10,638,936</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$	<b>27,107,343</b>	\$	<b>27,107,343</b>

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	As Previously Reported	As Restated
<b>REVENUES</b>		
Travel services	\$ 26,140,355	\$ 26,140,355
Advertising services	1,442,552	1,442,552
Related parties	-	-
<b>Total Revenues</b>	<b>27,582,907</b>	<b>27,582,907</b>
<b>COSTS AND EXPENSES</b>		
Cost of travel services	25,830,401	25,830,401
Cost of advertising services	2,795,188	2,795,188
Professional fees	5,612,810	5,612,810
Payroll	4,098,842	4,098,842
Non-cash impairment charges	1,332,321	1,332,321
Other selling, general & administrative	2,321,245	2,321,245
<b>Total Costs and Expenses</b>	<b>41,990,807</b>	<b>41,990,807</b>
<b>LOSS FROM OPERATIONS</b>	<b>(14,407,900)</b>	<b>(14,407,900)</b>
<b>OTHER INCOME</b>		
Interest income	26,811	26,811
Other income	9,284	9,284
<b>Total Other Income</b>	<b>36,095</b>	<b>36,095</b>
<b>INTEREST EXPENSE</b>		
Amortization of deferred charges and debt discount	4,866,351	206,391
Interest expense	122,803	122,803
<b>Total Interest Expense</b>	<b>4,989,154</b>	<b>329,194</b>
<b>NET LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS</b>		
	<b>(19,360,959)</b>	<b>(14,700,999)</b>
Income taxes	(7,668)	(7,668)
Minority interests	62,048	62,048
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	<b>(19,306,579)</b>	<b>(14,646,619)</b>
<b>DISCONTINUED OPERATIONS</b>		
Loss from discontinued operations	-	-
Gain on disposal of an affiliate	-	-
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>-</b>
<b>NET LOSS</b>	<b>(19,306,579)</b>	<b>(14,646,619)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Foreign currency translation gain	61,817	61,817
<b>COMPREHENSIVE LOSS</b>	<b>\$ (19,244,762)</b>	<b>\$ (14,584,802)</b>

NET INCOME (LOSS) PER COMMON SHARE – BASIC AND DILUTED			
Loss per common share from continuing operations	\$	(0.28)	\$ (0.21)
Income per common share from discontinued operations		-	-
Net loss per common share – basic and diluted	\$	(0.28)	\$ (0.21)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED			
		68,556,081	68,556,081

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Annual Report, being December 31, 2007, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation ("Evaluation") was performed by our Chief Executive Officer and our Chief Financial Officer in consultation with our accounting personnel.

Based upon the Evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this Annual Report, our disclosure controls and procedures were not effective, at the reasonable assurance level, because of the material weaknesses described below. Notwithstanding the material weaknesses that existed as of December 31, 2007, our Chief Executive Officer and our Chief Financial Officer have concluded that the consolidated financial statements included in this Annual Report on Form 10-KSB/A present fairly, in all material respects, the financial position, results of operation and cash flows of the Company and its subsidiaries in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to our financial statements, we determined to restate our consolidated financial statements for the year ended December 31, 2007. The restatement corrected the accounting errors arising from our misapplication of generally accepted accounting principles to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes in 2007 and 2008. In our Annual Report on Form 10-KSB, management originally reported that our disclosure controls and procedures were effective. In light of the restatement discussed above, we have reassessed the effectiveness of our disclosure controls and procedures as of December 31, 2007, and have concluded that they were not effective.

Management's Annual Report on Internal Control Over Financial Reporting (Restated)

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

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

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

As of December 31, 2007, we did not maintain effective controls over the correct application of accounting policies in relation to the discount associated with the beneficial conversion feature attributed to the issuance of the 3% convertible promissory notes issued in 2007. This control deficiency resulted in the restatement of our annual consolidated financial statements for the year ended December 31, 2007. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

In the original filing of our Annual Report on Form 10-KSB for the year ended December 31, 2007, management previously concluded that we maintained effective internal control over financial reporting as of December 31, 2007. Management has subsequently determined that the material weakness described above existed as of December 31, 2007. As a result, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Accordingly, management has restated this management report on internal control over financial reporting .

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

#### Plan of Remediation

In response to the material weakness in internal control over financial reporting described above, management is developing and implementing new processes and procedures governing our internal control over financial reporting. Certain remedial measures have already been implemented or are currently contemplated, which include adding more technical accounting and financial reporting personnel in order to increase expertise in these areas; and providing additional technical training to current accounting staff, etc. Management will continue to monitor their implementation to ensure our correct application of accounting policies in relation to note discounts.

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

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

#### ITEM 8B. OTHER INFORMATION

None.

#### PART III

#### ITEM 13. EXHIBITS

13.

The following Exhibits are filed as part of this Amendment No. 2 to Annual Report on Form 10-KSB:

- 23.1 Consent of independent auditors Webb & Company, P.A. \*
- 23.2 Consent of independent auditors Jimmy C.H. Cheung & Co. \*
- 24.1 Power of Attorney (included in the Signatures section of this report).
- 31.1 Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer. \*
- 31.2 Rule 13a-15(e)/15d-15(e) Certification by the Chief Financial Officer. \*
- 32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*
- 32.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*

\* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

Date: October 22, 2008

NETWORK CN INC.  
By: /s/ Godfrey Hui  
Godfrey Hui  
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below appoints Godfrey Hui his or her attorney-in-fact, with full power of substitution and re-substitution, to sign any and all amendments to this report on Form 10-KSB/A of Network CN Inc., and to file them, with all their exhibits and other related documents, with the Securities and Exchange Commission, ratifying and confirming all that their attorney-in-fact and agent or his or her substitute or substitutes may lawfully do or cause to be done by virtue of this appointment. In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Godfrey Hui Godfrey Hui	Director and Chief Executive Officer	October 22, 2008
/s/ Daley Mok Daley Mok	Director and Chief Financial Officer	October 22, 2008
/s/ Daniel So Daniel So	Director	October 22, 2008
/s/ Stanley Chu Stanley Chu	Director	October 22, 2008
/s/ Peter Mak Peter Mak	Director	October 22, 2008