

NETWORK CN INC
Form 10-Q
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

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

For the transition period from _____ to _____

Commission File Number: 000-30264

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

Delaware
(State or other jurisdiction of
incorporation
or organization)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files). Yes No

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of May 3, 2010 is as follows:

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the following “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words “believe”, “expect”, “anticipate”, “project”, “targets”, “optimistic”, “i”, “aim”, “will” or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to our potential inability to raise additional capital; changes in domestic and foreign laws, regulations and taxes; uncertainties related to China’s legal system and economic, political and social events in China; Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks”; changes in economic conditions, including a general economic downturn or a downturn in the securities markets; and any of the factors and risks mentioned in the “Risk Factors” sections of our Annual Report on Form 10-K for fiscal year ended December 31, 2009 and subsequent SEC filings. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

USE OF TERMS

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

- “Botong”, are references to Huizhi Botong Media Advertising Beijing Co., Ltd., a PRC limited company;
 - “BVI” are references to the British Virgin Islands;
 - “China” and “PRC” are to the People’s Republic of China;
- the “Company”, “NCN”, “we”, “us”, or “our”, are references to Network CN Inc., a Delaware corporation and its direct and indirect subsidiaries: NCN Group Limited, or NCN Group, a BVI limited company; Huizhong Lianhe Media Technology Co., Ltd., or Lianhe, a PRC limited company; Linkrich Enterprise Advertising and Investment Limited, or Linkrich Enterprise, a HK limited company, and its subsidiary, Yi Gao Shanghai Advertising Limited, or Yi Gao, a PRC limited company and the Company’s variable interest entities: Beijing Huizhong Bona Media Advertising Co., Ltd., or Bona, a PRC limited company;
 - “Quo Advertising ” are references to Shanghai Quo Advertising Co. Ltd, a PRC limited company;
 - “RMB” are to the Renminbi, the legal currency of China;
- the “Securities Act” are to the Securities Act of 1933, as amended; and the “Exchange Act” are to the Securities Exchange Act of 1934, as amended; and
 - “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NETWORK CN INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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NETWORK CN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | Note | As of March 31, 2010 (Unaudited) | As of December 31, 2009 (Audited) |
|--|------|--|--|
| ASSETS | | | |
| Current Assets | | | |
| Cash | | \$ 1,510,937 | \$ 1,969,549 |
| Accounts receivable, net | 5 | 131,912 | 90,065 |
| Prepayments for advertising operating rights, net | 6 | 256,112 | 348,239 |
| Prepaid expenses and other current assets, net | 7 | 472,423 | 665,907 |
| Total Current Assets | | 2,371,384 | 3,073,760 |
| Equipment, Net | | 1,307,839 | 1,389,691 |
| Deferred Charges, Net | | 172,204 | 191,991 |
| TOTAL ASSETS | | \$ 3,851,427 | \$ 4,655,442 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | | |
| Current Liabilities | | | |
| Accounts payable, accrued expenses and other payables | | \$ 2,258,936 | \$ 2,288,059 |
| Current liabilities from discontinued operations | | 3,655 | 3,655 |
| Total Current Liabilities | | 2,262,591 | 2,291,714 |
| 1% Convertible Promissory Notes Due 2012, Net | 8 | 3,962,546 | 3,854,934 |
| TOTAL LIABILITIES | | 6,225,137 | 6,146,648 |
| COMMITMENTS AND CONTINGENCIES | 9 | - | - |
| STOCKHOLDERS' DEFICIT | | | |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized None issued and outstanding | | - | - |
| Common stock, \$0.001 par value, 2,000,000,000 shares authorized Issued and outstanding: 422,522,071 and 423,122,071 as of March 31, 2010 and December 31, 2009 respectively | | 422,522 | 423,122 |
| Additional paid-in capital | | 119,340,948 | 119,323,848 |
| Deferred stock-based compensation | | (750,000) | (900,000) |
| Accumulated deficit | | (123,077,386) | (122,013,120) |
| Accumulated other comprehensive income | | 1,690,206 | 1,674,944 |
| TOTAL STOCKHOLDERS' DEFICIT | 10 | (2,373,710) | (1,491,206) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | | \$ 3,851,427 | \$ 4,655,442 |

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

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NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE
LOSS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

| | Note | For the three months ended March 31, 2010 (Unaudited) | For the three months ended March 31, 2009 (Unaudited) |
|---|------|--|--|
| REVENUES | | | |
| Advertising services | | \$ 378,182 | \$ 185,149 |
| COST OF REVENUES | | | |
| Cost of advertising services | | (466,435) | (452,259) |
| GROSS LOSS | | (88,253) | (267,110) |
| OPERATING EXPENSES | | | |
| Selling and marketing | | (90,007) | (165,986) |
| General and administrative | | (785,376) | (1,467,671) |
| Total Operating Expenses | | (875,383) | (1,633,657) |
| LOSS FROM OPERATIONS | | (963,636) | (1,900,767) |
| OTHER INCOME | | | |
| Interest income | | 377 | 3,721 |
| Other income | | 38,901 | 1,923 |
| Total Other Income | | 39,278 | 5,644 |
| INTEREST AND OTHER DEBT-RELATED EXPENSES | | | |
| Amortization of deferred charges and debt discount | 8 | (127,399) | (1,577,346) |
| Interest expense | 8 | (12,509) | (375,000) |
| Total Interest and Other Debt-Related Expenses | | (139,908) | (1,952,346) |
| NET LOSS BEFORE INCOME TAXES | | (1,064,266) | (3,847,469) |
| Income taxes | | - | - |
| NET LOSS | | (1,064,266) | (3,847,469) |
| LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF INCOME TAXES | | - | 21,767 |
| NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS | | \$ (1,064,266) | \$ (3,825,702) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Total other comprehensive income (loss) | | 15,262 | (142) |
| Less: foreign currency translation gain attributable to noncontrolling interests | | - | (179) |
| Foreign currency translation gain (loss) attributable to NCN common stockholders | | 15,262 | (321) |

| | | | |
|--|----|-----------------|-----------------|
| COMPREHENSIVE LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS | | \$ (1,049,004) | \$ (3,826,023) |
| NET LOSS PER COMMON SHARE – BASIC AND DILUTED | | - | (0.05) |
| WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED | 12 | 422,615,404 | 71,641,608 |
| NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS | 12 | \$ (1,064,266) | \$ (3,825,702) |

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

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NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

| | For the three months ended March 31, 2010 (Unaudited) | For the three months ended March 31, 2009 (Unaudited) |
|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss attributable to NCN common stockholders | \$ (1,064,266) | \$ (3,825,702) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization: | | |
| Equipment and intangible assets | 85,859 | 145,079 |
| Deferred charges and debt discount | 127,399 | 1,577,346 |
| Stock-based compensation for service | 166,500 | 559,861 |
| Loss on disposal of equipment | - | 8,400 |
| Write-back of allowance for doubtful debt | - | (231,985) |
| Net gain on deconsolidation of variable interest entities | (2,037) | - |
| Noncontrolling interests | - | (21,767) |
| Changes in operating assets and liabilities, net of effects from deconsolidation of variable interest entities: | | |
| Accounts receivable | (41,852) | 258,213 |
| Prepayments for advertising operating rights | 92,127 | (90,663) |
| Prepaid expenses and other current assets | 193,471 | 292,104 |
| Accounts payable, accrued expenses and other payables | (24,423) | (829,365) |
| Net cash used in operating activities | (467,222) | (2,158,479) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of equipment | (4,743) | (52,488) |
| Proceeds from sales of equipment | - | 45,530 |
| Net cash used in investing activities | (4,743) | (6,958) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 13,353 | 7,233 |
| NET DECREASE IN CASH | (458,612) | (2,158,204) |
| CASH, BEGINNING OF PERIOD | 1,969,549 | 7,717,131 |
| CASH, END OF PERIOD | \$ 1,510,937 | \$ 5,558,927 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Income taxes | - | - |
| Interest paid for 1% convertible promissory notes | \$ 24,932 | \$ - |

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

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

NOTE 1. INTERIM FINANCIAL STATEMENT

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

The condensed consolidated financial statements for the three months ended March 31, 2010 and 2009 were not audited. It is management’s opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the Securities and Exchange Commission on March 31, 2010.

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

Details of the Company’s principal subsidiaries and variable interest entities as of March 31, 2010 are described in Note 4 – Subsidiaries and Variable Interest Entities.

Going Concern

The Company has experienced continuous recurring net losses in recent years. The net losses of the Company for the three months ended March 31, 2010 and 2009 were \$1.1 million and \$3.8 million respectively. Additionally, the Company has net cash used in operating activities of \$0.5 million and \$2.2 million for the three months ended March

31, 2010 and 2009 respectively. As of March 31, 2010, the Company recorded a stockholders' deficit of \$2.4 million. These factors raise substantial doubt about its ability to continue as a going concern. The Company's plans regarding those concerns are addressed in the following paragraph. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation and Preparation

The unaudited condensed consolidated financial statements of the Company have been prepared in conformity with GAAP.

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

(B) Principles of Consolidation

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

(C) Use of Estimates

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

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of March 31, 2010 and December 31, 2009, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

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

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(F) Prepayments for Advertising Operating Rights, Net

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

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

(G) Equipment, Net

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

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

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

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

(H) Intangible Assets, Net

Intangible assets are stated at cost less accumulated amortization and impairment losses. Intangible assets that have indefinite useful lives are not amortized. Other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives of 65 months. The amortization methods and estimated useful lives of intangible assets are reviewed regularly.

(I) Impairment of Long-Lived Assets

Long-lived assets, including intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An intangible asset that is not subject to amortization is reviewed for impairment annually or more frequently whenever events or changes

in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset and intangible asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(J) Deferred Charges, Net

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

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(K) Convertible Promissory Notes and Warrants

1) Issuance of 3% Convertible Promissory Notes and Warrants

During 2007 and 2008, the Company issued a 3% convertible promissory notes in the principal amount of \$50,000,000 and warrants. The warrants and embedded conversion feature were classified as equity under ASC Topic 815-40 and ASC Topic 815-10-15-74. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with ASC Topic 470-20.

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

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

On April 2, 2009, the Company entered into a new financing arrangement with the holders of the 3% convertible promissory notes and warrants and a new investor. The Company provided an inducement conversion offer to a new investor who exchanged 3% convertible promissory notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock (the original conversion price is \$1.65 per share convertible into 28,282,227 shares). Pursuant to ASC Topic 470-20, all the unamortized debt discount (including the discount from an allocation of proceeds to the warrants and the discount originated by the beneficial conversion feature) of the relevant 3% convertible promissory notes remaining at the date of conversion were immediately recognized as expenses and is included in amortization of deferred charges and debt discount in the consolidated statement of operations. The Company also accounted for the inducement conversion offer according to ASC Topic 470-20. To induce conversion, the Company has reduced the conversion price and also granted an option to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period. The Company recognized non-cash debt conversion charges equal to the fair value of the incremental consideration (including both reduction in the conversion price and grant of purchase option) given as of the date the inducement offer is accepted by a new investor. The fair value of the purchase option was determined utilizing Black-Scholes option pricing model.

For the remaining 3% convertible promissory notes in the principal amount of \$5,000,000, the Company and the holders of the 3% convertible promissory notes agreed to cancel the 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company's issuance of new 1% unsecured senior convertible promissory notes due 2012 in the principal amount of \$5,000,000. The 1% convertible promissory notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time into shares of our common stock at a fixed conversion price of \$0.02326 per share, subject to customary anti-dilution adjustments. Pursuant to ASC Topic 470-50 and ASC Topic 470-50-40, the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence reported in the same manner as an extinguishment of original notes and issuance of new notes.

The Company determined the new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815-40-25. Its embedded conversion option was qualify for equity classification pursuant to ASC Topic 815-40, and ASC Topic 815-10-15-74. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective yield method.

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(L) Revenue Recognition

The Company recognizes revenue in the period when advertisements are either aired or published. Revenues from advertising barter transactions are recognized in the period during which the advertisements are either aired or published. Expenses from barter transactions are recognized in the period as incurred. Barter transactions are accounted in accordance with ASC Topic 605-20-25, which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions. The amounts included in advertising services revenue and general and administrative for barter transactions were \$nil for the three months ended March 31, 2010 and 2009.

(M) Stock-based Compensation

The Company adopted ASC Topic 718, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. ASC Topic 718 requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized in expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value, as required by ASC Topic 718, which is measured as of the date required by ASC Topic 505-50. In accordance with ASC Topic 505-50, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached ("performance commitment date") or the date at which performance is complete ("performance completion date"). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

(N) Income Taxes

The Company accounts for income taxes under ASC Topic 740, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under ASC Topic 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(O) Comprehensive Income (Loss)

The Company follows ASC Topic 220 for the reporting and display of its comprehensive income (loss) and related components in the financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in both the consolidated statements of operations and comprehensive loss and the

consolidated statement of stockholders' equity.

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(P) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed in accordance with ASC Topic 260 by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

The diluted net loss per share is the same as the basic net loss per share for the three months ended March 31, 2010 and 2009 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 unaudited condensed 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 and variable interest entities denominated in currencies other than U.S. dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For unaudited condensed consolidated statements of operations' items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the unaudited condensed consolidated statements of operations.

(S) Fair Value of Financial Instruments

ASC Topic 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC Topic 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC Topic 820 establishes three levels of inputs that may be used to measure fair value:

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

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

principally from, or corroborated by, observable market data.

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

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

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

(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 receivable are mainly from advertising services. Deposits are usually collected from customers in advance and the Company performs ongoing credit evaluation of its customers. The Company believes that no significant credit risk exists as credit loss.

(U) Segmental Reporting

ASC Topic 280 establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company's operating segments are organized internally primarily by the type of services rendered. In September 2008, the Company disposed of its entire travel business and focus on developing its media business in the PRC. Accordingly, it is management's view that the services rendered by the Company are of one operating segment: Media Network.

(V) Recent Accounting Pronouncements

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

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

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

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In March 2010, FASB issued ASU 2010-11 Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives (“ASU 2010-11”). ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption—one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity’s first fiscal quarter beginning after issuance of this Update. The Management is currently evaluating the potential impact of ASU 2010-11 on our financial statements.

In April 2010, FASB issued ASU 2010-13 Compensation-Stock Compensation (Topic 718) Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this Update should be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The guidance should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings for all outstanding awards as of the beginning of the fiscal year in which the amendments are initially applied. Management is currently evaluating the potential impact of ASU 2010-13 on our financial statements.

NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company’s principal consolidated subsidiaries and variable interest entities as of March 31, 2010 were as follows:

| Name | Place of Incorporation | Ownership interest attributable to the Company | Principal activities |
|---|------------------------|--|---|
| NCN Group Limited | BVI | 100% | Investment holding |
| NCN Media Services Limited | BVI | 100% | Investment holding |
| NCN Travel Services Limited | BVI | 100% | Dormant |
| Linkrich Enterprise Advertising and Investment Limited | Hong Kong | 100% | Investment holding |
| Crown Winner International Limited | Hong Kong | 100% | Investment holding |
| Cityhorizon Limited | Hong Kong | 100% | Investment holding |
| NCN Group Management Limited | Hong Kong | 100% | Provision of administrative and management services |
| Crown Eagle Investment Limited | Hong Kong | 100% | Dormant |
| Profit Wave Investment Limited | Hong Kong | 100% | Dormant |
| NCN Huamin Management Consultancy (Beijing) Company Limited | PRC | 100% | Provision of administrative and management services |
| Teda (Beijing) Hotels Management Limited | PRC | 100% | Dormant; undergoing liquidation process |

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| | | | |
|---|-----|------|-----------------------------------|
| Huizhong Lianhe Media Technology Co., Ltd. | PRC | 100% | Provision of high-tech services |
| Beijing Huizhong Bona Media Advertising Co., Ltd. | PRC | 100% | Provision of advertising services |
| Yi Gao Shanghai Advertising Limited | PRC | 100% | Provision of advertising services |

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Remarks:

- 1) As of January 1, 2010, Lianhe terminated its commercial agreement with Quo Advertising. All the business operations of Quo Advertising have been transferred to Yi Gao. Accordingly, the Company recorded a gain on deconsolidation of variable interest entity of \$nil during the period ended March 31, 2010.
- 2) During the three months ended March 31, 2010, Botong terminated its commercially non-viable concession right contracts and no business was operated by Botong. As of March 31, 2010, Lianhe terminated its commercial agreements with Botong. Accordingly, the Company recorded a gain on deconsolidation of variable interest entity of \$2,037 included in general and administrative expenses on the unaudited condensed consolidated statements of operations during the period ended March 31, 2010.

NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of March 31, 2010 and December 31, 2009 were as follows:

| | As of March 31, 2010 (Unaudited) | As of December 31, 2009 (Audited) |
|------------------------------------|---|--|
| Accounts receivable | \$ 135,761 | \$ 93,909 |
| Less: allowance for doubtful debts | (3,849) | (3,844) |
| Total | \$ 131,912 | \$ 90,065 |

For the three months ended March 31, 2010 and 2009, the Company recorded a write-back of allowance for doubtful debts for accounts receivable of \$nil and \$122,188 respectively. Such write-back of allowance for doubtful debts was included in general and administrative expenses in the unaudited condensed consolidated statements of operations.

NOTE 6. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of March 31, 2010 and December 31, 2009 were as follows:

| | As of March 31, 2010 (Unaudited) | As of December 31, 2009 (Audited) |
|---|--|--|
| Gross carrying amount | \$ 1,577,879 | \$ 2,807,038 |
| Less: accumulated amortization | (1,321,767) | (2,349,702) |
| Less: provision for impairment | - | (109,097) |
| Prepayments for advertising operating rights, net | \$ 256,112 | \$ 348,239 |

Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended March 31, 2010 and 2009 were \$267,854 and \$229,292 respectively. The amortization expense of prepayments for advertising operating rights was included as cost of advertising services in the unaudited condensed consolidated statements of operations.

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

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Prepaid expenses and other current assets, net as of March 31, 2010 and December 31, 2009 were as follows:

| | As of March 31, 2010 (Unaudited) | As of December 31, 2009 (Audited) |
|---|--|--|
| Rental deposits | \$ 15,128 | \$ 91,548 |
| Payments from customers withheld by a third party | 1,407,080 | 1,404,977 |
| Amount due from a related party (Note 11) | - | 413,309 |
| Other receivables | 326,885 | 10,914 |
| Prepaid expenses | 139,009 | 158,722 |
| Sub-total | 1,888,102 | 2,079,470 |
| Less: allowance for doubtful debts | (1,415,679) | (1,413,563) |
| Total | \$ 472,423 | \$ 665,907 |

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For the three months ended March 31, 2010 and 2009, the Company recorded a write-back of allowance for doubtful debts for prepaid expenses and other current assets of \$nil and \$109,797 respectively. Such write-back of allowance for doubtful debts was included in general and administrative expenses in the unaudited condensed consolidated statements of operations.

NOTE 8. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

(A) 3% Convertible Promissory Notes and Warrants

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

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

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

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

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. Concurrent with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its directly wholly owned subsidiary, NCN Group Limited (the "NCN Group"), and such loan was evidenced by an intercompany note issued by

NCN Group in favor of the Company (the “NCN Group Note”). At the same time, the Company entered into a Security Agreement, pursuant to which the Company granted to the collateral agent for the benefit of the convertible note holders a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of the NCN Group. In addition, the NCN Group and certain of the Company’s indirectly wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.

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

(B) Debt Restructuring and 1% Convertible Promissory Notes

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

Pursuant to a note exchange and option agreement, dated April 2, 2009 (the “Note Exchange and Option Agreement”), between the Company and Keywin Holdings Limited (“Keywin”), Keywin exchanged the 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company’s common stock and an option to purchase an aggregate of 122,814,185 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period commencing on April 2, 2009 (the “Keywin Option”). Pursuant to the amendments, the exercise period of such option was subsequently extended to an eighteen-month period ending on October 1, 2010 and the Company has the right to unilaterally terminate the exercise period upon 30 days’ written notice. As of March 31, 2010, such option to purchase the Company’s common stock has not been exercised.

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

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

| | 3% Convertible Promissory Notes (first and second tranches) | 3% Convertible Promissory Notes (third tranche) | 1% Convertible Promissory Notes | Total |
|--|--|---|--|---------------|
| Proceeds of convertible promissory notes | \$ 15,000,000 | \$ 35,000,000 | \$ 5,000,000 | \$ 55,000,000 |
| Allocation of proceeds: | | | | |
| Allocated relative fair value of warrants | (2,490,000) | (5,810,000) | - | (8,300,000) |
| Allocated intrinsic value of beneficial conversion feature | (4,727,272) | (11,030,303) | (1,447,745) | (17,205,320) |
| Total net proceeds of the convertible promissory notes | 7,782,728 | 18,159,697 | 3,552,255 | 29,494,680 |
| Conversion of 3% convertible promissory notes of \$45 million | (15,000,000) | (30,000,000) | - | (45,000,000) |
| Cancellation of 3% convertible promissory notes of \$5 million | - | (5,000,000) | - | (5,000,000) |
| Amortization of debt discount | 7,217,272 | 16,840,303 | 410,291 | 24,467,866 |

| | | | | |
|---|-----|-----|-------------|-------------|
| Net carrying value of convertible promissory notes as of March 31, 2010 | \$- | \$- | \$3,962,546 | \$3,962,546 |
|---|-----|-----|-------------|-------------|

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Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended March 31, 2010 was as follows:

| | Warrants | Conversion Features | Deferred Charges | Total |
|---------------------------------|------------|------------------------|---------------------|------------------|
| 1% convertible promissory note | \$- | \$107,612 | \$19,787 | \$127,399 |
| 3% convertible promissory notes | - | - | - | - |
| Total | \$- | \$107,612 | \$19,787 | \$127,399 |

The amortization of deferred charges and debt discount for the three months ended March 31, 2009 was as follows:

| | Warrants | Conversion Features | Deferred Charges | Total |
|---------------------------------|------------------|------------------------|---------------------|--------------------|
| 1% convertible promissory note | \$- | \$- | \$- | \$- |
| 3% convertible promissory notes | 500,919 | 950,996 | 125,431 | 1,577,346 |
| Total | \$500,919 | \$950,996 | \$125,431 | \$1,577,346 |

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

The embedded beneficial conversion feature are recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value of beneficial conversion feature is calculated according to ASC Topic 470-20. The 3% Convertible Promissory Notes and 1% Convertible Promissory Notes are considered to have a beneficial conversion feature as their effective conversion price was less than the Company's market price of common stock at commitment date. The value of beneficial conversion feature of 3% Convertible Promissory Notes and 1% Convertible Promissory Notes amounted to \$15,757,575 and \$1,447,745, respectively, is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As the 3% Convertible Promissory Notes and 1% Convertible Promissory Notes have stated redemption dates, the respective debt discount is amortized over the term of the notes from the respective date of issuance using the effective yield method.

Interest Expense

The following table details the interest expenses:

| | For the three months ended March 31, | |
|---------------------------------|---|-------------------------------|
| | 2010 (Unaudited) | March 31, 2009 (Unaudited) |
| 3% convertible promissory notes | \$ - | \$ 375,000 |
| 1% convertible promissory notes | 12,509 | - |
| Total | \$ 12,509 | \$ 375,000 |

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NOTE 9. COMMITMENTS AND CONTINGENCIES

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 March 31, 2010:

| | |
|--------------------------------------|------------|
| Nine months ending December 31, 2010 | \$ 120,595 |
| Fiscal years ending December 31, | |
| 2010 | 120,595 |
| 2011 | 146,853 |
| Total | \$267,448 |

2. Annual Advertising Operating Rights Fee Commitment

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

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of panels that the Company held as of March 31, 2010:

| | |
|--------------------------------------|------------|
| Nine months ending December 31, 2010 | \$ 590,563 |
| Fiscal years ending December 31, | |
| 2010 | 590,563 |
| 2011 | 123,947 |
| Total | \$714,510 |

3. Capital commitments

As of March 31, 2010, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$30,000.

NOTE 10. STOCKHOLDERS' DEFICIT

(A) Stock, Options and Warrants Issued for Services

1. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price \$0.70 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by ASC Topic 718 with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of the warrant recognized \$nil for the three months ended March 31, 2010 and 2009. As of March 31, 2010, none of the associated warrants was exercised.

2. In July 2007, NCN Group Management Limited entered into Executive Employment Agreements (the "Agreements") with Godfrey Hui, Deputy Chief Executive Officer (former Chief Executive Officer), Daniel So, former Managing Director, Daley Mok, former Chief Financial Officer, Benedict Fung, former President, and Stanley Chu, former General Manager. Pursuant to the Agreements, each executive was granted shares of the Company's common stock subject to annual vesting over five years in the following amounts: Mr. Hui, 2,000,000 shares; Mr. So, 2,000,000

shares; Dr. Mok, 1,500,000 shares; Mr. Fung, 1,200,000 shares and Mr. Chu, 1,000,000 shares. However, Mr. So, Mr. Fung and Mr. Chu resigned from their respective positions in January 2009 and Mr. Mok was removed as the Company's Chief Financial Officer in June 2009. Further, on July 15, 2009, NCN Group Management Limited entered into a new executive employment agreement with Godfrey Hui, in connection with his services to the Company as the Deputy Chief Executive Officer. Accordingly, they are no longer entitled to those shares that will be vested on December 31, 2009, 2010 and 2011 in the following amounts: Mr. So, 1,500,000 shares; Mr. Fung, 970,000 shares, Mr. Chu, 790,000 shares; Mr. Mok, 1,200,000 shares; and Mr. Hui, 1,500,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized non-cash stock-based compensation of \$nil and \$453,250 included in general and administrative expenses on the consolidated statement of operations for the three months ended March 31, 2010 and 2009 respectively. Out of the total shares granted under the Agreements, on January 2, 2008, an aggregate of 660,000 shares with par value of \$0.001 each were vested and issued to the concerned executives. On July 28, 2009, an aggregate of 500,000 shares with par value of \$0.001 each were vested and issued to certain concerned executives.

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3. In November 2007, the Company issued a warrant to purchase up to 300,000 shares of restricted common stock to a placement agent for provision of agency services in connection with the issuance of the 3% Convertible Promissory Notes at an exercise price \$3.0 per share which are exercisable for a period of two years. The fair value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by ASC Topic 718 with the following weighted average assumptions: expected dividend 0%, volatility 182%, a risk-free rate of 4.05 % and an expected life of two (2) year. None of the associated warrants was exercised. The value of the warrant recognized for the three months ended March 31, 2010 and 2009 were \$nil and \$31,959 respectively.

4. In June 2008, the Board of Directors granted 110,000 shares of common stock to the board of directors, Peter Mak, Ronglie Xu, Joachim Burger, Gerd Jakob, Edward Lu, Godfrey Hui, Daniel So, Daley Mok and Stanley Chu, as part of their directors' fee for their service rendered during the period from July 1, 2008 to June 30, 2009. Each director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak: 15,000 shares; Ronglie Xu: 15,000 shares; Joachim Burger: 15,000 shares; Gerd Jakob: 10,000 shares; Edward Lu: 10,000 shares; Godfrey Hui: 15,000 shares; Daniel So: 10,000 shares; Daley Mok: 10,000 shares and Stanley Chu: 10,000 shares. However, Mr. Joachim Burger and Mr. Gerd Jakob resigned as directors on September 30 2008 and May 5, 2009, respectively. Therefore, they are no longer entitled to those shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$47,499 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009 respectively. On July 28, 2009, 85,000 shares of common stock of par value of \$0.001 each were vested and issued to those directors.

5. In July 2008, the Company granted 170,000 shares of common stock to certain employees of the Company for their services rendered. One of the employees effectively resigned in January 2009 and his entitlement to 70,000 shares was canceled. One of the employees agreed to forfeit his original entitled shares of 40,000. Accordingly, in connection with these stock grants, the Company recorded a net credit balance of non-cash stock based compensation of \$nil and \$4,258 for the three months ended March 31, 2010 and 2009 respectively. On July 28, 2009, 60,000 shares of common stock with par value of \$0.001 were vested and issued to the employees.

6. In August 2008, the Company granted 100,000 shares of common stock to a consultant for services rendered. The value of stock grant recognized for the three months ended March 31, 2010 and 2009 were \$nil and \$31,411 respectively.

7. In July 2009, the Board of Directors granted an aggregate of 1,800,000 shares of common stock to the independent directors of the Company for their services to the Company covering the period from July 2, 2009 to July 1, 2010. Each independent director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak: 600,000 shares; Ronald Lee: 600,000 shares; and Gerald Godfrey: 600,000 shares. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not be vested until July 1, 2010 after which the relevant share certificate will be handed to the independent directors. However, Mr. Peter Mak resigned as directors on December 31, 2009. Accordingly, he is no longer entitled to those 600,000 shares of common stock which were then cancelled in January 2010. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$9,000 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the consolidated statements of operations for the three months ended March 31, 2010 and 2009 respectively.

8. In July 2009, the Board of Directors granted an aggregate of 2,000,000 shares of common stock to Jennifer Fu, Chief Financial Officer and one employee of the Company individually for their services to the Company covering the period from July 15, 2009 to July 14, 2011. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not vest until July 14, 2010 after which the relevant share certificate will be handed to them. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$7,500 and \$nil of non-cash

stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009 respectively.

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9. In July 2009, NCN Group Management Limited entered into Executive Employment Agreements with Earnest Leung, Chief Executive Officer and Godfrey Hui, Deputy Chief Executive Officer. Pursuant to the agreements, Dr. Earnest Leung and Mr. Godfrey Hui were granted 30,000,000 and 10,000,000 shares, respectively, for their services rendered during the period from July 1, 2009 to June 30, 2011. Such shares with par value of \$0.001 each were issued to the concerned executives on July 28, 2009. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$1,200,000 of deferred stock compensation amortized over vesting period. The amortization of deferred stock compensation of \$150,000 and \$nil were recorded as non-cash stock-based compensation and included in general and administrative expenses on the unaudited condensed consolidated statement of operation for the three months ended March 31, 2010 and 2009 respectively.

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

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 8 – Convertible Promissory Notes and Warrant for details.

On January 31, 2008, the Company issued \$35,000,000 in 3% Convertible Promissory Notes and amended and restated \$15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company's common stock at \$2.50 per share and warrants to purchase 10,000,000 shares of the Company's common stock at \$3.50 per share. The allocated proceeds to these warrants were \$5,810,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$11,030,303 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 8 – Convertible Promissory Notes and Warrant for details.

(C) Debt Restructuring

On April 2, 2009, the Company entered into a new financing arrangement. Please refer to Note 8 – Convertible Promissory Notes and Warrant for details. Keywin exchanged 3% Convertible Promissory Notes in the principal amount of \$45,000,000 and all accrued and unpaid interest thereon, for 307,035,463 shares of the Company's common stock and an option to Keywin to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period commencing on April 2, 2009. Accordingly, the Company reversed such 3% Convertible Promissory Notes of principal amount of \$45,000,000 and all accrued and unpaid interest of \$1,665,675 against additional paid-in capital. The Company also recognized a non-cash debt conversion charges of \$10,204,627 against additional paid-in capital.

As part of new financing arrangement, the Company also issued \$5,000,000 in the 1% Convertible Promissory Notes on April 2, 2009. As the conversion price was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of \$1,447,745 recorded as a reduction in the carrying values of the notes against additional paid-in capital. For details, please refer to Note 8 – Convertible

Promissory Notes and Warrant.

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

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NOTE 11. RELATED PARTY TRANSACTIONS

Except as set forth below, during the three months ended March 31, 2010 and 2009, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

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

During the year ended December 31, 2009, the Company paid expenses in the aggregate amount of \$413,309 expenses on behalf of a related company which is controlled by a director and chief executive officer of the Company. This amount is unsecured, bears no interest and repayable on demand. Such receivables were settled during the three months ended March 31, 2010. Accordingly, as of March 31, 2010 and December 31, 2009, amount due from a related party was \$nil and \$413,309 respectively.

During the three months ended March 31, 2010, the Company recorded a fee of \$26,539 for sharing an office with its facilities, of which the related company is the tenant. As of March 31, 2010 and December 31, 2009, the Company recorded an amount of \$44,231 and \$17,692 payable to the related company respectively. The amount is unsecured, bears no interest and repayable on demand.

NOTE 12. NET INCOME (LOSS) PER COMMON SHARE

Net loss per share information for the three months ended March 31, 2010 and 2009 was as follows:

| | For the three months ended March 31, 2010 (Unaudited) | For the three months ended March 31, 2009 (Unaudited) |
|--|--|--|
| Numerator: | | |
| Net loss attributable to NCN common stockholders | (1,064,266) | (3,825,702) |
| Denominator: | | |
| Weighted average number of shares outstanding, basic | 422,615,404 | 71,641,608 |
| Effect of dilutive securities | - | - |
| Options and warrants | - | - |
| Weighted average number of shares outstanding, diluted | 422,615,404 | 71,641,608 |
| Net loss per common share – basic and diluted | | |
| Net loss per common share – basic and diluted | \$ - | \$ (0.05) |

The diluted net loss per common share is the same as the basic net loss per common share for the three months ended March 31, 2010 and 2009 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 common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of March 31, 2010 and 2009 were summarized as follows:

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| | For the three months ended March 31, 2010 (Unaudited) | For the three months ended March 31, 2009 (Unaudited) |
|---|--|--|
| Potential common equivalent shares: | | |
| Stock warrants for services (1) | - | - |
| Conversion feature associated with convertible promissory notes to common stock | 214,961,307 | - |
| Common stock to be granted to directors executives and employees for services (including non-vested shares) | - | 3,975,000 |
| Common stock to be granted to consultants for services (including non-vested shares) | 100,000 | 100,000 |
| Stock options granted to Keywin | 81,788,544 | - |
| Total | 296,849,851 | 4,075,000 |

Remarks:

- (1) As of March 31, 2010, the number of potential common equivalent shares associated with warrants issued for services was nil, which was related to a warrant to purchase 100,000 shares of common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of \$0.70, which will expire in August 2016.

NOTE 13. BUSINESS SEGMENTS FROM CONTINUING OPERATIONS

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

NOTE 14. SUBSEQUENT EVENTS

Management evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in the unaudited condensed consolidated financial statements.

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

Cautionary Statements

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

Overview

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

Our total advertising revenues were \$378,182 and \$185,149 for the three months ended March, 2010 and 2009 respectively. Our net loss attributable to NCN common stockholders was \$1,064,266 and \$3,825,702 for the three months ended March, 2010 and 2009 respectively. The following are the key factors which led to less than expected revenues and cash inflows during the first quarter of 2010:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
 - slower than expected consumer acceptance of the digital form of advertising media;
 - strong competition from other media companies; and
- many customers continued to be cost-conscious in their advertising budget although there were signs of recovery in China in late 2009. The impact of the reduction in the pace of our advertising spending is expected to be more significant on our new digital form of media than traditional advertising platforms.

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

Since early 2010, we have begun to restructure our organization by consolidating our PRC operations and advertising business which has been run through commercial arrangements with our PRC operating companies, namely Quo Advertising, Bona and Botong, into one directly owned PRC entity, Yi Gao. On January 1, 2010, we consolidated all the business operations of Quo into Yi Gao, and terminated all Quo commercial arrangements. On March 31, 2010, we also terminated all commercial arrangements with Botong in order to simplify our operating structure. We expect that these actions will enhance our operational efficiency and effectiveness and should reduce our operating expenses

for the foreseeable future.

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

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We also completed a debt restructuring exercise in April 2009 as aforementioned, which has directly lessened our cash constraints. For details, please refer to Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources - Restructuring of Convertible Debt” in our Annual Report on Form 10-K for the fiscal year ending December 31, 2009. In July 2009, our board appointed Dr. Earnest Leung, the nominee of our controlling shareholder, Keywin, as our chief executive officer. Dr. Leung, a Keywin director, has over 20 years experience in the investment banking industry and is actively formulating a series of business development strategies and exploring more prominent advertising related projects, aiming to expand the Company and improve its financial performance. Management has identified and is currently studying the feasibility of several potential projects, however, we have not yet committed to any of them.

For more information relating to our business, please see the section entitled “Business” in our Annual Report on Form 10-K for the fiscal year ending December 31, 2009.

Results of Operations

Comparison of Three Months Ended March 31, 2010 and March 31, 2009

Revenues – Revenues from advertising services for the three months ended March 31, 2010 were \$378,182 as compared to \$185,149 for the corresponding prior year period, an increase of 104%. The increase was mainly attributed to the increase in the advertising sales orders as a result of the economic recovery in China.

Cost of Advertising Services – Cost of advertising services for the three months ended March 31, 2010 was \$466,435, an increase of 3% compared to \$452,259 for the corresponding prior year period, primarily due to increase in the revenues.

Selling and Marketing Expenses – Selling and marketing expenses for the three months ended March 31, 2010 decreased by 46% to \$90,007, compared to \$165,986 for the corresponding prior period. The decrease was mainly attributed to our restructuring on sales team.

General and Administrative Expenses – General and administrative expenses for the three months ended March 31, 2010 decreased by 46% to \$785,376, compared to \$1,467,671 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to drastic cost cutting measures, including reduction of the Company’s workforce, rental, and other general and administrative expenses.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended March 31, 2010 decreased to \$139,908, or by 93%, compared to \$1,952,346 for the corresponding prior year period. The significant decrease was primarily due to the debt restructuring completed in April 2009.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the three months ended March 31, 2010 and 2009 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net loss – The Company incurred a net loss of \$1,064,266 for the three months ended March 31, 2010, a decrease of 72% compared to a net loss of \$3,847,469 for the corresponding prior year period. The decrease in net loss was driven by several factors, including the increase in revenue, decrease in selling and marketing expenses, decrease in workforce, rental and other general and administrative expenses as a result of our cost cutting measures and decrease in interest and other debt-related expenses as a result of debt restructuring, all as more particularly described above.

Liquidity and Capital Resources

As of March 31, 2010, we had cash of \$1,510,937, compared to \$1,969,549 as of December 31, 2009, a decrease of \$458,612. The decrease was mainly attributable to the cash utilized by operating activities.

Operating Activities

Net cash utilized by operating activities for the three months ended March 31, 2010 was \$467,222, as compared with \$2,158,479 for the corresponding prior year period. The decrease in net cash used in operating activities was mainly attributable to the decrease in net loss as a result of our drastic cost-cutting measures.

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Investing Activities

Net cash used in investing activities for the three months ended March 31, 2010 was \$4,743, compared with \$6,958 for the corresponding prior year period. The decrease was mainly attributable to less equipment being purchased during the three months ended March 31, 2010.

Capital Expenditures

During the three months ended March 31, 2009, we acquired assets of \$4,743, which were financed through proceeds from the issuance of convertible promissory notes.

Advertising Operating Rights Fees

Advertising operating rights fees are the major cost of our advertising revenue. To maintain the advertising operating rights, we are required to pay advertising operating rights fees in accordance with payment terms set forth in contracts we entered into with various parties. These parties generally require us to prepay advertising operating rights fees for a period of time. The details of our advertising operating rights fees as of March 31, 2010 and 2009 were as follows:

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 31, | March 31, 2009 |
| | 2010 | (Unaudited) |
| | (Unaudited) | (Unaudited) |
| Payment for prepayments for advertising operating rights | \$341,872 | \$ 312,622 |
| Settlement of accrued advertising operating rights | 104,684 | 700,000 |
| Total payment | \$446,556 | \$ 1,012,622 |
| Amortization of prepayments for advertising operating rights | \$267,854 | \$ 229,292 |
| Accrued advertising operating rights fee recognized | 52,579 | 83,568 |
| Total advertising operating rights fee recognized | \$320,433 | \$ 312,860 |
| | As of | As of |
| | March 31, | December 31, |
| | 2010 | 2009 |
| | (Unaudited) | (Audited) |
| Prepayments for advertising operating rights, net | \$ 256,112 | \$ 348,239 |
| Accrued advertising operating rights fees | \$ 52,579 | \$ 104,684 |

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

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

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

Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of March 31, 2010:

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| | Total | Payments due by period | | | |
|---|-------------|------------------------|------------------|------------------|------------|
| | | Due in 2010 | Due in 2011-2013 | Due in 2013-2015 | Thereafter |
| Long-term Debt Obligations | \$5,000,000 | \$ - | \$ 5,000,000 | \$ - | \$ - |
| Operating Lease Obligations | 267,448 | 120,595 | 146,853 | - | - |
| Annual Advertising Operating Rights Fee Obligations | 714,510 | 590,563 | 123,947 | - | - |
| Purchase Obligations | \$30,000 | \$ 30,000 | \$ - | \$ - | \$ - |

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

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

Annual Advertising Operating Rights Fee Obligations. The Company, through its PRC operating companies has acquired rights from third parties to operate roadside advertising panels and mega-size advertising panels whose lease terms expire between 2010 and 2011.

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

Critical Accounting Policies

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

Recent Accounting Pronouncements

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

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

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

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In March 2010, FASB issued ASU 2010-11 Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives (“ASU 2010-11”). ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption—one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity’s first fiscal quarter beginning after issuance of this Update. The Management is currently evaluating the potential impact of ASU 2010-11 on our financial statements.

In April 2010, FASB issued ASU 2010-13 Compensation-Stock Compensation (Topic 718) Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this Update should be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The guidance should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings for all outstanding awards as of the beginning of the fiscal year in which the amendments are initially applied. Management is currently evaluating the potential impact of ASU 2010-13 on our financial statements.

Off Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15 under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2010, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective to satisfy the objectives for which they are intended.

Changes in Internal Control Over Financial Reporting

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

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There has been no change to our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. We are not aware of any material pending legal proceedings to which we are a party, or of which any of our property is subject, that we expect to have a material adverse effect on our financial condition.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

We have not sold any equity securities during the quarter ended March 31, 2010 which sale was not previously disclosed in a current report on Form 8-K filed during that period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

We have no information to include that was required to be but was not disclosed in a report on Form 8-K during the period covered by this Form 10-Q. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS.

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

| Exhibit No. | Description |
|-------------|---|
| 31.1 | Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

32.2 Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Date: May 7, 2010

NETWORK CN INC.

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

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