NETWORK CN INC
Form 10-K
April 16, 2012

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

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

For the fiscal year ended December 31, 2011

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

For the transition period from ____ to ____

Commission file number 000-30264

NETWORK CN INC.

(Exact name of registrant as specified in its charter)

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

Room 2120 and 2122, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: NONE
Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $0.001 Par Value
(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of June 30, 2011, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately $0.7 million.

The number of shares outstanding of each of the issuer's classes of common stock, as of April 16, 2012 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	96,504,467

NETWORK CN INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this annual report include “forward-looking statements” within the meaning of such term in Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause actual financial or operating results, performances or achievements expressed or implied by such forward-looking statements not to occur or be realized. Forward-looking statements made in this annual report generally are based on our best estimates of future results, performances or achievements, predicated upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “will”, “could”, “should”, “project”, “expect”, “believe”, “estimate”, “anticipate”, “intend”, “cont “opportunity” or similar terms, variations of those terms or the negative of those terms or other variations of those terms or comparable words or expressions. Potential risks and uncertainties include, among other things, such factors as:

- our potential inability to raise additional capital;
- changes in domestic and foreign laws, regulations and taxes;
- uncertainties related to China's legal system and economic, political and social events in China;
- Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks;” and
- changes in economic conditions, including a general economic downturn or a downturn in the securities markets.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this annual report are discussed in Item 1A. “Risk Factors”. Readers are urged to carefully review and consider the various disclosures made by us in this annual report and our other filings with the U.S. Securities and Exchange Commission (the “SEC”). These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this annual report speak only as of the date hereof and we disclaim any obligation to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

USE OF TERMS

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

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

“NCN Landmark” are references to NCN Landmark International Hotel Group Limited, a BVI limited company, and its wholly-owned subsidiary, Beijing NCN Landmark Hotel Management Limited, a PRC limited company;
“NCN Management Services” are references to NCN Management Services Limited, a BVI limited company;
“Quo Advertising ” are references to Shanghai Quo Advertising Co. Ltd, a PRC limited company;
“RMB” are to the Renminbi, the legal currency of China;
the “Securities Act” are to the Securities Act of 1933, as amended; and the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
“Tianma” are references to Guangdong Tianma International Travel Service Co., Ltd, a PRC limited company;
“U.S. dollar”, “$” and “US$” are to the legal currency of the United States; and
“Xuancaiyi” are references to Xuancaiyi (Beijing) Advertising Company Limited, a PRC limited company.

PART I

ITEM 1. BUSINESS

Overview of Our Business

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

Total advertising revenues were $1,794,552, $2,207,479 and $1,266,927 for the years ended December 31, 2011, 2010 and 2009 respectively. Our net loss attributable to NCN common stockholders was $2,102,548, $2,603,384 and $37,359,188 for the years ended December 31, 2011, 2010 and 2009 respectively. Our results of operations were negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2011, including the following:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- many customers continued to be cost-conscious in their advertising budget especially on our new digital form of media.

To address these unfavorable market conditions we undertook drastic cost-cutting measures in the latter half of 2008 including reductions in our workforce, office rentals, selling and marketing related expenses and other general and administrative expenses. We also re-assessed the commercial viability of each of our concession rights contracts and determined that many of our concession rights are no longer commercially viable due to high annual fees; these commercially non-viable concession right contracts were terminated. Management has also successfully negotiated some reductions in advertising operating rights fees under remaining contracts. During the fiscal year 2011, we only have one concession right contract, pursuant to which we operate 52 roadside advertising panels along Nanjing Road in Shanghai, China. The outcome of all these measures has been reflected in our financial results. To improve the financial performance, we have also actively explored new prominent media projects in order to provide a wider range of media and advertising services, and not only focus on LED media, since later half of 2011.

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

Recent Development

Reverse Split

On September 16, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of Delaware to effect a 1-for-5 reverse stock split of our outstanding common stock (the “Reverse Split”) and a reduction of its authorized shares of common stock from 2,000,000,000 to 400,000,000 shares. Our common stock commenced trading on a post-split basis on September 22, 2011.

Shareholders received one new share of common stock in replacement of every five shares held on July 5, 2011, the record date for the Reverse Split. The Reverse Split did not change the aggregate value of any stockholder's shares of common stock or any stockholder's ownership percentage of the common stock, except for minimal changes resulting from the treatment of fractional shares. We did not issue any fractional shares as a result of the Reverse Split. The number of shares issued to each stockholder was rounded up to the nearest whole number if, as a result of the Reverse Split, the number of shares owned by any stockholder would not be a whole number.

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The Reverse Split proportionately reduced all issued and outstanding shares of our common stock, as well as common stock underlying stock options, warrants and other common stock based equity grants outstanding while the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of our convertible notes were also proportionately reduced and the respective conversion prices were proportionately increased.

All references to shares in this annual report on Form 10-K including but not limited to the number of shares and per share amounts (except par value), unless otherwise noted, have been adjusted to reflect the Reverse Split retroactively. Previously awarded options and warrants to purchase shares of our common stock have also been retroactively adjusted to reflect the Reverse Split.

Identification of Potential Projects

In the latter half of 2011, we identified three prominent domestic media projects for which we made/are making bids for consideration, but we have not yet received commitments on any of these projects (though we have entered into a letter of intent on one project, see below). If the Company is successful in these bids, we expect that these projects will improve our future financial performance and help the Company start a new chapter of growth.

On October 13, 2011, to increase our competitive power, the Board of Directors resolved that the Company should engage three independent consultants to provide consulting services for each media project. The consulting services shall include, but not be limited to, design of the structure, terms, and mode of operation of the project, acting as project coordinator and representing the Company in negotiations in connection with the project. Considering the Company’s current tight cash position, the Board of Directors resolved to issue 4,000,000 shares of common stock under the Company’s 2007 Amended and Restated Equity Incentive Plan which has been registered on Form S-8 with the SEC to each of them in lieu of cash as a consideration for their services. Such 4,000,000 shares of common stock shall be issued to each consultant upon the execution of his/her consulting services agreement.

On October 18, 2011, we entered into a consulting services agreement with Mr. Wong Wing Yeuk. On October 21, 2011, we entered into consulting services agreements with Ms Chan Oi Yin and Mr. Wong Yuk Chor. Accordingly, an aggregate of 12,000,000 shares of common stock under the Company’s 2007 Amended and Restated Equity Incentive Plan which represented 12.4% of our current shareholdings were issued to all of them in October 2011. Although there has a reduction in the proportionate ownership of our existing shareholders, we believed that it is in the best interest of the Company and the shareholders to issue shares as the only consideration to each of the consultants at this moment.

In December 2011, we successfully entered into a letter of intent with the authorizing party of one of these three identified projects. Pursuant to the letter of intent, upon our securing of advertising orders, we will be granted exclusive right to operate the traditional advertising panels located along the Hebei Province Expressways that are managed by Hebei Sheng Gao Su Gong Lu Guan Li Ju (“HBEA”). The details of the terms of the cooperative arrangement are currently in negotiation. HBEA currently manages 15 expressways in Hebei Province and is expected to increase this number to 20 within a decade. Hebei Province Expressways has the highest vehicle flow density among all the expressways in China and the population covered by the current network of 15 expressways is currently estimated to be 245 million people.

In February 2012, we secured a new media advertising project in Shanghai, China. Pursuant to cooperative agreements entered into with Shanghai Shenpu Advertising & Decoration Co., Limited, we were granted with the right to operate a mega-sized traditional advertising billboard located at Raffles City, Shanghai, China and two mega-sized traditional advertising billboards located at different section along Nanjing Road and Henan Road in Shanghai, China. The terms of the cooperative arrangement is one year with renewal option. Past customers for these three mega-sized advertising panels were mainly branded corporate customers including Citibank, Nikon and Nintendo.

Extension of Convertible Promissory Notes

On April 2, 2009, we entered into the Note Exchange Agreement with certain Investors, pursuant to which the parties agreed to cancel the Amended and Restated Notes in the principal amount of $5 million held by such Investors (including accrued and unpaid interest thereon), and all the Warrants, in exchange for our issuance of new 1% Unsecured Senior Convertible Notes due 2012 in the principal amount of $5 million, or the New Notes. The New Notes bear interest at 1% per annum, payable semi-annually in arrears, and matured on April 1, 2012. They are convertible at any time into shares of our common stock at an initial conversion price of $0.1163 per share, subject to customary antidilution adjustments. In addition, in the event of a default, the holders of the New Notes, or the Note Holders, will have the right to redeem the New Notes at 110% of the principal amount, plus any accrued and unpaid interest. The parties also agreed to terminate the Security Agreement and release all security interests arising out of the Purchase Agreement and the Amended and Restated Notes.

On April 1, 2012, the Company and the Note Holders agreed to 1) extend the maturity date of the 1% Unsecured Senior Convertible Notes due 2012 for a period of two years and 2) modify the now 1% Unsecured Senior Convertible Notes due 2014 to be convertible at any time into shares of the Company’s common stock at a conversion price of $0.09304 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the original 1% Unsecured Senior Convertible Notes due 2012 shall remain the same and shall be fully enforceable in accordance with its terms.

History

We were incorporated under the laws of the State of Delaware on September 10, 1993, under the name EC Capital Limited. Our predecessor companies were involved in a variety of businesses and were operated by various management teams under different operating names. Between 2004 and 2006 we operated under the name Teda Travel Group Inc., which was primarily engaged in the provision of management services to hotels and resorts in China. On August 1, 2006, we changed our name to “Network CN Inc.” in order to better reflect our new vision to build a nationwide information and entertainment network in China.

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From early 2006 until 2008, we had two business divisions: our Media Business Division and a Non-Media Business Division. We initially focused on the Non-Media Business Division, which was mainly comprised of a travel network through which we provided agency tour services and hotel management services. In 2006 and 2007, we earned substantially all of our revenues from providing tour services both inside and outside of the PRC. We also provided day-to-day management services to hotels and resorts in the PRC. During the latter half of 2006, we adjusted our primary focus away from the tourism and hotel management business to the building of a media network with the goal of becoming a nationwide leader in out-of-home, digital display advertising, roadside LED digital video panels and mega-size video billboards. In November 2006 we secured our first media-related contract for installing and managing out-of-home LED advertising video panels. In 2007, we secured further rights to operate mega-size LED and roadside LED panels in prominent cities in the PRC through either entering business agreements with authorizing parties or business combination exercise, and began generating revenues from our Media Business.

Disposal of Non-Media Business Division

On June 16, 2006, to take advantage of China's booming travel market, through NCN Management Services, we obtained a 55% control over Tianma, a travel agency headquartered in Guangdong Province in the PRC, for a consideration of $936,283, $833,333 of which was in cash and $102,950 of which was in 72,500 shares of our common stock. Tianma is an authorized travel operator and provides travel agency services to customers for both inbound and outbound travel. It organizes independent tour and travel packages for a variety of destinations within China and internationally. Tour packages may include air and land transportation, hotels, restaurants and tickets to tourist destinations and other excursions. Tianma books all elements of such packages with third-party service providers, such as airlines, car rental companies and hotels, or through other tour package providers and then resells such packages to its clients.

In 2008, as the Company did not foresee any major contribution from Tianma in the near future, the Board of Directors of the Company resolved that it was in the best interests of the Company to focus on developing its media business and to explore ways of divesting itself of the travel business. The Company entered into stock purchase agreements disclosed below, to dispose of its entire Non-Media Business Division.

On September 1, 2008, the Company completed the sale of all its interests in NCN Management Services to an independent third party for HK$1,350,000, or approximately $173,000, in cash. The acquirer acquired NCN Management Services along with its subsidiaries and variable interest entity, which include 100% equity interest in NCN Hotels Investment Limited, 100% equity interest in NCN Pacific Hotels Limited and our 55% control (through trust) over Tianma. The Company reported a gain on the sale, net of income taxes, of $61,570.

On September 30, 2008, the Company completed the sale of its 99.9% interest in NCN Landmark to an independent third party for cash consideration of $20,000. The acquirer acquired NCN Landmark along with its subsidiary, Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes, of $4,515.

The Company treated the sales of NCN Management Services along with its subsidiaries and variable interest entity and NCN Landmark along with its subsidiary as a discontinuation of operations.

Acquisition of Quo Advertising

On January 31, 2007, we exerted 100% control over Quo Advertising, an advertising agency headquartered in Shanghai, China, pursuant to a purchase and sale agreement and a trust agreement, dated January 24, 2007, between the Company and two independent PRC individuals. As we were unable to directly own a 100% equity interest in Quo Advertising under PRC laws and regulations, we designated two PRC citizens to hold Quo Advertising's equity interest on our behalf and for our benefit, in trusts. The Company obtained 100% control over Quo Advertising for consideration of $907,600, $64,000 of which was cash and the balance of which was in 60,000 shares of our common stock, valued at $843,600. The results of operations of Quo Advertising have been included in the Company's consolidated statement of operations since January 31, 2007.

Quo Advertising was founded in 1996 in Shanghai, China and provided advertising design, production, public relations and event management services for domestic and international clients before our acquisition. The acquisition strengthens our media network in the PRC. Our media business was mainly run through Quo Advertising in 2007 and 2008. On January 1, 2010, we terminated all the commercial arrangement with Quo Advertising and were no longer able to exert control over Quo Advertising which was deconsolidated accordingly. All the business operations of Quo Advertising have been transferred to Yi Gao, in which we held a 70% equity interest at the time, with the remaining 30% interest controlled through a trust arrangement with Quo Advertising. For details, please refer to Item 1 – Business, “History - Corporate Restructuring” below.

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Acquisition of Xuancaiyi

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

Xuancaiyi was founded in 2007 and obtained the right to manage and operate a mega-size high resolution LED advertising billboard in a prominent location in China’s capital, Beijing at that time. This billboard is more than 758 square meters and is located on the East Third Ring Road near the exit for the Airport Highway. However on December 31, 2008, a business agreement entered into between Xuancaiyi and its media partner expired and Xuancaiyi has had minimal operations since that time. In the second quarter of fiscal 2009, we disposed of our entire 51% equity interests of Xuancaiyi to its minority shareholders for no consideration. The Company reported a gain on the sale, net of income taxes, of $8,178.

Acquisition of Cityhorizon BVI

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

Cityhorizon BVI is an investment holding company and its PRC operating entities, Lianhe and Bona were both founded in 2006. Lianhe is principally engaged in the provision of technology and management consulting services and Bona is principally engaged in the provision of advertising services. The purpose of the acquisition was to further strengthen our Media Network in China. There has been no change in Lianhe’s and Bona’s business since the date of acquisition.

Consolidation of Variable Interest Entity - Botong

On January 1, 2008, the Company caused its subsidiary, Lianhe, to enter into a series of commercial agreements with Botong and its registered shareholders, pursuant to which Lianhe is obligated to provide exclusive technology and management consulting services to Botong in exchange for service fees amounting to substantially all of the net income of Botong. Each of the registered PRC shareholders of Botong also entered into equity pledge agreements and option agreements with Lianhe which cannot be amended or terminated except by written consent of all parties. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged its equity interest in Botong for the performance of Botong’s payment obligations under the exclusive technology and management consulting services agreements. In addition, the shareholders of Botong assigned to Lianhe all their voting rights as shareholders of Botong and Lianhe has the option to acquire the equity interests of Botong at a mutually agreed on purchase price that will first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered Botong shareholders.

On January 1, 2008, Lianhe committed to extend loans totaling RMB1,000,000 (equivalent to $137,179 at the then-prevailing exchange rate) to the registered shareholders of Botong for the purpose of financing such shareholders’ investment in Botong. Through the above contractual arrangements, Lianhe became the primary beneficiary of Botong which becomes a variable interest entity. The results of operations of Botong have been included in the Company's consolidated statement of operations since January 1, 2008.

Botong was founded in 2007 and obtained the right to manage and operate for a 6-year period, a mega-size high resolution LED advertising billboard located at Haoyou Emporium Wangujing in Beijing. There has been no change of its business since the date of acquisition. In March 2010, Botong terminated its commercially non-viable concession right contracts and ceased operations. As of March 31, 2010, we terminated all commercial agreements with Botong and were no longer able to exert control over Botong which was deconsolidated accordingly. For details, please refer to Item 1 – Business, “History - Corporate Restructuring” below.

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Other Contractual Arrangements with the PRC Operating Companies

PRC regulations limit foreign ownership of companies that provide advertising services. Our advertising business was initially run through our trust arrangements with Quo Advertising through which our advertising network projects were directly operated.

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

Pursuant to these commercial agreements, Lianhe is obligated to provide exclusive technology and management consulting services to Bona and Quo Advertising in exchange for service fees amounting to substantially all of the net income of Bona and Quo Advertising. Each of the registered PRC shareholders of Bona and Quo Advertising also entered into equity pledge agreements and option agreements with Lianhe which cannot be amended or terminated except by written consent of all parties. Pursuant to these equity pledge agreements and option agreements, each shareholder pledged its equity interest in Bona and Quo Advertising for the performance of payment obligations of Bona and Quo Advertising under the exclusive technology and management consulting services agreements.

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

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

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

Corporate Restructuring

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

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

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

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

Corporate Structure

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

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Available Information

We file with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports to be filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Our corporate headquarters are located at Rooms 2120 and 2122 Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong, Special Administrative Region of the People's Republic of China. Our telephone number is + (852) 2833-2186. We maintain a website at www.ncnmedia.com that links to our electronic SEC filings and contains information about our subsidiaries which is not a part of this report. All the above documents are available free of charge on our website as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Industry Overview

The recent global economic downturn and the debt crisis in certain countries in the European Union has created a number of challenges to China's advertising industry as budget conservatism prevailed among advertisers throughout the period. Most advertisers are cost-conscious and prefer to commit to short-term rather than long-term contracts. Competition in the domestic out-of-home advertising sector is very intense and many local operators offer significant sales discounts to compete for market share.

In 2009 the SAIC estimated that television will remain the dominant advertising medium in the PRC for the foreseeable future, followed by print media, outdoor, internet and radio advertising. They also projected that the media and advertising industry will remain one of the fastest growing markets in China. China's total advertising expenditure in 2011 rose 13% from the prior year which is equal to the rate of increase over the same period in 2010, according to the latest figures released by CTR Market Research. China's annual GDP grew by 9.2% and the growth of traditional advertising in China experienced the same trend as China's economic growth. With the economic slowdown, as expected, China's advertising market also followed in step and realized slow but smooth growth. CTR predicts that the 2012 China advertising market will increase by 11%, which will be less than in 2011.

In the past, we expended our resources to build an out-of-home media throughout different PRC cities. We believe that in order to increase our market share in out-of-home advertising in China we will have to increase our advertising locations, obtain more exclusive arrangements in desirable and prominent locations and to provide a wider range of media and advertising services through entering business agreements or business combination exercises with third parties.

Our Services

We install and operate roadside and mega-size advertising panels in major cities of the PRC. In later half of 2008, we reassessed the commercial viability of each of our concession right contracts in order to address certain unfavorable market conditions and started to terminate those non-viable concession right contracts. During the period from May 2010 to January 2012, we have only kept one concession right contract, which is to operate 52 roadside advertising panels along the Nanjing Road in Shanghai, China. All those panels were installed and are owned by us. In February 2012, we secured a new advertising media projects under which we acquired rights to operate a mega-sized traditional advertising billboard located at Raffles City, Shanghai, China and 2 mega-sized traditional advertising billboards located at different section along Nanjing Road and Henan Road in Shanghai, China. All these three mega-sized advertising panels are installed and maintained by the authorizing party.

The following table summarizes by location the advertising panels that the Company had the right to operate as of April 16, 2012:

Location	No. of Advertising Panels	Expiration
Nanjing Road Pedestrian Street, Shanghai		
- two-sided roadside LED panels (1.9 square meters)	10	December 2013
- Rollersheets panels (2 to 2.2 square meters)	42	December 2013
Raffles City, Shanghai		
Billboard (approximately 600 square meters)	1	February 2013 (with renewal option)
Along Nanjing Road and Henan Road, Shanghai		
Billboard (350 square meters)	1	February 2013 (with renewal option)
Billboard (196 square meters)	1	February 2013 (with renewal option)

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The following table summarizes the percentage of sold and unsold air time in 2011 on our panels in different locations.

Location	Percentage of Sold airtime	Percentage of Unsold airtime
Nanjing Road Pedestrian Street, Shanghai		
- 10 two-sided Roadside LED panels	35%	65%
- 42 Rollersheets panels	72%	28%

Remark: Although the Company has a contractual right to operate the panels for certain period of time, governmental authorities in the PRC could limit the period during which we can operate the panels if the government interprets the current rules and regulations differently or if it were to implement new rules and regulations.

Our Suppliers

In some of our current and past media projects, we are responsible for installing advertising panels and billboards. We design the shape of our advertising panels and billboards according to the terms approved in the relevant PRC governmental documents. We identify suppliers of component parts used in our advertising panels and contract assembly of our advertising panels to third-party contract assemblers who assemble our advertising panels according to our specification. We select component suppliers based on price and quality. During the fiscal years ended December 31, 2011, 2010 and 2009, we did not install any advertising panels and billboards.

We currently are committed to two concession right contracts, which is to operate 52 roadside advertising panels along Nanjing Road in Shanghai, China and to operate a mega-sized advertising billboard located at Raffles City, Shanghai, China and two mega-sized advertising billboards located at different section along Nanjing Road and Henan Road in Shanghai, China. The name of authorizing parties of these two concession right contracts are Shanghai Chuangtian Advertising Company Limited and Shanghai Shenpu Advertising & Decoration Co., Limited.

Our Customers

The media and advertising industry is one of the fastest growing markets in China. Out-of-home advertising is attractive because of relatively modest content production costs, less regulatory exposure, low maintenance costs and centralized operations made efficient by computers and other technology solutions. China’s total advertising expenditure in 2011 rose 13% from 2010 which equal to the rate of increase over the same period in 2010, according to the latest figures released by CTR Market Research.

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

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

For the year ended December 31, 2009	
Shanghai Wenchang Advertising Co., Ltd	16%
Shanghai Chuangtian Advertising Co., Ltd	15%
Kinetic	15%
Beijing Dentsu Advertising Co., Ltd.	11%

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Our customers usually place their advertising orders on a project basis instead of a recurring basis. Our management does not believe that our advertising business depends upon a few customers, or that the loss of any one customer would have a material adverse effect on our business.

Sales and Marketing

We sell our services through our direct sales force as well as through domestic advertising agencies. We employ sales professionals in the PRC and provide them in-house training to ensure we operate closely with and provide a high level of support to our customers. Selling through domestic advertising agencies enables us to leverage our direct sales resources and reach additional customers.

Competition

We compete with other advertising companies in China, including companies that operate out-of-home advertising media networks, such as JCDecaux, Clear Channel, Tom Outdoor and Clear Media. The Company competes with these companies for advertising clients on the basis of the size of our advertising network, advertising coverage, panel locations, pricing, and range of advertising services that we offer. The Company also competes with these companies for rights to locate advertising panels and/or billboards in desirable locations in Chinese cities. In addition, commercial buildings, hotels, restaurants and other commercial locations may decide to install and operate their own billboards or LED panels. The Company also competes for overall advertising spending with other more traditional media such as newspapers, TV, magazines and radio, and more advanced media like internet advertising, frame and public transport.

The Company may also face competition from new entrants into the out-of-home advertising sector. Our sector is characterized by low initial fixed costs for entrance in term of advertising panel requirements and it is uncommon for advertising clients to enter into exclusive arrangements. Additionally, wholly foreign-owned advertising companies are allowed to operate in China, which may expose us to increasing competition from international advertising media companies attracted by the opportunities in China.

Increased competition could reduce our operating margins, profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as more advertising locations and broader coverage and exclusive arrangements in desirable locations. These competitors could provide advertising clients with a wider range of media and advertising services, which could cause us to lose advertising clients or to reduce prices in order to compete, which could decrease our revenues, gross margins and profits. We cannot guarantee that we will be able to compete against these existing and new competitors.

In addition, our business has been adversely affected by the global financial turmoil which began in late 2008. In order to enhance our competitive power, we will strictly control our operating costs and actively search for other prominent advertising projects in order to expand our advertising network. We believe that expanding our advertising network will enable us to offer more competitive pricing to our advertising clients, thereby increasing our profitability.

Our Intellectual Property

We do not have any registered trademarks, copyrights or licenses. However, we have obtained the following patent rights from the PRC State Intellectual Property Office:

- the technology of a display module and settings method for colored LED panels, which expires on November 22, 2017;

the technology of a display system with a blind spot checking function, which expires on November 27, 2017; and

a methodology and system for light intensity tuning of out-of-home LED panels, which expires on November 8, 2027.

Our Research and Development

No material costs have been incurred on research and development activities for the fiscal years 2011, 2010 and 2009. We do not expect to incur significant research and development costs in the coming future.

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Employees

As of December 31, 2011, the Company and its subsidiaries and variable interest entity had approximately 25 employees at our offices located at our Hong Kong and Shanghai offices, all of which are full-time employees.

Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or work stoppage or any difficulty in recruiting staff for our operations.

We are required under PRC law to make contributions to employee benefit plans at specified percentages of the after-tax profit. In addition, we are required by the PRC law to cover our employees in China with various type of social insurance. We believe that we are in material compliance with the relevant PRC laws.

Government Regulation

Limitations on Foreign Ownership in the Advertising Industry

The principal regulations governing foreign ownership in the advertising industry in China include:

- The Catalogue for Guiding Foreign Investment in Industry (2007);
- Advertising Law (1994);
- Regulations on Control of Advertisement (1987);
- Implementation Rules for Regulations on Control of Advertisement (2004); and
- The Administrative Regulations on Foreign-invested Advertising Enterprises (2004).

Since December 2005, the PRC government has allowed foreign investors to directly own 100% of an advertising business if the foreign investor has at least three years of direct operations in the advertising business outside of China or to set up an advertising joint venture if the foreign investor has at least two years of direct operations in the advertising industry outside of China.

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

Although the existing contractual arrangements with Bona, in the opinion of our PRC legal counsel, are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions, there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation. Accordingly, we cannot assure you that PRC regulatory authorities will not determine that our contractual arrangements and the business operations of our PRC operating companies as described herein violate PRC laws or regulations. If we were found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation. Any actions taken may cause disruption to our business operations and may adversely affect our business, financial condition and results of operation. See Item 1A - Risk Factor for details.

Advertising Services

Business Licenses for Advertising Companies

The principal regulations governing the advertising businesses in China include:

- The Advertising Law (1994);
- Regulations on Control of Advertisement (1987); and
- The Implementing Rules for the Advertising Administrative Regulations (2004).

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These regulations stipulate that companies that engage in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation.

We do not expect to encounter any difficulties in maintaining our business licenses. Our PRC advertising operating companies hold business license from the local branches of the SAIC as required by the existing PRC regulations.

Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. It is prohibited to disseminate tobacco advertisements via broadcast or print media. It is also prohibited to display tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, veterinary pharmaceuticals, agrochemicals, foodstuffs, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals advertised through radio, film, television, newspaper, magazine and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute are true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements comply with applicable PRC laws and regulations. In addition, prior to distributing advertisements for certain commodities, which are subject to government censorship and approval, advertising distributors and advertisers are obligated to ensure that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators’ licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business. We have implemented procedures to ensure the content of our advertisement are properly reviewed and the advertisement would only be published upon the receipt of content approval from the relevant administrative authorities. However, we provide no assurance that all the content of the advertisement are true and in full compliance with applicable laws.

Out-of-home Advertising

The Advertising Law stipulates that the exhibition and display of out-of-home advertisements must not:

- utilize traffic safety facilities and traffic signs;
- impede the use of public facilities, traffic safety facilities and traffic signs;
- obstruct commercial and public activities or create an eyesore in urban areas;

be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; and
be placed in areas prohibited by the local governments from having out-of-home advertisements.

In additional to the Advertising Law, the SAIC promulgated the Out-of-home Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998, and May 22, 2006, which governs the out-of-home advertising industry in China.

Out-of-home advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Out-of-home Advertising Registration Certificate for such advertisement. Many municipal cities of China have respectively promulgated their own local regulations on the administration of out-of-home advertisements. Those municipal regulations set forth specific requirements on the out-of-home advertisements, such as the allowed places of dissemination and size requirements of the out-of-home advertisement facilities.

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In addition to the regulations on out-of-home advertisements, the placement and installation of LED billboards are also subject to municipal local zoning requirements and relevant governmental approvals of the city where the LED billboards located. In Shanghai, prior to the placement and installation of LED billboards, installers are required to apply for an out-of-home advertising registration certificate for each LED billboard subject to a term of use approved by local government agency for each LED billboard. If the existing LED billboards placed by our LED location provider or us are required to be removed, the attractiveness of this portion of our advertising network will be diminished.

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

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in China is the Rules on Foreign Exchange Control (1996), as amended. Under these rules, Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment outside China without the prior approval of the State Administration for Foreign Exchange of the PRC or other relevant authorities is obtained.

Pursuant to the Rules on Foreign Exchange Control, foreign investment enterprises in China may purchase foreign currency without the approval of the State Administration for Foreign Exchange of the PRC for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also exchange Renmimbi into foreign currencies (subject to a cap approved by the State Administration for Foreign Exchange of the PRC) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment outside China are still subject to limitations and require approvals from the State Administration for Foreign Exchange of the PRC.

Dividend Distributions

The principal regulations governing distribution of dividends of wholly foreign-owned companies include:

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

Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds, until such reserve funds have reached 50% of the enterprise's registered capital. These reserves are restricted and not distributable as cash dividends.

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

Enterprise Income Tax Law

The Enterprise Income Tax Law, or EIT Law, was promulgated by the PRC's National People's Congress on March 16, 2007 to introduce a new uniform taxation regime in the PRC. Both resident and non-resident enterprises deriving income from the PRC were subject to the EIT Law from January 1, 2008. It applies a single income tax rate to all enterprises in the PRC. Under this EIT Law, enterprises that qualify as "new and high technology enterprises" ("high-tech companies") are entitled to a preferential tax rate of 15% and in other very limited situation entities may be subject to a EIT rate of 20%, but the general EIT rate is 25%.

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

Environmental Matters

The Company's operations are subject to various environmental regulations. We believe that we are in substantial compliance with applicable laws, rules and regulations relating to the protection of the environment and that our compliance will have no material effect on our capital expenditures, earnings or competitive position.

ITEM 1A. RISK FACTORS

Risks relating to our business include the factors set forth below. If an adverse outcome of any of the following risks actually occurs, our business, financial condition or operating results could be materially and adversely affected. In evaluating our business, shareholders should consider carefully the following factors in addition to the other information presented herein.

RISKS RELATED TO OUR BUSINESS

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

The recent global economic downturn and the debt crisis in certain countries in the European Union has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States, China and other parts of the world. All these will, and may continue to have, a negative effect on our ability to borrow funds or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by this economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or decide to reduce purchases, all of which could lead to reduced demand for our advertising services, reduced gross margins, and delays in collecting accounts receivable or customer defaults. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given the fixed costs associated with our operations. Therefore, the global economic downturn will and may continue to have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

We have a limited operating history, which may make it difficult for you to evaluate our business and prospects.

We began to operate our advertising business in late 2006. Accordingly, we have a very limited operating history upon which you can evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. In addition, due to our short operating history and recent additions to our management team, some of our senior management and employees have only worked together at our company for a relatively short period of time. As a result, it may be difficult for you to evaluate the effectiveness of our senior management and other key employees and their ability to address future challenges to our business.

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

We have a history of operating losses. We have incurred a net loss of $2,102,548 for fiscal year ended December 31, 2011 and our shareholders’ deficit was $5,056,418 as of December 31, 2011. Our cash flow projections presently indicate that our current assets and projected revenues from existing project on hand will not be sufficient to fund operations over the next twelve months. These raise substantial doubt about our ability to continue as a going concern. Our independent registered public accounting firm has expressed uncertainty about our ability to continue as a going concern in its report. The consolidated financial statements included in this Annual Report do not include any adjustments that might result from the outcome of this uncertainty.

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We need to raise substantial additional funds or take other measures within the next few months in order to continue our operations. It may be difficult for us to raise funds through sales of our equity securities or debt financing in the current economic environment. If adequate capital is not available to us, we may need to sell assets or seek to undertake a restructuring of our obligations with our creditors or even cease our operations. We cannot give assurances that we would be able to accomplish either of these measures on commercially reasonable terms, if at all. In any such case, we may not be able to continue as a going concern.

Our liquidity and future cash flow may not be sufficient to cover interest payments on our 1% Convertible Promissory Note due 2014 or to repay the notes at maturity.

Our ability to make interest payments on, refinance, or repay our 1% convertible promissory note due 2014 (originally due on April 2, 2012 and extended for two years), will depend on our ability to maintain sufficient cash and generate future cash flow. We have never generated positive annual cash flow from our operating activities, and we may not generate or sustain positive cash flows from operations in the future. Our ability to generate sufficient cash flow will depend on our profit generating power and our ability to explore and secure other prominent advertising related projects, which were affected by various factors such as general economic, financial, competitive, legislative and regulatory conditions. There can be no assurance that we will be able to generate profit and secured prominent projects. If we are unable to generate sufficient cash flow, we may be required to refinance our existing debt, sell assets and obtain additional financing to meet our debt obligations or may even be forced to cease operations.

Additionally, the 1% Convertible Promissory Note provides for certain events of default, including payment defaults, breaches of covenants and certain events of bankruptcy, insolvency and reorganization, delisting, stop trade, non-registration, reservation default and cross default etc. If any event of default occurs and is continuing, the principal amount of the notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable. There can be no assurance that, if any of the foregoing events were to occur, we would have the ability repay the principal amount and interest accrued under the notes and/or any additional monies owed in connection with the acceleration of the notes.

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

We have issued 1% convertible promissory notes to certain investors and our related interest payments on such notes could impose financial burdens on us. If further debt is added to our consolidated debt level, the related risks that we now face could intensify. Covenants in the convertible notes and related agreements, and debt we may incur in the future, may materially restrict our operations, including our ability to incur additional debt, pay dividends, make certain investments and payments, and encumber or dispose of assets. In addition, financial covenants contained in agreements relating to our existing and future debt could lead to a default in the event our results of operations do not meet our plans and we are unable to amend such financial covenants prior to default. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us, our financial condition and our capital structure.

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

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

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period based on the seasonality of consumer spending and corresponding advertising trends in China. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of future performance. Factors that are likely to cause our operating results to fluctuate, such as the seasonality of advertising spending in China, the effect of the global economic downturn on spending in China, a further deterioration of economic conditions in China and potential changes to the regulation of the advertising industry in China, are discussed elsewhere in this annual report. If our revenues for a particular quarter are lower than we expect, we may be unable to reduce quarterly operating expenses by a corresponding amount, which would harm our operating results for that quarter relative to our operating results from other quarters.

We may not be able to recruit and retain key personnel, particularly sales and marketing personnel, which could have material and adverse effects on our business, financial condition and results of operations.

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Our future success depends in part on the contributions of our management team and key sales and marketing personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our CEO, Dr. Earnest Leung and our Deputy CEO, Mr. Godfrey Hui, as well as our sales, marketing and other key personnel. Because of significant competition in our industry for qualified managerial, sales and marketing personnel, we cannot assure you that we will be able to retain our key senior managerial, sales and marketing personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. If we are unable to retain our existing personnel, or attract, train, integrate or motivate additional qualified personnel, our growth may be restricted. The loss of any of these key employees could slow our programming, distribution and sales efforts or have an adverse effect on how our business is perceived by advertisers, venue providers and investors, and our management may have to divert their attention from our business to recruiting replacements for such key personnel.

All of our directors and officers reside outside of the United States. It may be difficult for investors to enforce judgments obtained against officers or directors of the Company.

All of our directors and officers are nationals and/or residents of countries other than the United States, and all their assets are largely located outside the United States. As a result, it may be difficult for investors to effect service of process on our directors or officers, or enforce any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be prevented from pursuing remedies under U.S. federal securities laws against them. In addition, there is uncertainty as to whether the courts of other jurisdictions would recognize or enforce judgments of United States courts obtained against us or our director and officer predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in other jurisdictions against us or our director and officer predicated upon the securities laws of the United States or any state thereof.

In order to grow at the pace planned by management, we will require additional capital to support our long-term business plan. If we are unable to obtain additional capital in future years, we may be unable to proceed with our long-term business plan and we may be forced to curtail or cease our operation or further business expansion.

We require additional working capital to support our long-term business plan, which includes identifying suitable targets for mergers or acquisitions, to enhance our overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. U.S. and global credit and equity markets have recently undergone significant disruption, making it difficult for many businesses to obtain financing on acceptable terms. In addition, equity markets are continuing to experience wide fluctuations in value. If these conditions continue or worsen, we may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. To raise funds, we may need to issue new equities or bonds which could result in additional dilution to our shareholders. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities or contain covenants that would restrict our operations and strategy. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

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

Although we conducted due diligence with respect to the acquisition of Cityhorizon BVI and its PRC operating entities, namely Lianhe and Bona which occurred in 2008, there is no assurance that all risks associated with these companies have been revealed. To protect us from associated liabilities, we have received guarantees of indemnification from the original owners. However we have no assurance that such guarantees will be honored and legal action to enforce such guarantees could be very costly and time consuming. The possibility of unknown risks in those acquisitions could affect our business, financial condition and results of operations.

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

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

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Our future acquisitions may expose us to potential risks and have an effect on our ability to manage our business.

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

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

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

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

We may be exposed to potential risks relating to our internal controls over financial reporting and our ability to have the operating effectiveness of our internal controls attested to by our independent auditors.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-K. We are subject to this requirement commencing with our fiscal year ending December 31, 2007 and a report of our management is included under Item 9A of this Annual Report on Form 10-K. While we believe that the Company has adequate internal control procedures in place, we can provide no assurance that we will be viewed by our independent auditors as complying with all of the requirements imposed thereby or that we will receive a positive attestation from them. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements which could negatively impact our stock market price.

We currently only committed to two advertising media projects in Shanghai, China. Our operating result would depend on the success of these two projects in the event that we cannot secure new promising advertising projects.

Since late 2008, we have undertaken drastic cost-cutting measures and a process of continuously re-assessing the commercial viability of each of our concession right contracts. We determined that many of our concession rights were no longer commercially viable due to high annual fees. As of May 2010, we only retained the right to operate 52 roadside advertising panels along the Nanjing Road in Shanghai, China and terminated all other concession right contracts. In 2011, we started to actively explore new advertising related projects. In Feb 2012, we successfully secured a new project with 3 mega-sized advertising billboards located in Shanghai, China.

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

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If our subcontractors fail to perform their contractual obligations, our ability to provide services and products to our customers, as well as our ability to obtain future business, may be harmed.

Many of our contracts involve subcontracts with other companies upon which we rely to perform a portion of the services that we must provide to our customers. There is a risk that we may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by those subcontractors. A failure by one or more of our subcontractors to satisfactorily perform the agreed-upon services may materially and adversely impact our ability to perform our obligations to our customers, could expose us to liability and could have a material adverse effect on our ability to compete for future contracts and orders.

We have limited business insurance coverage for our PRC subsidiaries. In the event that our insurance coverage is insufficient or our insurance is not deemed to cover a claim, we could face liability.

We carry insurance of various types, including general liability and professional liability insurance in amounts management considers adequate and customary for the jurisdictions in which we operate. Insurance companies in China offer limited business insurance products because the insurance industry in China is still at an early stage of development, and some of our insurance policies may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence. If we incur increased losses related to employee acts or omissions, or system failure, or if we are unable to obtain adequate insurance coverage at reasonable rates, or if we are unable to receive reimbursements from insurance carriers, our financial condition and results of operations could be materially and adversely affected.

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

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

RISKS RELATED TO OPERATING OUR BUSINESS IN CHINA