

NETWORK CN INC
Form 10-Q
August 09, 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: June 30, 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 August 6, 2010 is as follows:

	Shares
Class of Securities	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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FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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NETWORK CN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
ASSETS			
Current Assets			
Cash		\$ 873,546	\$ 1,969,549
Accounts receivable, net	5	85,705	90,065
Prepayments for advertising operating rights, net	6	117,494	348,239
Investment in available-for-sale securities	7	389,744	-
Prepaid expenses and other current assets, net	8	577,628	665,907
Total Current Assets		2,044,117	3,073,760
Equipment, Net		650,266	1,389,691
Deferred Charges, Net		152,506	191,991
TOTAL ASSETS		\$ 2,846,889	\$ 4,655,442
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable, accrued expenses and other payables		\$ 2,008,029	\$ 2,288,059
Current liabilities from discontinued operations		-	3,655
Total Current Liabilities		2,008,029	2,291,714
1% Convertible Promissory Notes Due 2012, Net	9	4,072,968	3,854,934
TOTAL LIABILITIES		6,080,997	6,146,648
COMMITMENTS AND CONTINGENCIES	10	-	-
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 June 30, 2010 and December 31, 2009 respectively		422,522	423,122
Additional paid-in capital		119,357,448	119,323,848
Deferred stock-based compensation		(600,000)	(900,000)
Accumulated deficit		(123,993,149)	(122,013,120)
Accumulated other comprehensive income	14	1,579,071	1,674,944
TOTAL STOCKHOLDERS' DEFICIT	11	(3,234,108)	(1,491,206)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		\$ 2,846,889	\$ 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 AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (Unaudited)

	Note	For the three months ended June 30, 2010	June 30, 2009	For the six months ended June 30, 2010	June 30, 2009
REVENUES					
Advertising services		\$ 724,261	\$ 333,978	\$ 1,102,443	\$ 519,127
COST OF REVENUES					
Cost of advertising services		(463,581)	(501,058)	(930,016)	(953,317)
GROSS PROFIT(LOSS)		260,680	(167,080)	172,427	(434,190)
OPERATING EXPENSES					
Selling and marketing		(94,931)	(159,421)	(184,938)	(325,407)
General and administrative		(970,545)	(1,009,995)	(1,755,921)	(2,477,666)
Total Operating Expenses		(1,065,476)	(1,169,416)	(1,940,859)	(2,803,073)
LOSS FROM OPERATIONS		(804,796)	(1,336,496)	(1,768,432)	(3,237,263)
OTHER INCOME					
Interest income		556	10,223	933	13,944
Other income		31,063	641	69,964	2,564
Total Other Income		31,619	10,864	70,897	16,508
INTEREST AND OTHER DEBT-RELATED EXPENSES					
Amortization of deferred charges and debt discount	9	(130,121)	(17,053,254)	(257,520)	(18,630,600)
Non-cash debt conversion charges	9	-	(10,204,627)	-	(10,204,627)
Loss on early extinguishment of debt	9	-	(1,696,684)	-	(1,696,684)
Interest expense	9	(12,465)	(20,525)	(24,974)	(395,525)
Total Interest and Other Debt-Related Expenses		(142,586)	(28,975,090)	(282,494)	(30,927,436)
NET LOSS BEFORE INCOME TAXES		(915,763)	(30,300,722)	(1,980,029)	(34,148,191)
Income taxes		-	-	-	-
NET LOSS		(915,763)	(30,300,722)	(1,980,029)	(34,148,191)
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, NET OF INCOME TAXES					
		-	1,401	-	23,168
NET LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS		\$ (915,763)	\$ (30,299,321)	\$ (1,980,029)	\$ (34,125,023)

**OTHER COMPREHENSIVE
INCOME(LOSS)**

Change in unrealized loss on available- for-sale securities, net of taxes	7	(118,149)	-	(118,149)	-
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	Note	For the three months ended June 30, 2010	June 30, 2009	For the six months ended June 30, 2010	June 30, 2009
Foreign currency translation gain		7,014	23,080	22,276	22,938
Total other comprehensive income (loss)		(111,135)	23,080	(95,873)	22,938
Less: other comprehensive loss attributable to noncontrolling interests		-	587	-	408
Other comprehensive income (loss) attributable to NCN common stockholders		(111,135)	23,667	(95,873)	23,346
COMPREHENSIVE LOSS ATTRIBUTABLE TO NCN COMMON STOCKHOLDERS		\$ (1,026,898)	\$ (30,275,654)	\$ (2,075,902)	\$ (34,101,677)
NET LOSS PER COMMON SHARE					
– BASIC AND DILUTED	13	\$ (0.002)	\$ (0.084)	\$ (0.005)	\$ (0.157)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED	13	422,522,071	361,806,991	422,568,480	217,525,861

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 SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Unaudited)

	For the six months ended June 30, 2010 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss attributable to NCN common stockholders	\$ (1,980,029)	\$ (34,125,023)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment and intangible assets	150,482	289,024
Deferred charges and debt discount	257,520	18,630,600
Non-cash debt conversion charges	-	10,204,627
Loss on early extinguishment of debt	-	1,696,684
Stock-based compensation for service	333,000	745,182
Loss on disposal of equipment	562,173	8,407
Net write-back of allowance for doubtful debt	-	(229,440)
Net (gain) loss on deconsolidation of variable interest entities and disposal of subsidiaries	(5,692)	8,178
Gain from sales of available-for-sale securities	(31,063)	-
Noncontrolling interests	-	(23,168)
Changes in operating assets and liabilities, net of effects from deconsolidation of variable interest entities and disposal of subsidiaries:		
Accounts receivable	4,360	279,835
Prepayments for advertising operating rights	230,745	74,084
Prepaid expenses and other current assets	88,279	361,587
Accounts payable, accrued expenses and other payables	(275,330)	(1,268,284)
Net cash used in operating activities	(665,555)	(3,347,707)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(4,743)	(55,280)
Proceeds from sales of equipment	35,700	46,154
Purchases of available-for-sale securities	(857,694)	-
Proceeds from sales of available-for-sale securities	380,864	-
Net cash used in investing activities	(445,873)	(9,126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance costs for 1% convertible promissory note	-	(250,000)
Net cash used in financing activities	-	(250,000)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	15,425	(11,943)
NET DECREASE IN CASH	(1,096,003)	(3,618,776)
CASH, BEGINNING OF PERIOD	1,969,549	7,717,131

CASH, END OF PERIOD	\$ 873,546	\$ 4,098,355
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	-	-
Interest expenses	\$ 25,111	\$ -

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SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITIES:

NON-CASH FINANCING ACTIVITIES

In April 2009, the Company issued an aggregate of 307,035,463 shares of the Company's restricted common stock with par value of \$0.001 and an option to purchase an aggregate of 122,814,185 shares of the Company's common stock, for an aggregate purchase price of \$2,000,000, exercisable for a three-month period to a new investor in exchange for 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon (\$1,665,675). Pursuant to a note exchange agreement dated April 2, 2009, the Company and the investors canceled the 3% Convertible Promissory Notes in the principal amount of \$5,000,000 held by the investors including all accrued and unpaid interest thereon (\$185,075), and all of the Warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Note due 2012 in the principal amount of \$5,000,000. For more details, please refer to Note 9 – Convertible Promissory Notes and Warrants.

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 STATEMENTS

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

The condensed consolidated financial statements for the three and six months ended June 30, 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 the travel and media networks. In 2008, the Company disposed of its entire travel network in order to focus on its media network.

Details of the Company’s principal subsidiaries and variable interest entities as of June 30, 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 six months ended June 30, 2010 and 2009 were \$2 million and \$34.1 million respectively. Additionally, the Company has net cash used in operating activities of \$0.7 million and \$3.3 million for the six months ended June 30, 2010 and

2009 respectively. As of June 30, 2010, the Company recorded a stockholders' deficit of \$3.2 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. The Company also actively streamlined the sales process in order to increase sales volumes. Besides, management 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 June 30, 2010 and December 31, 2009, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

Allowance for doubtful debts is made against receivables to the extent the debts 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) Investment in available-for-sale securities

The Company's marketable equity securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. Realized gains or losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are reported in other income. The Company evaluates the investments periodically for possible other-than-temporary impairment. When assessing other-than-temporary impairment of equity securities, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, the Company's intent to hold the investment for a period of time which may be sufficient for an anticipated recovery in market value, and whether its cash flow needs may require the Company to sell the investment. If appropriate, the Company records impairment charges equal to the amount that the carrying value of an equity security exceeds the estimated fair value of such security as of the evaluation date. In computing realized gains and losses on available-for-sale securities, the Company determines cost based on amounts paid, including direct costs such as commissions to acquire the security, using the specific identification method.

The determination of current or noncurrent status for individual available-for-sale securities is made on the basis of whether or not the securities are considered working capital available for current operations under ASC 210-10-45. We determined that investments in available-for-sale securities have not been made for the purposes of control, affiliation, or other continuing business advantage as a result, investments in available-for-sale securities are classified as current assets on the unaudited condensed consolidated financial statements as of June 30, 2010.

(H) 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.

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(I) Impairment of Long-Lived Assets

Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived 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.

(K) Convertible Promissory Notes and Warrants

1) Issuance of 3% Convertible Promissory Notes and Warrants

During 2007 and 2008, the Company issued 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 the Black-Scholes option pricing model.

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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 qualified 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.

(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 for 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 and six months ended June 30, 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. 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.

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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 expense or benefit related to adjusting deferred tax assets and liabilities as a result 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.

(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 and six months ended June 30, 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:

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

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

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

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

The carrying value of the Company's financial instruments related to warrants associated with convertible promissory notes is stated at a value being equal to the allocated proceeds of convertible promissory notes based on the relative fair value of notes and warrants. In the measurement of the fair value of these instruments, the Black-Scholes option pricing model is utilized, which is consistent with the Company's historical valuation techniques. These derived fair value estimates are significantly affected by the assumptions used. As the allocated value of the financial instruments related to warrants associated with convertible promissory notes is recorded in additional paid-in capital, the financial instruments related to warrants were not required 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. 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 ASU 2009-13 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.

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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. 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.

In April 2010, FASB issued ASU 2010-18 Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (A consensus of the FASB Emerging Issues Task). This Update clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amendments in this Update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Management is currently evaluating the potential impact of ASU 2010-18 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 June 30, 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
	Hong Kong	100%	Investment holding

Linkrich Enterprise Advertising and Investment Limited

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
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Provision of administrative and management services
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.
- 3) During the three months ended June 30, 2010, the Company wound up its wholly owned subsidiaries, namely, Profit Wave Investment Limited, a Hong Kong company and Teda (Beijing) Hotels Management Limited, a PRC company. Accordingly, the Company recorded a gain on disposal of subsidiaries of \$3,655 included in general and administrative expenses on the unaudited condensed consolidated statements of operations during the period ended June 30, 2010.

NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of June 30, 2010 and December 31, 2009 were as follows:

	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
Accounts receivable	\$ 89,585	\$ 93,909
Less: allowance for doubtful debts	(3,880)	(3,844)
Total	\$ 85,705	\$ 90,065

For the three months ended June 30, 2010 and 2009, the Company recorded an allowance for doubtful debts for accounts receivable of \$nil and \$2,560, respectively. For the six months ended June 30, 2010 and 2009, the Company recorded a net write-back of allowance for doubtful debts for accounts receivable of \$nil and \$119,628, respectively. Such allowance for doubtful debt and net write-back of allowance for doubtful debts were included in general and administrative expenses on the unaudited condensed consolidated statements of operations.

NOTE 6. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of June 30, 2010 and December 31, 2009 were as follows:

	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
Gross carrying amount	\$ 2,095,464	\$ 2,807,038
Less: accumulated amortization	(1,977,970)	(2,349,702)
Less: provision for impairment	-	(109,097)
Prepayments for advertising operating rights, net	\$ 117,494	\$ 348,239

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Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended June 30, 2010 and 2009 were \$310,306 and \$239,737, respectively, while for the six months ended June 30, 2010 and 2009 amounted to \$578,159 and \$469,029, respectively. The amortization expense of prepayments for advertising operating rights was included as cost of advertising services on the unaudited condensed consolidated statements of operations.

NOTE 7. INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES

Investments in available-for-sale securities as of June 30, 2010 and December 31, 2009 were as follows:

	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
Listed equity securities in Hong Kong		
Gross Adjusted Cost	\$ 507,893	\$ -
Gross Unrealised loss	(118,149)	-
Estimated fair value	\$ 389,744	\$ -

As of June 30, 2010, the estimated fair value of these securities was \$389,744 less than their adjusted costs. As the Company has no intent to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery, the Company concluded the decline in the fair value was temporary and recorded the unrealized loss to accumulated other comprehensive income on the unaudited condensed consolidated balance sheets as of June 30, 2010.

The fair value of such securities was based on quoted market prices. These financial instruments consist of listed equity securities in Hong Kong, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

NOTE 8. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of June 30, 2010 and December 31, 2009 were as follows:

	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
Rental deposits	\$ 15,242	\$ 91,548
Payments from customers withheld by a third party	1,418,091	1,404,977
Amount due from a related party (Note 12)	-	413,309
Other receivables	251,320	10,914
Prepaid expenses	319,732	158,722
Sub-total	2,004,385	2,079,470
Less: allowance for doubtful debts	(1,426,757)	(1,413,563)
Total	\$ 577,628	\$ 665,907

For the three months ended June 30, 2010 and 2009, the Company recorded a write-back of allowance for doubtful debts for prepaid expenses and other current assets of \$nil, while for the six months ended June 30, 2010 and 2009 amounted to \$nil and \$109,812, respectively. Such write-back of allowance for doubtful debts was included in general

and administrative expenses on the unaudited condensed consolidated statements of operations.

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NOTE 9. 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 downward adjustment 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 years 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% Convertible Promissory 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 the 3% Convertible Promissory Notes to its directly wholly owned subsidiary, NCN Group Limited (the "NCN Group"), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the "NCN Group Note"). At the same time, the Company entered into a Security Agreement, pursuant to which the Company granted to the collateral agent for the benefit of the convertible note holders a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of the NCN Group. In addition, the NCN Group and certain of the Company's indirectly wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other

things, secure the NCN Group Note and certain related obligations.

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

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(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 June 30, 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	520,713	24,578,288
Net carrying value of convertible promissory notes as of June 30, 2010	\$ -	\$ -	\$ 4,072,968	\$ 4,072,968

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Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended June 30, 2010 was as follows:

	Warrants	Conversion Features	Deferred Charges	Total
1% convertible promissory note	\$-	\$110,422	\$19,699	\$130,121
3% convertible promissory notes	-	-	-	-
Total	\$-	\$110,422	\$19,699	\$130,121

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

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

The amortization of deferred charges and debt discount for the six months ended June 30, 2010 was as follows:

	Warrants	Conversion Features	Deferred Charges	Total
1% convertible promissory note	\$-	\$218,034	\$39,486	\$257,520
3% convertible promissory notes	-	-	-	-
Total	\$-	\$218,034	\$39,486	\$257,520

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

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

The fair values of the financial instruments associated with warrants of 3% Convertible Promissory Notes were determined utilizing the 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 is 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 the 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.

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Interest Expense

The following table details the interest expenses:

	For the three months ended		For the six months ended	
	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)
1% convertible promissory notes	\$ 12,465	\$ 12,192	\$24,795	\$ 12,192
3% convertible promissory notes	-	8,333	-	383,333
Others	-	-	179	-
Total	\$ 12,465	\$ 20,525	\$24,974	\$ 395,525

NOTE 10. COMMITMENTS AND CONTINGENCIES

(A) Commitments

1. Rental Lease Commitment

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancellable rental operating leases as of June 30, 2010:

Six months ending December 31, 2010	\$ 110,402
Fiscal years ending December 31, 2010	110,402
2011	145,220
Total	\$255,622

2. Annual Advertising Operating Rights Fee Commitment

The Company, 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 June 30, 2010:

Six months ending December 31, 2010	\$363,619
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3. Capital commitments

As of June 30, 2010, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$18,000.

(B) Contingencies

The Company accounts for loss contingencies in accordance with SFAS No. 5 "Accounting for Loss Contingencies" (ASC Topic 450) and other related guidelines. Set forth below is a description of certain loss contingencies as of June 30, 2010 and management's opinion as to the likelihood of loss in respect of loss contingency.

On March 20, 2008, our wholly-owned subsidiary, NCN Huamin, entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd., or Chengtian, pursuant to which a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008 due to the fact that Chengtian had breached several provisions of the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of approximately \$505,000 for unpaid rental-related expenses, plus accrued interest, as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian, seeking an aggregate of approximately \$155,000 from Chengtian for overpayment of rental expenses and compensation for Chengtian's breach of contract. In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of \$280,000. In October, 2009, NCN Huamin appealed to Beijing Second Intermediate People's Court against the arbitration decision. On January 6, 2010, Beijing Second Intermediate People's Court made a final judgment to rescind the original judgment made by the Beijing Arbitration Commission. In June, 2010, NCN Huamin received a notice from Beijing Chaoyang People's Court dated May 24, 2010 that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin again, seeking an aggregate of approximately \$520,000 for unpaid rental-related expenses, plus fines and penalties for delayed payment as well as compensation for unilateral termination of the rental contract. At present, the outcome of this lawsuit cannot be reasonably predicted. We do not believe that the outcome of this litigation will have a material impact on our consolidated financial statements, or our results of operations.

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

NOTE 11. 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 and six months ended June 30, 2010 and 2009. As of June 30, 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 \$nil and \$64,749 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 June 30, 2010 and 2009, respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$nil and \$517,999, 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 were vested and issued to the concerned executives. On July 28, 2009, an aggregate of 500,000 shares with par value of \$0.001 were vested and issued to certain concerned executives.

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) years. None of the associated warrants was exercised. The value of the warrant recognized for the three months ended June 30, 2010 and 2009 were \$nil and \$31,958, respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$nil and \$63,917, respectively.

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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, Daniel So, Daley Mok, Stanley Chu, our former directors, and Godfrey Hui, as part of their director's 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 \$27,500 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 June 30, 2010 and 2009, respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$nil and \$75,000, 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 cancelled. 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 non-cash stock based compensation of \$nil and \$29,700 for the three months ended June 30, 2010 and 2009, respectively while such amounts were \$nil and \$25,442 for the six months ended June 30, 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 June 30, 2010 and 2009 were \$nil and \$31,412 respectively, while such amounts were \$nil and \$62,824 for the six months ended June 30, 2010 and 2009, 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 unaudited condensed consolidated statements of operations for the three months ended June 30, 2010 and 2009 respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$18,000 and \$nil, 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 June 30, 2010 and 2009 respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$15,000 and \$nil, respectively.

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 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 June 30, 2010 and 2009 respectively, while during the six months ended June 30, 2010 and 2009 such amounts were \$300,000 and \$nil, respectively.

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(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 \$2.50 per share and 1,714,285 shares of the Company's common stock at the exercise price of \$3.50 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 \$2.50 per share and 2,571,430 shares of the Company's common stock at the exercise price of \$3.50 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 9 – 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 9 – 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 9 – 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 9 – 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 to Keywin accordingly.

(D) Changes in Equity (Deficit)

The following table summarizes the changes in equity (deficit) for the three months ended June 30, 2010:

Noncontrolling	NCN Common	Total
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	Interests	Stockholders	
Total deficit as of March 31, 2010 (unaudited)	\$ -	\$ (2,373,710)	\$(2,373,710)
Net loss	-	(915,763)	(915,763)
Other comprehensive loss	-	(111,135)	(111,135)
Preferred stock	-	-	-
Common stock	-	-	-
Additional paid-in capital	-	16,500	16,500
Deferred stock compensation	-	150,000	150,000
Total deficit as of June 30, 2010 (unaudited)	\$ -	\$ (3,234,108)	\$(3,234,108)

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

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

The following table summarizes the changes in equity (deficit) for the six months ended June 30, 2010:

	Noncontrolling Interests	NCN Common Stockholders	Total
Total deficit as of December 31, 2009 (audited)	\$ -	\$ (1,491,206)	\$(1,491,206)
Net loss	-	(1,980,029)	(1,980,029)
Other comprehensive loss	-	(95,873)	(95,873)
Preferred stock	-	-	-
Common stock	-	(600)	(600)
Additional paid-in capital	-	33,600	33,600
Deferred stock compensation	-	300,000	300,000
Total deficit as of June 30, 2010 (unaudited)	\$ -	\$ (3,234,108)	\$(3,234,108)

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

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

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NOTE 12. RELATED PARTY TRANSACTIONS

Except as set forth below, during the six months ended June 30, 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 six months ended June 30, 2010. Accordingly, as of June 30, 2010 and December 31, 2009, amount due from a related party was \$nil and \$413,309 respectively.

During the six months ended June 30, 2010, the Company recorded a fee of \$53,077 for sharing an office with its facilities, of which the related company is the tenant. As of June 30, 2010 and December 31, 2009, the Company recorded an amount of \$70,769 and \$17,692 payable to the related company respectively. Such payables were included in accounts payable, accrued expenses and other payables on the unaudited condensed consolidated balance sheets. The amount is unsecured, bears no interest and repayable on demand.

NOTE 13. NET LOSS PER COMMON SHARE

Net loss per share information for the three and six months ended June 30, 2010 and 2009 was as follows:

	For the three months ended June 30, 2010 (Unaudited)	For the three months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2010 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)
Numerator:				
Net loss attributable to NCN common stockholders	\$ (915,763)	\$ (30,299,321)	\$ (1,980,029)	\$ (34,125,023)
Denominator:				
Weighted average number of shares outstanding, basic	422,522,071	361,806,991	422,568,480	217,525,861
Effect of dilutive securities	-	-	-	-
Options and warrants	-	-	-	-
Weighted average number of shares outstanding, diluted	422,522,071	361,806,991	422,568,480	217,525,861
Net loss per common share – basic and diluted				
Net loss per common share – basic and diluted	\$ (0.002)	\$ (0.084)	\$ (0.005)	\$ (0.157)

The diluted net loss per common share is the same as the basic net loss per common share for the three and six months ended June 30, 2010 and 2009, respectively, 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 June 30, 2010 and 2009 were summarized as follows:

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	For the three months ended June 30, 2010 (Unaudited)	For the three months ended June 30, 2009 (Unaudited)	For the six months ended June 30, 2010 (Unaudited)	For the six months ended June 30, 2009 (Unaudited)
Potential common equivalent shares:				