NETWORK CN INC
Form 10QSB
May 21, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from ____ to ____

Commission file number 000-30264

NETWORK CN INC.
(Exact name of small business issuer as specified in its charter)

Delaware	**11-3177042**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

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

(852) 2833-2186
Registrant's Telephone Number, Including International Code and Area Code:

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

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

o No x

The issuer's revenues for the period ended March 31, 2007 were $2,769,727.

As of May 15, 2007, the Issuer had outstanding 68,747,978 shares of the Issuer’s common stock, $0.001 par value.

Transitional Small Business Disclosure Format: YES o NO x

NETWORK CN INC.
FORM 10-QSB

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SPECIAL NOTE REGARDING FORWARD—LOOKING STATEMENTS

On one or more occasions, we may make forward-looking statements in this Quarterly Report on Form 10-QSB regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events.

Words or phrases such as “anticipates,” “may,” “will,” “should,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predic “targets,” “will likely result,” “will continue” or similar expressions identify forward-looking statements. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties, including, but not limited to those listed below and those business risks and factors described elsewhere in this report and our other Securities and Exchange Commission filings.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. We caution that while we make such statements in good faith and believe such statements are based on reasonable assumptions, including without limitation, management’s examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved. Factors that may cause such differences include but are not limited to:

- our ability to maintain normal terms with vendors and service providers;
- our ability to fund and execute our business plan;
- adverse changes in general economic and competitive conditions;
- potential additional adverse laws or regulations could have a material adverse effect on our liquidity, results of operations and financial condition; and
- our ability to maintain an effective internal control structure.

We have attempted to identify, in context, certain of the factors that we believe may cause actual future experience and results to differ materially from our current expectation regarding the relevant matter or subject area. In addition to the items specifically discussed above, our business and results of operations are subject to the uncertainties described under the caption “Risk and Uncertainties” which is a part of the disclosure included in Item 2 of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

From time to time, oral or written forward-looking statements are also included in our reports on Forms 10-KSB, 10-QSB and 8-K, Proxy Statements on Schedule 14A, press releases, analyst and investor conference calls, and other communications released to the public. Although we believe that at the time made, the expectations reflected in all of these forward-looking statements are and will be reasonable, any or all of the forward-looking statements in this quarterly report on Form 10-QSB, our reports on Forms 10-KSB and 8-K, our Proxy Statements on Schedule 14A and any other public statements that are made by us may prove to be incorrect. This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Quarterly Report on Form 10-QSB, certain of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Quarterly Report on Form 10-QSB or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent annual and periodic reports filed with the SEC on Forms 10-KSB, 10-QSB and 8-K and Proxy Statements on Schedule 14A.

Unless the context requires otherwise, references to “we,” “us,” “our” and the “Company” refer specifically to Network CN Inc. and its subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NETWORK CN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2007
(UNAUDITED)

ASSETS		
CURRENT ASSETS		
Cash	$	1,065,347
Accounts receivable, net		544,523
Prepaid expenses and other current assets		799,649
Total Current Assets		2,409,519
PROPERTY AND EQUIPMENT, NET		99,819
OTHER ASSETS		
Intangible rights, net		7,247,971
Total Other Assets		7,247,971
TOTAL ASSETS	$	9,757,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	1,405,177
Capital lease payable		780
Current liabilities from discontinued operations		3,655
Total Current Liabilities		1,409,612
TOTAL LIABILITIES		1,409,612
MINORITY INTEREST		69,920
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, 5,000,000 shares none issued and outstanding		-
Common Stock, $0.001 par value, 800,000,000 shares 67,600,718 shares issued and outstanding		67,601
Additional paid-in capital		23,576,713
Deferred stock compensation		(1,626,250)
Accumulated deficit		(13,736,875)
Accumulated other comprehensive loss		(3,412)
TOTAL STOCKHOLDERS' EQUITY		8,277,777
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	9,757,309

See accompanying notes to condensed consolidated financial statements.

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NETWORK CN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)

	For the Three Months Ended March 31, 2007	For the Three Months Ended March 31, 2006
REVENUE		
Revenue - tour services	$ 2,375,828	$ -
Revenue - advertising services	393,899	-
Revenue - hotel management	-	83,407
Revenue - related parties	-	105,855
Revenue, Net	2,769,727	189,262
COSTS AND EXPENSES		
Cost of tour services	2,364,924	-
Cost of advertising services	246,682	-
Professional fees	2,776,490	91,805
Payroll	337,394	170,351
Other selling, general & admin.	281,084	176,948
Total Costs and Expenses	6,006,574	439,104
LOSS FROM OPERATIONS	(3,236,847)	(249,842)
OTHER INCOME (EXPENSES)		
Interest income	5,516	6,698
Interest expense	(317)	-
Other income	2,642	-
Total Other Income	7,841	6,698
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	(3,229,006)	(243,144)
Minority interest	14,611	1,694
Income taxes	-	(7,372)
NET LOSS	(3,214,395)	(248,822)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation loss	(6,892)	-
COMPREHENSIVE LOSS	$ (3,221,287)	$ (248,822)
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	$ (0.05)	$ (0.01)
WEIGHTED AVERAG SHARES OUTSTANDING - BASIC AND DILUTED	67,520,718	33,698,739

See accompanying notes to condensed consolidated financial statements.

NETWORK CN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)

		2007		2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(3,214,395)	$	(248,822)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		90,193		64,515
Stock and option issued for services		1,230,212		30,625
Provision for doubtful debts		-		3,927
Minority interest		(14,611)		(1,694)
(Increase) decrease in :				
Prepaid expenses		(145,429)		40,326
Accounts receivable		(65,970)		(183,057)
Increase (decrease) in :				
Accounts payable and accrued expenses		355,767		(19,149)
Tax payable		-		(196)
Net Cash Used in Operating Activities		(1,764,233)		(313,525)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Earnest deposit paid		-		(1,038,461)
Sales proceeds from disposal of affiliate		-		3,000,000
Purchase of property and equipment		(8,141)		(7,240)
Acquisition of a subsidiary, net		(45,999)		-
Net Cash Provided by (Used in) Investing Activities		(54,140)		1,954,299
CASH FLOWS FROM FINANCING ACTIVITIES:				
Due to related parties		-		(533,678)
Due from directors		-		(6,863)
Stock issued for cash, net of placement fees		-		3,600,000
Payments on capital lease		(2,340)		(2,340)
Net Cash Provided by (Used in) Financing Activities		(2,340)		3,057,119
EFFECT OF EXCHANGE RATE ON CASH		(12,463)		-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,833,176)		4,697,893
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		2,898,523		85,919
	$	1,065,347	$	4,783,812

CASH AND CASH EQUIVALENTS - END OF PERIOD				
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	317	$	4,933

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

In January 2007, the Company acquired 100% equity interest of Quo Advertising. The Company issued 300,000 shares of the Company's common stock with a fair value of $843,600 as part of the consideration.

See accompanying notes to condensed consolidated financial statements.

NETWORK CN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2007
(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 financial position and results of operations.

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 year.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Form 10-KSB for the year ended December 31, 2006 filed with the Commission on April 2, 2007.

(A) Nature of Operations and Organization

Network CN Inc. and subsidiaries (the "Company") include:

- Network CN Inc.
- NCN Group Limited ("NCN BVI", a wholly owned subsidiary incorporated in the British Virgin Islands on June 23, 2001)
- NCN Group Management Limited ("NCN HK", a wholly owned subsidiary of NCN BVI incorporated in Hong Kong on July 28, 2000)
- NCN Management Services Limited ("NCN Management", a wholly owned subsidiary of NCN BVI incorporated in the British Virgin Islands on May 4, 2006)
- NCN Asset Management Services Limited (a wholly owned subsidiary of NCN BVI incorporated in the British Virgin Islands on May 4, 2006)
- NCN Travel Services Limited (a wholly owned subsidiary of NCN BVI incorporated in the British Virgin Islands on May 4, 2006)

- NCN Financial Services Limited (a wholly owned subsidiary of NCN BVI incorporated in the British Virgin Islands on May 10, 2006)

- NCN Media Services Limited ("NCN Media", a wholly owned subsidiary of NCN BVI incorporated in the British Virgin Islands on May 4, 2006)

- NCN Hotels Investment Limited (a wholly owned subsidiary of NCN Management incorporated in the British Virgin Islands on November 1, 2001)

- NCN Pacific Hotels Limited (a wholly owned subsidiary of NCN Management incorporated in the British Virgin Islands on July 6, 2006)

- Teda (Beijing) Hotels Management Limited ("Teda BJ", a wholly owned subsidiary of NCN BVI incorporated in the People's Republic of China in November 2004)

- NCN Landmark International Hotel Group Limited ("NCN Landmark", a 60% owned subsidiary of NCN BVI incorporated in the British Virgin Islands on August 17, 2004)

- Landmark International Hotel Development Limited ("Landmark Development", a 51% owned subsidiary of NCN Landmark incorporated in the British Virgin Islands on October 7, 2005)

- Beijing NCN Landmark Hotel Management Limited ("Beijing Landmark", a 100% owned subsidiary of NCN Landmark incorporated in the People's Republic of China on November 13, 2006)

- Guangdong Tianma International Travel Service Co., Ltd. ("Tianma", a 55% owned subsidiary of NCN Management incorporated in the People's Republic of China on November 23, 1985)

- Crown Winner International Limited ("Crown Winner", a 100% owned subsidiary of NCN Media incorporated in Hong Kong on September 16, 2006)

- Shanghai Quo Advertising Company Limited ("Quo Advertising", a 100% owned subsidiary of Crown Winner incorporated in the People's Republic of China on March 7, 1997)

- NCN Huamin Management Consultancy (Beijing) Company Limited ("NCN Huamin", a 100% owned subsidiary of NCN BVI incorporated in the People's Republic of China on March 7, 2007)

The Company provides management services to hotels and resorts located in China, travel agency services and marketing communications consultancy services to customers in China.

(B) Principles of Consolidation

The accompanying consolidated financial statements for 2007 include the accounts of Network CN Inc., NCN BVI and its nine wholly owned subsidiaries, NCN BVI's 60% owned subsidiary NCN Landmark, and NCN Landmark's 51% owned subsidiary Landmark Development from October 7, 2005 and NCN Landmark's 100% owned subsidiary Beijing Landmark from November 13, 2006, NCN Management's 55% owned subsidiary Tianma from June 16, 2006, NCN Media's 100% owned subsidiaries Crown Winner and Quo Advertising from January 31, 2007 together with NCN BVI's 100% wholly owned subsidiary NCN Huamin from March 7, 2007. After change of directorship in May 2006, the Company determined to dispose of Teda BJ and began winding down operations. We treated it as discontinued operations in the fourth quarter of 2006. Landmark Development became dormant at the end of 2006 and its shareholders are taking steps to wind up the subsidiary in 2007.

The accompanying consolidated financial statements for 2006 include the accounts of Network CN Inc., NCN BVI and its three wholly owned subsidiaries, NCN BVI's 60% owned subsidiary NCN Landmark, and NCN Landmark's 51% owned subsidiary Landmark Development from October 7, 2005.

All significant intercompany transactions and balances have been eliminated in consolidation.

(C) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(D) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over estimated the useful life of the assets from three to five years. Repairs and maintenance on property and equipment are expensed as incurred.

(E) Long-Lived Assets

The Company accounts for long-lived assets under Statement of Financial Accounting Standards Nos. 142 and 144 "Accounting for Goodwill and Other Intangible Assets" and "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 142 and 144"). In accordance with SFAS 142 and 144, long-lived assets, goodwill and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of evaluating the recoverability of long-lived assets, goodwill and intangible assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets.

<u>(F) Cash and Cash Equivalents</u>

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

<u>(G) Revenue Recognition</u>

In relation to hotel and resort management services, the Company recognizes revenue in the period when the services are rendered and earned, and collection is reasonably assured.

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

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

1. Tianma, in consultation with sub-agents, organizes a tour or travel package, including making reservations for blocks of tickets, rooms, etc. with third-party service providers. Tianma may be required to make deposits, pay all or part of the ultimate fees charged by such service providers or make legally binding commitments to pay such fees at this time. For air-tickets, Tianma normally books a block of air-tickets with airlines in advance and pays full amount to reserve seats before any tours are formed. The air tickets are usually valid for a certain period of time. If the pre-packaged tours do not materialize and are eventually not formed, Tianma will have to sell the air-tickets to other travel agents or customers. For hotels, meals and transport, Tianma usually pays 50-60% deposit upfront. After completion of tours, the remaining balance will be settled.

2. Tianma, through its sub-agents, advertises tour and travel packages at the price set by Tianma and sub-agents.

3. Customers approach Tianma or its appointed sub-agents to book an advertised packaged tour.

4. The customers pay a deposit to Tianma directly or through its appointed sub-agents.

5. When the minimum required number of customers (which number is different for each tour based on the elements of the tour and the costs of the tour) for a particular tour is reached, Tianma will contact the customers for tour confirmation and request for full payment. All payments received by the appointed sub-agents are paid to Tianma prior to the commencement of the tours.

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

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

In relation to marketing communications consultancy services, the Company recognizes service fees income when the service is performed. Advertising revenue is earned as the advertisements are either aired or published.

(H) Earnings (Loss) per Share

Basic earnings (loss) per common share are computed by dividing the net income (loss) applicable to common stock stockholders 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 effect of 364,173 and 61,579 warrants and options outstanding was not included in diluted loss per share as of March 31, 2007 and 2006 as the effect was anti-dilutive.

(I) Foreign Currency Translation

The Company's assets and liabilities that are denominated in foreign currencies are translated into the currency of U.S. dollars using the exchange rates at the balance sheet date. For revenues and expenses, the average exchange rate during the period was used to translate Hong Kong dollars and Chinese renminbi into U.S. dollars. Capital accounts were translated at their historical exchange rates when the capital transactions occurred. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as other comprehensive income or (loss). Foreign currency transaction gains and losses are included in the consolidated income (loss).

(J) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(K) Business Segments

The Company’s operating segments are organized internally primarily by the type of services performed. Currently the Company has four operating segments: hotel management, travel agency, advertising agency and investment holding.

(L) Stock-Based Compensation

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123R, Share-Based Payment ("SFAS 123R"), a revision to Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), and superseding APB Opinion No. 25, Accounting for Stock Issued to Employees (“APB 25”) and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

Prior to December 15, 2005, the Company accounted for its stock plans under the provisions of APB 25 and FASB Interpretation (FIN) No. 44, Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB 25 (“FIN 44”) and made pro forma footnote disclosures as required by Statement of Financial Accounting Standards No. 148, Accounting For Stock-Based Compensation - Transition and Disclosure (“SFAS 148”), which amends SFAS 123. The Company adopted SFAS 123R, effective December 15, 2005 using a modified prospective application, as permitted under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires us to apply a fair value based measurement method in accounting for generally all share based payment transactions with employees.

The modified prospective transition method of SFAS 123R requires the presentation of pro forma information, for periods presented prior to the adoption of SFAS 123R, regarding net income and net income per share as if the Company had accounted for stock options issued to employees under the fair value method of SFAS 123R. For pro forma purposes, fair value of stock option was estimated using the Black-Scholes option valuation model. The fair value of all of the Company's share-based awards was estimated assuming no expected dividends and estimates of expected life, volatility and risk-free interest rate at the time of grant.

For the period ended March 31, 2007, the Company recognized $1,230,212 as expense for stock, options and warrants issued to consultants.

(M) New Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments ("SFAS 155"), which amends SFAS No. 133, Accounting for Derivatives Instruments and Hedging Activities ("SFAS 133") and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ("SFAS 140"). SFAS 155 amends SFAS 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. The Company is currently evaluating the impact of this new Standard, but believes that it will not have a material impact on the Company's financial position.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation provides that the tax effects from an uncertain tax position can be recognized in the Company's financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

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

In September 2006, FASB issued Statement 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158"), which amend FASB Statements No. 87, 88, 106 and 132R. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its financial statements and to recognize changes in that funded status in the year in which the changes occur. The effective date for the Company would be for any full fiscal years ending after December 15, 2006. The Company is currently evaluating the impact of adopting SFAS 158 on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will become effective for us on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 on our financial position, cash flows, and results of operations.

NOTE 2 RECLASSIFICATION

The condensed consolidated statement of operations for the period ended March 31, 2006 has been reclassified to conform to the 2007 presentation. The reclassification did not have an effect on total revenues, total expenses, loss from operations, net loss and net loss per share.

NOTE 3 ACQUISITION OF A SUBSIDIARY

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

The Company has allocated the purchase price to the assets acquired and liabilities assumed based on the estimated fair values as follows:

Cash	$	18,001
Accounts receivable		83,791
Prepayments and other current assets		298,559
Property and Equipment		15,114
Liabilities assumed		(44,405)
Intangible right		536,540
Total purchase price	$	907,600

The results of operations of Quo Advertising have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 31, 2007. The table below summarizes the unaudited pro forma information of the results of operations as though the acquisitions had been completed as of January 1, 2007.

		Three Months Ended March 31, 2007
Revenues	$	2,769,790
Gross profit	$	85,333
Loss before income taxes and MI	$	(3,331,166)
Net loss	$	(3,316,555)
Net loss per share		
Basic and diluted	$	(0.05)

NOTE 4 INTANGIBLE RIGHTS

The following table set forth information for intangible rights subject to amortization and intangible rights not subject to amortization:

		As at March 31, 2007
Amortized intangible rights		
Gross carrying amount	$	7,239,201
Less: accumulated amortization		(611,940)
Less: provision for impairment loss		(195,192)
Amortization intangible rights - net		6,432,069
Unamortized intangible rights		815,902
Intangible rights, net	$	7,247,971

The increase in amortized intangible rights is a result of acquisition of Quo Advertising. Refer to Note 3. The amount is amortized over a period of 20 years. Amortization expense for the three months ended March 31, 2007 and 2006 was $79,471 and $58,554, respectively.

NOTE 5 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2007 and 2006, the Company received management fee of $0 and $105,855 respectively from two properties it managed that were owned by a stockholder.

During the three months ended March 31, 2007 and 2006, the Company paid rent of $0 and $13,548 respectively for office premises leased from a company owned by a director and stockholder.

NOTE 6 BUSINESS SEGMENTS

The Company currently has four operating segments. Each segment operates exclusively in Asia. The Company's Hotel Management segment provides management services to hotels and resorts in Asia. The Travel Agency segment provides travel agency services in China. The Advertising Agency segment provides marketing communications consultancy services to customers in China. The Real Estate Investments segment that used to invest in real estate development projects had been discontinued since October 2005 and was sold in April 2006. The accounting policies of the segments are the same as described in the summary of significant accounting policies. There are no inter-segment sales.

For the Three Months Ended March 31, 2007	Hotel Management	Travel Agency	Advertising Agency	Investment Holding	Total
Revenue	$ -	$ 2,375,828	$ 393,899	$ -	$ 2,769,727
Net income (loss) from continuing operations	(71,248)	(33,199)	98,327	(3,230,727)	(3,236,847)
Depreciation and amortization	1,237	360	353	88,243	90,193
Assets	127,637	854,196	755,422	8,020,054	9,757,309
Capital Expenditure	-	(1,546)	2,712	6,975	8,141

For the Three Months Ended March 31, 2006	Hotel Management	Real Estate Investments	Total
Revenue	$ 189,262	$ -	$ 189,262
Net loss from continuing operations	(243,144)	-	(243,144)
Depreciation and amortization	64,515	-	64,515
Assets	6,649,354	2,420,130	9,069,484
Capital Expenditure	7,240	-	7,240

NOTE 7 STOCKHOLDERS' EQUITY

(A) In February 2006, the Company issued an option to purchase up to 225,000 shares of our common stock to our legal counsel at an exercise price of $0.10 per share. So long as our counsels' relationship with us continues, the shares underlying the option shall vest and become exercisable in accordance with the following schedule: one-twelfth (1/12) of the shares subject to the option shall vest and become exercisable on each month anniversary of the date of issuance. The option may be exercised for 120 days after termination of the consulting relationship. The fair market value of the option was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 147%, a risk-free rate of 4.5% and an expected life of one (1) year. The value recognized during the period was approximately $1,317. The options were exercised in April 2007.

(B) 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 $0.7 per share. The shares underlying the option shall vest and become exercisable in accordance with the following schedule: one-fourth (1/4) of the shares subject to the warrant shall vest and become exercisable around every 45 days starting from the date of issuance. The warrant shall remain exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value recognized during the period was approximately $10,145.

(C) In January 2007, the Company issued 300,000 shares of restricted common stock of the Company with a fair value $843,600 as part of the consideration to the seller in the acquisition of Quo Advertising.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Contingent liabilities

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

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

Guangdong Yongan Travel Agency ("Yongan") arranged a local tour in April 2001. Yongan rented a car from an agent of Tianma but the car did not belong to Tianma. A car accident happened during the tour, causing 20 injuries and one death. Guangzhou Police issued a proposed determination on the responsibilities of the accidents on May 18, 2001. The proposal determined that the driver who used a non-functioning car was fully liable for the accident. Those tourists sued Yongan for damages and Guangzhou Intermediate People's Court made a final judgment in 2004 that Yongan was liable and Yongan paid approximately RMB2.2 million ($275,000) to the injured. In 2005, Yongan sued the agent of Tianma, Tianma and the car owner. In October 2006, the Guangzhou Yuexiu District Court made a judgment that the agent was liable to pay RMB2.1 million ($262,500) plus interest for damages. Tianma and the car owner have joint-and-several liabilities.

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

NOTE 9 SUBSEQUENT EVENTS

(A) On February 27, 2007, the company entered into a common stock purchase agreement for the private placement of 500,000 shares of restricted common stock at $3 per share for an aggregate amount of $1,500,000. The shares were issued in April 2007.

(B) In February 2006, the Company issued an option to purchase up to 225,000 shares of our common stock to our legal counsel. The options were exercised in April 2007.

(C) In April 2007, the company issued 45,000 shares at fair value of $18,000 to consultants for services.

(D) In April 2007, the Company issued 377,260 bonus shares to its directors and officers for services.

(E) On April 24, 2007, Quo Advertising entered into a business agreement with Shanghai Qian Ming Advertising Company Limited ("Qian Ming") to construct, manage and operate up to 85 LED outdoor advertising panels at Lujiazui Financial District of Pudong, Shanghai for six years. The Company agreed to pay Qian Ming a deposit of $130,000 to obtain requisite governmental approvals. In addition, the Company also agreed to pay Qian Ming installation and operating expenses of $661,000 in each of 2007 and 2008 and 10% increment from 2009 to 2012. The deposit is refundable if the relevant governmental approvals are not obtained, or it may be applied to the 2007 fee.

(F) On April 26, 2007, Quo Advertising entered into a business agreement with Shanghai Yukang Advertising Company Limited ("Yukang Advertising") to act as Yukang Advertising's exclusive agent to place advertisement on two digital video billboards in Shanghai, China for a 5 hour time slot per day during the period beginning July 1, 2007 and ending June 30, 2009. The Company agreed to pay to Yukang Advertising an aggregate of $520,000 in each of 2007 and 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENTS

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto included in Part I, Item 1 of this Report. All amounts are expressed in U.S. dollars. The following discussion regarding the Company and its business and operations contains "forward-looking statements" within the meaning of Private Securities Litigation Reform Act 1995. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may", "expect", "anticipate", "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. In particular, these include statements relating to our expectation that we will continue to have adequate liquidity of cash flow from operations. The other risks and uncertainties are described above under "Risks and Uncertainties". All forward-looking statements herein are speculative and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward looking statements, including the risk factors discussed in this Report. The Company does not have a policy of updating or revising forward-looking statements and should not assume that silence by management of the Company over time means that actual events are bearing out as estimated in such forward looking statements.

OVERVIEW

Network CN Inc. ("we" or "the Company"), originally incorporated on September 10, 1993, is a Delaware company with headquarters in the Hong Kong SAR, the People's Republic of China ("the PRC" or "China"). It was led by different management teams in the past, engaging in different ventures. The Company was previously known under various names, the latest former name being Teda Travel Group Inc. On August 1, 2006, in order to better reflect the Company's vision under the expanded management team, the Company changed its name to "Network CN Inc."

Our business vision and plan is to build a nationwide information/entertainment network in the PRC. To achieve this goal, we have set out to build and run a Media Network, a Hotel Network and an e-Network. A Hotel Network has already been established, and the Company is working to expand it to cover all major cities in the PRC. The Hotel Network also includes our travel subsidiary, Guangdong Tianma International Travel Service Co., Ltd. ("Tianma"), that we acquired in 2006. We earned substantially all of our revenues in the first quarter of 2007 from our Hotel Network through the provision of travel agency services to customers both inside and outside of the PRC. During the latter half of 2006, we adjusted our focus to building a Media Network, and took the first step in November 2006 by securing a media-related contract regarding the installation and management of outdoor LED advertising video panels. In January 2007, we acquired Shanghai Quo Advertising Company Limited ("Quo Advertising"), an advertising agency in Shanghai, China. In the first quarter of 2007, we have generated revenues from our Media Network and we anticipate that we will begin to realize earnings from the installation and management of LED advertising video panels beginning in the second quarter of 2007. At the same time, the Company is actively pursuing the development of an e-Network via the Internet.

We believe that the Company is well positioned to take the growth opportunities in China.

For more information relating to the Company's business, please see the section entitled "Description of Business" in the Annual Report *on Form 10-KSB as filed by Network CN Inc. with the United States Securities and Exchange Commission on April 2, 2007.*

Critical Accounting Policies

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

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

(i) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over estimated the useful life of the assets from three to five years. Repairs and maintenance on property and equipment are expensed as incurred.

(ii) Long-Lived Assets

The Company accounts for long-lived assets under Statements of Financial Accounting Standard Nos. 142 and 144, Accounting for Goodwill and Other Intangible Assets and Accounting for Impairment or Disposal of Long-Lived Assets ("SFAS 142 and 144"). In accordance with SFAS 142 and 144, long-lived assets, goodwill and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of evaluating the recoverability of long-lived assets, goodwill and intangible assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets.

(iii) Revenue Recognition

In relation to hotel and resort management services, the Company recognizes revenue in the period when the services are rendered and earned, and collection is reasonably assured.

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

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

1. Tianma, in consultation with sub-agents, organizes a tour or travel package, including making reservations for blocks of tickets, rooms, etc. with third-party service providers. Tianma may be required to make deposits, pay all or part of the ultimate fees charged by such service providers or make legally binding commitments to pay such fees at this time. For air-tickets, Tianma normally books a block of air-tickets with airlines in advance and pays full amount to reserve seats before any tours are formed. The air tickets are usually valid for a certain period of time. If the pre-packaged tours do not materialize and are eventually not formed, Tianma will have to sell the air-tickets to other travel agents or customers. For hotels, meals and transport, Tianma usually pays 50-60% deposit upfront. After completion of tours, the remaining balance will be settled.

2. Tianma, through its sub-agents, advertises tour and travel packages at the price set by Tianma and sub-agents.

3. Customers approach Tianma or its appointed sub-agents to book an advertised packaged tour.

4. The customers pay a deposit to Tianma directly or through its appointed sub-agents.

5. When the minimum required number of customers (which number is different for each tour based on the elements of the tour and the costs of the tour) for a particular tour is reached, Tianma will contact the customers for tour confirmation and request for full payment. All payments received by the appointed sub-agents are paid to Tianma prior to the commencement of the tours.

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

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

In relation to marketing communications consultancy services, the Company recognizes service fees income when the service is performed. Advertising revenue is earned as the advertisements are either aired or published.

(iv) Foreign Currency Translation

The Company's assets and liabilities that are denominated in foreign currencies are translated into the currency of U.S. dollars using the exchange rates at the balance sheet date. For revenues and expenses, the average exchange rate during the period was used to translate Hong Kong dollars and Chinese renminbi into U.S. dollars. Capital accounts were translated at their historical exchange rates when the capital transactions occurred. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as other comprehensive income or (loss). Foreign currency transaction gains and losses are included in the consolidated income (loss).

(v) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(vi) Stock-Based Compensation

In December 2004, the Statement of Financial Accounting Standard No. 123R, Share-Based Payment ("SFAS 123R"), a revision to Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), and superseding APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

Prior to December 15, 2005, the Company accounted for its stock plans under the provisions of APB 25 and FASB Interpretation (FIN) No. 44, Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB 25 (“FIN 44”) and made pro forma footnote disclosures as required by Statement of Financial Accounting Standards No. 148, Accounting For Stock-Based Compensation - Transition and Disclosure (“SFAS 148”), which amends SFAS 123. The Company adopted SFAS 123R, effective December 15, 2005 using a modified prospective application, as permitted under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires us to apply a fair value based measurement method in accounting for generally all share based payment transactions with employees.

The modified prospective transition method of SFAS 123R requires the presentation of pro forma information, for periods presented prior to the adoption of SFAS 123R, regarding net income and net income per share as if the Company had accounted for stock options issued to employees under the fair value method of SFAS 123R. For pro forma purposes, fair value of stock option was estimated using the Black-Scholes option valuation model. The fair value of all of the Company’s share-based awards was estimated assuming no expected dividends and estimates of expected life, volatility and risk-free interest rate at the time of grant.

For the period ended March 31, 2007, the Company recognized $1,230,212 as expense for stock options and warrants issued to consultants.

Consolidated Results of Operations

For the three months ended March 31, 2007 and March 31, 2006

Revenues. Revenues for the three months ended March 31, 2007 were $2,769,727 as compared to revenues of $189,262 for the same period in 2006, a sharp increase of $2,580,465, or 1,363%. The increase was due to the inclusion of the revenue of Tianma, a subsidiary acquired in June 2006 and Quo Advertising, a subsidiary acquired in January 2007. Revenues from Tianma for this period were $2,375,828 and accounted for 86% of the Company’s total revenues. Revenues from Quo Advertising for this period were $393,899 and accounted for 14% of the Company’s total revenues. Revenues from property management for this period were $0, a decrease of $189,262 as compared to the same period last year. The decrease was due to a decreased number of hotel properties managed (from eighteen hotel properties managed as of March 31, 2006 to five hotel properties as of March 31, 2007). Among the five hotels, the constructions of three hotels are not completed yet. For the remaining two, one was under financial difficulties while the Company has dispute with the hotel management of the other one. Therefore no hotel management revenue was recorded in the period.The decrease was not otherwise material given the significant revenues generated by Tianma and Quo Advertising.

Cost of Tour Services. Cost of tour services for the three months ended March 31, 2007 was $2,364,924 as compared to cost of tour services of $0 for the same period last year. The increase was due to the acquisition of Tianma in June, 2006. The majority of Tianma's expenses directly related to the generation of Tianma's tour revenues were grouped under this category, with immaterial amounts grouped under Professional Fees, Payroll and Other Selling, General & Administrative Expenses.

Cost of Advertising Services. Cost of advertising services for the three months ended March 31, 2007 was $246,682 as compared to cost of advertising services of $0 for the same period last year. The increase was due to the acquisition of Quo Advertising in January, 2007.

Total Expenses. Our total expenses during the three months ended March 31, 2007 were $3,394,968, compared to expenses of $439,104 for the same period last year, an increase of $2,955,864, or 673%. The increase was primarily attributable to a material increase in professional fees in connection with more stock issued for services during the current period than in the previous period. The Company expects consistent increases in professional fees in the next quarter to support the acquisition of potential projects currently under negotiations.

Professional fees. Professional fees for the three months ended March 31, 2007 were $2,776,490 as compared to $91,805 for the same period last year, an increase of $2,684,685 or 2,924%. The increase was due to more stock issued for services during the current period than in the previous period.

Payroll. Payroll for the three months ended March 31, 2007 was $337,394 as compared to $170,351 for the same period last year, an increase of $167,043 or 98%. The increase was due to the addition of several employees, including a Managing Director and a General Manager.

Other Selling, General and Administrative Expenses. Other selling, general and administrative expenses for the three months ended March 31, 2007 were $281,084 as compared to $176,948 for the same period last year, an increase of $104,136 or 59%. The increase was due to additional overseas traveling and entertainment expenses incurred in the current period.

Loss from Operations. The Company incurred a loss from operations of $3,236,847 for the three months ended March 31, 2007 as compared to a loss of $249,842 in the previous period. The increase in loss of $2,987,005 was mainly due to increase in professional fees and payroll as explained above.

Income Taxes. The Company derives its income in the PRC and is subject to income tax in the PRC. Income tax expenses charged to the consolidated income statement for the three months ended March 31, 2007 was $0 as compared to $7,372 for the period ended March 31, 2006 as the Company and its subsidiaries operated at a loss during the period.

Net Loss. The Company recorded a net loss of $3,214,395 as compared to a net loss of $248,822 for the same period last year, an increase of $2,965,573 or 1,192%. That was mainly due to increase of professional fee and payroll during the period.

Consolidated Financial Condition

Liquidity and Capital Resources

The cash and cash equivalents as of March 31, 2007 were $1,065,347 as compared with $4,783,812 as of March 31, 2006, a sharp decrease of $3,718,465. The decrease was attributable to the following activities:

Net cash utilized by operating activities as of March 31, 2007 was $1,764,233, an increase of $1,450,708 as compared with $313,525 in the same period of 2006. The net cash outflow was mainly attributable to an increase in professional fee and payroll.

Net cash used in investing activities for the period ended March 31, 2007 was $54,140, compared with net cash provided by investing activities $1,954,299 in the same period of 2006. The decrease of $2,008,439 was mainly attributable to sales proceeds from disposal of affiliate of $3,000,000 received in 2006.

Net cash used in financing activities was $2,340 for the period ended March 31, 2007, compared with $3,057,119 provided by financing activities in the same period of 2006. The decrease was primarily attributable to $3.6 million of stock issued for private placement received in 2006.

Working Capital Requirements

We had cash of $1,065,347 at March 31, 2007 and our current assets totaled $2,409,519. Our current liabilities at March 31, 2007 were $1,409,612, so we had working capital of $999,907. We have no long-term liabilities as of March 31, 2007.

Capital Expenditures

We continue to seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions. During the period ended March 31, 2007, we acquired assets of $8,141, which was financed through working capital. As of March 31, 2007, we had no other significant capital expenditure commitments except the following: (i) the Company obtained the right to install 120 roadside LED panels in the Changning district of Shanghai pursuant to a business agreement with Guiding Media Advertising Limited and (ii) the Company also obtained the rights to install further LED panels and two mega-sized digital billboards in the Huangpu district of Shanghai, Nanjing and Wuhan. Following the end of the period covered by this report, the Company obtained the rights to install 85 roadside LED panels in Lujiazui Financial District of Pudong, Shanghai. As of May 15, 2007, we have the right to install a total of 625 roadside LED panels and 2 mega-sized digital billboards in China. The Company estimates that the capital investment including installation costs for each roadside LED panel is approximately $25,000 to $30,000, while that for each mega-sized digital billboard is about $800,000 to $1,000,000. As such, the total capital expenditure for the Projects will be approximately $19 million. On April 26, 2007, Quo Advertising entered into a business agreement with Shanghai Yukang Advertising Company Limited (“Yukang Advertising”) and agreed to pay to Yukang Advertising an aggregate of $520,000 in each of 2007 and 2008. In addition to the funds raised through private placements in 2006, the Company is considering issuing new equity securities as well as arranging debt instruments to finance the Projects. The Company’s rights to install the panels are not subject to a detailed installation timetable, so we are not under any time pressure to raise the finance for the capital expenditure.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

RISKS AND UNCERTAINTIES

We are subject to various risks that could have a negative effect on the Company and its financial condition. You should understand that these risks could cause results to differ materially from those expressed in forward looking statements contained in this report and in other Company communications. Because there is no way to determine in advance whether, or to what extent, any present uncertainty will ultimately influence our business, you should give equal weight to each of the following:

RISKS RELATED TO OPERATING A BUSINESS IN CHINA

All of our assets and revenues are derived from our operations located in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

The PRC’s economic, political and social conditions, as well as governmental policies, could affect the financial markets in China and our liquidity and access to capital and our ability to operate our business.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past several years, growth has been irregular, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Company. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970's emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling
payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to slow down specific segments of China's economy, which is believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and the ability to access to capital and operate our business.

Since 2003, mainland banks were ordered to continually increase their deposits as reserves, bringing the total reserve ratio up to 11% by May 15 2007, to reduce their lending power in an effort to cool down the economic overheating. The overheating of China's economy can be shown by the 2007 first-quarter economic figures, by reporting a high trade surplus and high rates of lending and suggesting a possible rebound in fixed direct investment. As a result, the central bank is under pressure to impose more stringent limitations on the ability of commercial banks to make loans and raise interest rates, in order to slow down China's economy.

The benchmark CSI 300 stock index, which tracks A shares in both Shanghai and Shenzhen, has risen about 70 percent to date this year. Excess liquidity, possibly leading to asset bubbles, is a major risk the mainland government has tried to deal with in recent months. The mainland government has tried to control prices in the property sector by reinforcing the Land Appreciation Tax. The latest report showed that the economy expanded 11.1% in the first quarter of 2007 compared with 10.4% a year earlier, while inflation reached a two-year high of 3.3% in March 2007. The stronger-than-expected growth was driven mainly by a trade surplus that almost doubled to US$46.4 billion in the first three months. New loans

made by commercial banks during the first quarter were up to RMB 1.4 trillion, almost half the total in the whole year of 2006. In order to cool down the bubbling equity market, we expect the China government will keep on increasing the reserve ratio for mainland banks until there are indications of control in overheating in equity market and inflation. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and the ability to access to capital and operate our business.

Our operations in China may be adversely affected by changes in the policies of the Chinese government.

The political environment in the PRC may adversely affect the Company's business operations. The PRC has been operating as a socialist state since 1949 and is controlled by the Communist Party of China. In recent years, however, the government has introduced reforms aimed at creating a "socialist market economy" and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, and foreign investment. Since most of our operating assets and revenues are derived from our operations located in China, our business and financial condition, results of operations and prospects are closely subject to economic, political and legal developments in China. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increases of such disparities could affect the political or social stability of the PRC.

Our business development in China may be affected by the introduction of Enterprise Income Tax Law (the EIT Law) effective from January 1, 2008.

The EIT Law was promulgated by the National People's Congress at March 16 2007 to introduce a new uniform taxation regime in the PRC. Both resident and non-resident enterprises deriving income from the PRC are subject to this EIT Law from January 1, 2008. It replaces the previous two different tax rates applied to foreign-invested enterprises and domestic enterprises by only one single income tax rate applied for all enterprises in the PRC. Under this EIT Law, except for some hi-tech enterprises which are subject to EIT rates of 15%, the general applicable EIT rate in the PRC is 25%. Although we still enjoy certain tax incentives applicable to Foreign-Invested Enterprises prior to the introduction of the EIT Law have been revoked, the current lower EIT rate will be phased up to 25% after a five-year period. Moreover, we may not enjoy further tax incentives for our further established companies in the PRC and therefore our tax advantages over domestic enterprises may be diminished. As a result, our business development in China may be adversely affected.

The Chinese government exerts substantial influence over the manner in which the Company must conduct its business activities.

Only recently has the PRC government permitted greater provincial and local economic autonomy and private economic activities. The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Accordingly, any decision not to continue to support recent economic reforms and to return to a more centrally planned economy, regional or local variations in the implementation of economic policies could have a significant effect on economic conditions in the PRC or particular regions. As a result, it could require the Company to divest the interests it then holds in Chinese properties or joint ventures. Any such developments could have a material affect on the business, operations, financial condition and prospects of the Company.

Future inflation in China may inhibit economic activity and affect the Company's operations.

Recently, the Chinese economy has experienced periods of rapid expansion. During this period, there have been high rates of inflation and deflation. As a result, the PRC government adopted various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has moderated since 1995, high inflation may cause the PRC government to impose controls on credit and/or prices, which could inhibit economic activity in China, and thereby affecting the Company's business operations and prospects in the PRC.

We may be restricted from exchanging RMB to other currencies in a timely manner.

At the present time, RMB is not an exchangeable currency. The Company receives nearly all of its revenue in RMB, which may need to be exchanged to other currencies, primarily U.S. dollars (USD), and remitted outside of the PRC. Effective July 1, 1996, foreign currency "current account" transactions by foreign investment enterprises, including Sino-foreign joint ventures, are no longer subject to the approval of State Administration of Foreign Exchange ("SAFE," formerly, "State Administration of Exchange Control"), but need only a ministerial review, according to the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions promulgated in 1996 (the "FX regulations"). "Current account" items include international commercial transactions, which occur on a regular basis, such as those relating to trade and provision of services. Distributions to joint venture parties also are considered a "current account transaction". Other non-current account items, known as "capital account" items, remain subject to SAFE approval. Under current regulations, the Company can obtain foreign currency in exchange for RMB from swap centers authorized by the government. The Company does not anticipate problems in obtaining foreign currency to satisfy its requirements; however, there is no assurance that foreign currency shortages or changes in currency exchange laws and regulations by the Chinese government will not restrict the Company from exchanging RMB in a timely manner. If such shortages or changes in laws and regulations occur, the Company may accept RMB, which can be held or reinvested in other projects.

We may suffer from exchange rate risks that could result in foreign currency exchange loss.

Because our business transactions are denominated in RMB and our funding will be denominated in USD, fluctuations in exchange rates between USD and RMB will affect our balance sheet and financial results. Since July 2005, RMB is no longer solely pegged with USD but is pegged against a basket of currencies as a whole in order to keep a more stable exchange rate for international trading. With the very strong economic growth in China in the last few years, RMB is facing a very high pressure to appreciate against USD. Such pressure would result in more fluctuations in exchange rates and in turn our business would suffer from higher exchange rate risk.

There are very limited hedging tools available in China to hedge our exposure in exchange rate fluctuations. They are also ineffective in the sense that these hedges cannot be performed in the PRC financial market, and more important, the frequent changes in PRC exchange control regulations would limit our hedging ability for RMB.

Risks from the outbreak of severe acute respiratory syndrome (SARS) and avian flu in various parts of mainland China, Hong Kong and elsewhere.

Since early 2003, mainland China, Hong Kong and certain other countries, largely in Asia, have been experiencing an outbreak of a new and highly contagious form of atypical pneumonia, now known as severe acute respiratory syndrome, or SARS. This outbreak has resulted in significant disruption to the lifestyles of the business and economic activity in the effected areas. Areas in Mainland China that have been affected include areas where the Company has business and management operations. Although the outbreak is now generally under control in China, the Company cannot predict at this time whether the situation may again deteriorate or the extent of its effect on the Company's business and operations. Moreover, there are many Asia countries including China that report incidents of avian flu. Although this virus is spread through poultry populations, it is reported in many incidents that the virus can cause an infection to humans and is often fatal. Any outbreak of SARS or avian flu may result the closure of our offices or other businesses where we provide our advertising and hotel services. The occurrences of such diseases would also affect our out-of-home advertising network to advertisers. The advertisers may stop purchasing the advertising time and severely interrupt our business and operations.

The Company cannot assure that this outbreak, particularly if the situation worsens, will not significantly reduce the Company's revenues, disrupt the Company's staffing or otherwise generally disrupt the Company's operations. As a result, higher operating expenses may severely restrict the level of economic activity, or otherwise effect products, services and usage levels of the Company's services in effected areas. This may result in a material effect on the Company's business and prospects.

Because our assets are located overseas, stockholders may not receive distributions that they would otherwise be entitled to if we were declared bankruptcy or insolvency.

Because the Company's assets are located overseas, the assets of the Company may be outside of the jurisdiction of U.S. courts to administer if the Company was the subject of an insolvency or bankruptcy proceeding. As a result, if the Company was declared bankrupt or insolvent, the Company's stockholders may not receive the distributions on liquidation that they are otherwise entitled to under U.S. bankruptcy law.

If any of our PRC affiliates becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy those assets, which could materially affect our business, ability to generate revenue and the market price of our common stock.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the advertising and travel businesses, we currently conduct our operations in China through contractual arrangements with shareholders of Tianma and Quo Advertising. As part of these arrangements, these persons hold some of the assets that are important to the operation of our business. If any of these entities files for bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could affect our business, financial condition and results of operations.

Our acquisitions of Tianma and Quo Advertising were structured to attempt to fully comply with PRC rules and regulations. However, such arrangements may be adjudicated by relevant PRC government agencies as not being in compliance with PRC governmental regulations on foreign investment in traveling and advertising industries and such structures may limit our control with respect to such entities.

Since 2001, the PRC Government only allows foreign investors to run traveling business in China if the foreign investors have at least three years of traveling operations record outside China with annual revenue of USD 40 million. The minimum capital investment is RMB 4 million and the foreign investors must be members of the China Tourism Association. Moreover, the foreign investors are restricted from running outbound travel services. In order to penetrate into this market, we acquired a majority interest of Tianma, a travel agency headquartered in the Guangdong province of the PRC in June 2006 through certain contractual arrangements. With the grant of the International Travel Agency Business License by China National Tourism Administration, Tianma is allowed to operate outbound travel services. Through our contractual arrangements, Tianma is currently owned by one PRC citizen designated by us and this subsidiary to directly operate our traveling agent business.

Since 2005, the Chinese government allows 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 own less than 100% if the foreign investor has at least two years of direct operations in the advertising industry outside of China. As we do not currently directly operate an advertising business outside of China, we are not entitled to own directly 100% of an advertising business in China. Our advertising business subsequent to our fiscal year is currently provided through our contractual arrangements with our PRC operating subsidiary Quo Advertising. Quo Advertising is currently owned by two PRC citizens designated by us and directly operates our advertising network projects.

We have been and will continue to be dependent on these PRC operating subsidiaries to operate our traveling agent and advertising business for the near future. If our existing PRC operating subsidiaries are found to be in violation of any PRC laws or regulations and fail to obtain any of the required permits or approvals under any relevant PRC regulations, we could be penalized. It would have an effect on our ability to conduct business in these aspects.

The PRC government regulates the air ticketing, travel agency, advertising and Internet industries. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on these industries, our business may be affected.

The PRC government regulates the air ticketing, travel agency, advertising and Internet industries. We are required to obtain applicable permits or approvals from different regulatory authorities to conduct our business, including separate licenses for Internet content provision, air-ticketing, advertising and travel agency activities. If we fail to obtain or maintain any of the required permits or approvals, we may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations. As a result, our financial condition and results of operations may be affected.

In particular, the Civil Aviation Administration of China, or CAAC, regulates pricing of air tickets as well as commissions payable to air-ticketing agencies. If restrictive policies are adopted by CAAC or any of its regional branches, our air ticketing revenues may also be affected.

We have attempted to comply with the PRC government regulations regarding licensing requirements by entering into a series of agreements with our affiliated Chinese entities. If the PRC laws and regulations change, our business in China may be affected.

To comply with the PRC government regulations regarding licensing requirements, we have entered into a series of agreements with our affiliated Chinese entities to exert operational control and secure consulting fees and other payments from them. We have been advised by our PRC counsel that our arrangements with our affiliated Chinese entities are valid under current PRC laws and regulations. However, we cannot assure you that we will not be required to restructure our organization structure and operations in China to comply with changing and new PRC laws and regulations. Restructuring of our operations may result in disruption of our business, diversion of management attention and the incurrence of substantial costs.

The PRC legal system embodies uncertainties, which could limit law enforcement availability.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedence. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 27 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Each of our PRC operating subsidiaries and affiliates is subject to PRC laws and regulations. However, these laws and regulations change frequently and the interpretation and enforcement involve uncertainties. For instance, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be difficult to evaluate the outcome of administrative court proceedings and the level of law enforcement that we would receive in more developed legal systems. Such uncertainties, including the inability to enforce our contracts, could affect our business and operation. In addition, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the industries in which we operate, including the promulgation of new laws. This may include changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the availability of law enforcement, including our ability to enforce our agreements with Tianma & Quo Advertising, and other foreign investors.

Recent PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activities. If our shareholders who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

The PRC National Development and Reform Commission, NDRC, and SAFE recently promulgated regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file with the local branch of SAFE any material change involving capital variation. This would include an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest over the assets located in China. If any PRC shareholder fails to make the required SAFE registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company. The offshore parent company may be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We cannot guarantee that all of our shareholders who are PRC residents will comply with our request to obtain any registrations or approvals required under these regulations or other related legislation. Furthermore, as the regulations are relatively new, the PRC government has yet to publish implementing rules, and much uncertainty remains concerning the reconciliation of the new regulations with other approval requirements. It is unclear how the regulations concerning offshore or cross-border transactions will be implemented by the relevant government authorities. The failure or inability of our PRC resident shareholders to comply with these regulations may subject us to fines and legal sanctions, restrict our overseas or cross-border investment activities, limit our ability to inject additional capital into our PRC subsidiaries, and the ability of our PRC subsidiaries to make distributions or pay dividends, or affect our ownership structure. If any of the foregoing events occur, our acquisition strategy, business operations and ability to distribute profits to you could be affected.

The PRC tax authorities may require us to pay additional taxes in connection with our acquisitions of offshore entities that conducted their PRC operations through their affiliates in China.

Our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For instance, in the case of some of our acquisitions of offshore entities that conducted their PRC operations through their affiliates in China, we cannot assure you that the PRC tax authorities will not require us to pay additional taxes in relation to such acquisitions, in particular where the PRC tax authorities take the view that the previous taxable income of the PRC affiliates of the acquired offshore entities needs to be adjusted and additional taxes be paid. In the event that the sellers failed to pay any taxes required under PRC laws in connection with these transactions, the PRC tax authorities might require us to pay the tax together with late-payment interest and penalties.

We rely on our affiliated Chinese personnel to conduct travel agency and advertising businesses. If our contractual arrangements with our affiliated Chinese personnel are violated, our related businesses will be damaged.

As mentioned earlier, we depend on contractual arrangements to run our advertising and traveling businesses in China. These contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration or litigation in the PRC. Upon arbitration or litigation, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could disable us to enforce these contractual arrangements. Should such a situation occur, we may be unable to enforce these contractual arrangements and unable to enforce our control over our operating subsidiaries to conduct our business.

We have limited business insurance coverage in China.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we have limited business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources and have an effect on our business and operating results.

Our subsidiaries and affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We rely on dividends from our subsidiaries in China and consulting and other fees paid to us by our affiliated Chinese entities. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Further, if our subsidiaries and affiliated Chinese entities in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

RISKS RELATED TO OUR MEDIA BUSINESS

In early 2007, we have entered into a contract to acquire Quo Advertising to expand our business operations in the media business. Since the acquisition, we have successfully entered into several material business agreements in Shanghai, Nanjing and Wuhan to manage and operate LED outdoor advertising video panels and mega-sized digital video billboards through Quo Advertising. We anticipate entering into agreements in other major cities to strengthen our position in the out-of-home media business in China. In addition to the risks described above in "Risks Related to Operating a Business in China," we are subject to additional risks related to our media business.

The media and advertising industries are highly competitive and we will compete with companies that are larger and better capitalized.

We have to compete with other advertising companies in the out-of-home advertising market. We compete for advertising clients primarily in terms of network size and coverage, locations of our LED panels and billboards, pricing, and the range of services that we can offer. We also face competition from advertisers in other forms of media such as out-of-home television advertising network in commercial buildings, hotels, restaurants, supermarkets and convenience chain stores. We expect that the competition will be more severe in the near future. The relatively low fixed costs and the practice of non-exclusive arrangement with advertising clients would provide a very low barrier for new entrants in this market segment. Moreover, international advertising media companies are allowed to operate in China since 2005, exposing us to even greater competition.

As a consequence of this, our operating margins and profitability may be reduced, and may result in a loss of market share. Since we are a new entrant to this market segment, we have less competitive advantages than the existing competitors in terms of experience, expertise, and marketing force. The Company is managing these problems through the acquisition of well-established advertising company like Quo Advertising. We can provide no guarantee that we will be able to compete against new or existing competitors to generate profit.

If we cannot enter into further agreements for roadside LED video panels and mega-sized digital video billboards in other major cities in China, we may be unable to grow our revenue base to generate higher levels of revenue.

We are continuing our geographic expansion in media network by entering into business cooperation agreements with local advertising companies to operate and manage our roadside LED video panels and mega-sized digital video billboards in China. We have concluded four agreements and are currently searching for more opportunities. However, if we are unable to enter into any new agreements, or costs are high, we may be unable to convince our advertisers to purchase more advertising time for higher levels of revenue.

If we are unable to attract advertisers to advertise on our networks, we will be unable to grow our revenue base to generate revenues.

We charge our advertisers based on the time that is used on our roadside LED video panels and mega-sized digital video billboards. The desire of advertisers to advertise on our out-of-home media networks depends on the coverage of the networks, the desirability of the locations of the LED's and billboards, our brand name and charging rate. If we are unable to provide the advertising services to suit the needs of our advertisers, we may be unable to attract them to purchase our advertising time.

If the public does not accept our out-of-home advertising media, we will be unable to generate revenue.

The out-of-home advertising network that we are developing is a rather new concept in China. It is too early to conclude whether the public accept this advertising means or not. In case the public finds any element like audio or video features in our media network to be disruptive or intrusive, advertisers may withdraw their requests for time from us to advertise on other networks. On the contrary, if the viewing public is receptive toward our advertising network, our advertisers will continue to purchase the time from us. As such, we face uncertainties whether we may be able to generate revenue in our media network business.

We may be subject to government regulations in installing our out-of-home roadside LED video panels and mega-sized digital video billboards advertising network.

The placement and installation of LED panels and billboards are subject to municipal zoning requirements and governmental approvals. It is necessary to obtain approvals for construction permits from the relevant supervisory departments of the PRC government for each installation of roadside LED video panel and mega-sized digital video billboard. However, we cannot provide any guarantee that we can obtain all the relevant government approvals for all of our installations in the PRC. If such approvals are not granted, we will be unable to install LEDs or billboards on schedule, or may incur more installation costs.

If we are unable to adapt to changing advertising trends and the technology needs of advertisers and consumers, we will not be able to compete effectively and we will be unable to increase or maintain our revenues, which may affect our business prospects and revenues.

The market for out-of-home advertising requires us to research new advertising trends and the technology needs of advertisers and consumers, which may require us to develop new features and enhancements for our advertising network. The majority of our displays use medium-sized roadside LED video panels. We also use mega-sized LED digital video billboards. We are currently researching ways that we may be able to utilize other technology such as cable or broadband networking, advanced audio technologies and high-definition panel technology. Development and acquisition costs may have to be incurred in order to keep pace with new technology needs but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. Furthermore, we may fail to respond to these changing technology needs. For instance, if the use of wireless or broadband networking capabilities on our advertising network becomes a commercially viable alternative and meets all applicable PRC legal and regulatory requirements, and we fail to implement such changes on our out-of-home network and in-store network or fail to do so in a timely manner, our competitors or future entrants into the market who do take advantage of such initiatives could gain a competitive advantage over us. If we cannot succeed in developing and introducing new features on a timely and cost-effective basis, advertiser demand for our advertising networks may decrease and we may not be able to compete effectively or attract advertising clients, which would have an effect on our business prospects and revenues.

We face significant competition, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.

We compete with other advertising companies in China. We compete for advertising clients primarily based on network size and coverage, location, price, the range of services that we offer and our brand name. We also face competition from other out-of-home television advertising networks for access to the most desirable locations in cities in China. Individual buildings, hotels, restaurants and other commercial locations may decide to independently use third-party technology providers to install and operate their own flat-panel television advertising screens. We also compete for overall advertising spending with other alternative advertising media companies, such as Internet, street furniture, billboard, frame and public transport advertising companies, along with traditional advertising media, such as newspapers, television, magazines and radio.

In the future, we may also face competition from new entrants into the out-of-home television advertising sector. Our sector is characterized by low fixed costs and, as is customary in the advertising industry, we do not have exclusive arrangements with our advertising clients. These two factors present potential entrants to our sector of the advertising industry with low entry barriers. As of December 10, 2005, wholly foreign-owned advertising companies are allowed to operate in China, which may expose us to increased competition from international advertising media companies attracted to 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 greater financial marketing and exclusive arrangements with desirable locations. Others may successfully mimic and adopt our business model. Moreover, increased competition will provide advertisers with a wider range of media and advertising service alternatives, which could lead to lower prices and decreased revenues, gross margins and profits. We cannot guarantee that we will be able to compete against new or existing competitors.

RISKS RELATED TO OUR HOTEL BUSINESS

In addition to the risks described above in "Risks Related to Operating a Business in China," we are subject to additional risks related to our hotel business.

The travel industry is highly competitive, which may influence our ability to compete with other hotel and timeshare properties for customers.

We operate in markets that contain numerous competitors. Our hotel management companies compete with major hotel chains and independent operators in regional markets. Our ability to remain competitive, attract and retain business and leisure travelers depends on our success in distinguishing the quality, value and efficiency of our services from those offered by others. If we are unable to compete in these areas, this could limit our operating margins, diminish our market share and reduce our earnings.

We are subject to the range of operating risks common to the hotel and travel-related industry.

The profitability of the hotel and travel-related industry that we operate in may be affected by a number of factors, including:

(1) the availability of and demand for hotel rooms and apartments;
(2) International and regional economic conditions;
(3) the desirability of particular locations and changes in travel patterns of domestic and foreign travelers;
(4) taxes and government regulations that influence or determine wages, prices, interest rates, and other costs;
(5) the availability of capital to allow us and potential hotel owners and joint venture partners to fund investments;
(6) increases in wages and labor costs, energy, mortgage interest rates, insurance, transportation and fuel, and other expenses.

Any one or more of these factors could limit or reduce the demand, and therefore the prices we are able to obtain, for hotel rooms and corporate apartments.

The uncertain pace of the lodging industry's recovery will continue to influence our financial results and growth.

Both the Company and the lodging industry were hurt by several events occurring over the last few years, including SARS and avian flu, and the terrorist attacks on New York and Washington. Business and leisure travel decreased and remained depressed as some potential travelers reduced or avoided discretionary travel in light of safety concerns and economic declines stemming from erosion in consumer confidence. Weaker hotel performance reduced management fees and gave rise to losses and closures in connection with some hotels that we manage, which, in turn, has had an impact on our financial performance. Although both the lodging and travel industries are recovering, the duration and full extent of that recovery remain unclear. Accordingly, our financial results and growth could be harmed if that recovery stalls or is reversed.

Our lodging operations are subject to international and regional conditions.

Although we conduct our business in China, our activities are susceptible to changes in the performance of international and regional economies, as foreign travelers constitute a fair percentage of hotel occupants. In recent years, our business has been hurt by decreases in travel resulting from SARS and downturns in global economic conditions. Our future economic performance is subject to the uncertain magnitude and duration of the economic growth in China, the prospects of improving economic performance in other regions, the unknown pace of any business travel recovery that results, and the occurrence of any future incidents in China in which we operate.

Our growth strategy depends upon third-party owners and operators. Future arrangements with these third parties may be less favorable.

Our present growth strategy for the development of additional lodging facilities entails entering into and maintaining various arrangements with property owners. The terms of our management agreements for each of our lodging facilities are influenced by contract terms offered by our competitors. We cannot guarantee that any of our current arrangements will continue. Moreover, we may not be able to enter into future collaborations, or renew any agreements in the future, on terms that are as favorable to us as those under existing collaborations and agreements.

We may have disputes with the owners of the hotels that we manage.

Consistent with our focus on hotel management, we generally do not own any of our lodging properties. The nature of our responsibilities under our management agreements to manage each hotel and enforce the standards required under the management agreements may be subject to interpretation and may give rise to disagreements. We seek to resolve any disagreements in order to develop and maintain good relations with current and potential hotel owners and joint venture partners, but have not always been able to do so. Failure to resolve such disagreements may result in litigation.

Our ability to grow is in part dependent upon future acquisitions.

The process of identifying, acquiring and integrating future acquisitions may constrain valuable management resources, and our failure to integrate future acquisitions may result in the loss of key employees and the dilution of stockholder value and have an adverse effect on our operating results. We have acquired existing businesses and expect to continue pursuing strategic acquisitions in the future. Completing any potential future acquisitions could cause significant diversions of management time and resources.

Acquisition transactions involve inherent risks such as:

- uncertainties in assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates;
- the potential loss of key personnel of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition or other transaction;
- problems that could arise from the integration of the acquired business;
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition or other transaction rationale; and
- unexpected development costs that adversely affect our profitability.

Financing for future acquisitions may not be available on favorable terms, or at all. If we identify an appropriate acquisition candidate for our businesses, we may not be able to negotiate the terms of the acquisition successfully, finance the acquisition or integrate the acquired business, technologies or employees into our existing business and operations. Future acquisitions may not be well received by the investment community, which may cause our stock price to fluctuate. We cannot ensure that we will be able to identify or complete any acquisition in the future.

Our ability to grow our management systems is subject to the range of risks associated with real estate investments.

Our ability to sustain continued growth through management agreements for new or existing hotels is affected, and may potentially be limited, by a variety of factors influencing real estate development generally. These include site availability, financing, planning, zoning and other local approvals. Other limitations may be imposed by market and submarket factors, such as projected room occupancy, growth in demand opposite projected supply, territorial restrictions in our management agreements, and cost of construction and anticipated room rate structure.

In the event of damage or other potential losses involving properties that we own or manage, potential losses may not be covered by insurance. We are not aware that the Company is responsible for insuring the properties that it manages, as such hotel properties are usually insured by its respective owners.

We have comprehensive property and liability insurance policies with coverage features and insured limits to the hotels that we believe are customary. Market forces beyond our control may nonetheless limit both the scope of property and liability insurance coverage that we can obtain and our ability to obtain coverage at reasonable rates. There are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods or terrorist acts that may be uninsurable or may be too expensive to insure. As a result, we may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, we may carry insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of our lost investment or that of hotel owners, or in some cases could also result in certain losses being uninsured. As a result, we could lose all, or a portion of, the capital we have invested in a property, as well as the anticipated future revenue from the property.

Risks relating to acts of God, terrorist activity and war could reduce the demand for lodging, which may affect our revenues.

Acts of God, such as natural disasters and the spread of contagious diseases, in the PRC where we own and manage can cause a decline in the level of business and leisure travel and reduce the demand for lodging. Wars (including the potential for war), terrorist activity (including threats of terrorist activity), political unrest and other forms of civil strife and geopolitical uncertainty can have a similar result. Any one or more of these events may reduce the overall demand for hotel rooms and corporate apartments, or limit the prices that we are able to obtain for them, both of which could adversely affect our revenues.

Our quarterly results are likely to fluctuate because of seasonality in the travel industry in China.

Our business experiences fluctuations, reflecting seasonal variations in demand for travel services. For instance, the first quarter of each year generally contributes the lowest portion of our annual net revenues primarily due to a slowdown in business activity around and during the Chinese New Year holiday. Consequently, our revenues may fluctuate from quarter to quarter.

RISKS RELATED TO OUR DEVELOPING E-NETWORK BUSINESS

We target for developing a comprehensive and fully integrated Internet travel services platform focusing on providing a broad range of consumer services. This includes, but is not limited to (i) Accommodation booking and sales; (ii) Travel agencies services for air-ticket sales and, tour packages; (iii) e-ticketing for concerts, sports events, exhibitions, etc; (iv) Sales and delivery of gifts and souvenirs; (v) e-payment function that directly links to payment-clearing systems of national banks, financial institutions and mobile phone operators. These services will be offered at individual service outlets located in our hotel chain, other potential locations and on a comprehensive online website. We plan to develop this component as a complete travel and leisure network and substantial revenue driver.

Our success in e-Network depends on whether we can acquire well-established companies and recruit expertise to consolidate and integrate our business network.

We will build our e-Shop brand through acquiring travel webs in China to capture existing users. It is a faster and more effective method than building our own travel web site from scratch to attract new users. We will also recruit experienced personnel to develop and fine-tune such online shopping and booking web site to suit our specific requirements. With this web site, we can provide a trading platform to leverage on Media and Hotel Networks and establish a comprehensive e-Shop platform. Since expanding e-Shop product coverage through merger and acquisitions is our key development strategy, we will look for suitable companies to acquire. If we fail to find suitable candidates, the progress of building our e-Network may be affected.

Online payment systems in China are at an early stage of development and may restrict our ability to expand our online commerce service business.

Online payment systems in China are at an early stage of development. Although major Chinese banks are instituting online payment systems, these systems are not as widely available or acceptable to consumers in China as in the United States and other developed countries. In addition, relative to countries like the United States, only a limited number of consumers in China have credit cards or debit cards. The lack of adequate online payment systems may limit the number of online commerce transactions that we can service. If online payment services do not develop, our ability to grow our online commerce business may be limited.

The Internet market has not been proven as an effective commercial medium in China.

The market for Internet products and services in China has only recently begun to develop. The Internet penetration rate is lower in China than those in the United States and other developed countries. Since the Internet is not yet a well-proven medium for commerce in China, our future operating results from online services will depend substantially upon the increased use and acceptance of the Internet for distribution of products and services and facilitation of commerce in China.

The Internet may not become a viable commercial marketplace in China for various reasons in the near future. More salient impediments to Internet development in China include:

- consumer dependence on traditional means of commerce;
- inexperience with the Internet as a sales and distribution channel;
- inadequate development of the necessary infrastructure to facilitate online commerce;
- concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet;
- inexperience with credit card usage or with other means of electronic payment; and
- limited use of personal computers.

If the Internet were not widely accepted as a medium for online commerce in China, our ability to grow our online business would be impeded.

The continued growth of Chinese Internet market depends on the establishment of an adequate telecommunications infrastructure.

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through state owned telecommunication operation under the administrative control and regulatory supervision of China's Ministry of Information Industry. In addition, the national networks in China are connected to the Internet through government controlled international gateways. These international gateways are the only channels through which a Chinese user can connect to the international Internet network. We rely on China Telecom and China Netcom to provide data communications capacity primarily through local telecommunications lines. Although the government has announced plans to develop the national information infrastructure, we cannot guarantee that this infrastructure will be developed. In addition, we will have no access to alternative networks and services, in the event of any infrastructure disruption or failure. The Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

RISKS RELATED TO REGULATION OF OUR BUSINESS AND TO OUR STRUCTURE

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the travel and advertising industries, we could be subject to severe penalties.

All of our operations are or will be conducted through Tianma and Quo Advertising, which we collectively refer to as our PRC operating subsidiaries, and through our contractual arrangements with several of our consolidated affiliates in China.

According to the Rules on Cognizance of Qualification for Civil Aviation Transporting Marketing Agencies (2006) and relevant foreign investment regulations regarding to civil aviation business, a foreign investor currently cannot own 100% of an air ticketing agency in China. In addition, foreign invested air ticketing agencies are not permitted to sell passenger tickets for domestic flights in China. The principal regulation governing foreign ownership of travel agencies in China is the Establishment of Foreign-controlled and Wholly Foreign-owned Travel Agencies Tentative Provisions, as amended in February 2005. Currently, qualified foreign investors have been permitted to establish or own a travel agency upon the approval of the PRC government, subject to considerable restrictions as to its scope of business. For instance, foreign travel agencies cannot arrange for the travel of persons from mainland China to Hong Kong, Macau, Taiwan or any other country. In addition, foreign travel agencies cannot establish branches.

PRC regulations require any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Beginning December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry. We do not directly operate an advertising business outside of China and cannot qualify under PRC regulations any earlier than two or three years after we commence any such operations outside of China or until we acquire a company that has directly operated an advertising business outside of China for the required period. Accordingly, our PRC operating subsidiaries are currently unable to apply for the required licenses for providing advertising services in China. All of our advertising business is currently provided through Quo Advertising, which is currently owned by two PRC citizens designated by us. Quo Advertising holds the requisite licenses to provide advertising services in China. We continue to be dependent on Quo Advertising to operate our advertising business for the near future. We have entered into agreements with the shareholders of Quo Advertising, which provide us with the substantial ability to control Quo Advertising and its future subsidiaries.

If we, our existing or future PRC operating subsidiaries and affiliates are found to be in violation of any PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce (SAIC), would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries and affiliates;
- discontinuing or restricting our PRC subsidiaries’ and affiliates’ operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply;
- requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with our PRC operating affiliates and their subsidiaries and shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.

In the past, the Company has relied on contractual arrangements with the shareholders of Tianma and Quo Advertising to operate our travel and advertising businesses. These contractual arrangements may not be as effective in providing us with control over Tianma and Quo Advertising and their subsidiaries as direct ownership. Currently, if our PRC operating affiliates or any of their subsidiaries and shareholders fails to perform their respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law. This would also include seeking specific performance or injunctive relief, and claiming damages, which we cannot guarantee to be effective.

Many of these contractual arrangements are governed by PRC laws and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating entities, and our ability to conduct our business may be negatively affected.

Contractual arrangements we have entered into among our subsidiaries and affiliated entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.

Under PRC laws, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions we have entered into among our subsidiaries and affiliates are found not to be on an arm’s length basis or result in a reduction in tax under PRC laws, the PRC tax authorities will disallow our tax savings adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties.

Our business operations may be affected by legislative or regulatory changes.

There are no existing PRC laws or regulations that define or regulate out-of-home television. It has been reported that the relevant PRC government authorities are currently considering adopting new regulations governing out-of-home television advertising. We cannot predict the timing and effects of such new regulations. Changes in laws and regulations or the enactment of new laws and regulations governing placement or content of out-of-home advertising, may affect our business prospects and results of operations. For instance, the PRC government has promulgated regulations allowing foreign companies to hold a 100%-interest in PRC advertising companies starting from December 10, 2005. We are not certain how the PRC government will implement this regulation or how it could affect our ability to compete in the advertising industry in China.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from raising finance to make loans or additional capital contributions to our PRC operating subsidiaries and affiliates.

As an offshore holding company of our PRC operating subsidiaries and affiliates, we may make loans to our PRC subsidiaries and consolidated PRC affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries or consolidated PRC affiliated entities are subject to PRC regulations and approvals.

We may also determine to finance Tianma or Quo Advertising by means of capital contributions. These capital contributions to Tianma or Quo Advertising must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot guarantee that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our operating subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations would be negatively affect our liquidity and ability to expand the business.

RISKS RELATED TO CORPORATE AND STOCK MATTERS

The loss of key management personnel could harm our business and prospects.

We depend on key personnel who may not continue to work for us. Our success substantially depends on the continued employment of certain executive officers and key employees, particularly Godfrey Chin Tong Hui who is our founder, Chairman and Chief Executive Officer, and Daniel Kuen Kwok So, our Vice Chairman and Managing Director. Not only do we rely on their expertise and experience in our business, we also need their business vision, management skills, and good relationships with our employees and major shareholders to achieve our business targets.

The loss of services of these or other key officers or employees could harm our business. If any of these individuals were to leave our company, our business and growth prospects may be severely disrupted. We would face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience.

The market for the Company’s common stock is illiquid.

The Company’s common stock is traded on the Over-the-Counter Bulletin Board. It is thinly traded compared to larger and more widely known companies in its industry. Thinly traded common stock can be more volatile than stock trading in an active public market. The Company cannot predict the extent of an active public market for its common stock.

We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.

Our Company has a limited operating history and is still in the development stage. Our Company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves or operate on a profitable basis. We are in the development stage and potential investors should be aware of the difficulties encountered. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investments in our Company.

Our acquisitions of Tianma, Quo Advertising and any future acquisitions may expose us to potential risks and have an affect on our ability to manage our business.

It is our strategy to expand our business, especially in e-Network, through acquisitions like that of Tianma and Quo Advertising. We would keep on searching for appropriate opportunities to acquire more businesses or to form joint ventures, etc. that are complementary to our core business. For each acquisition, our management encounters whatever difficulties during the integration of new operations, services and personnel with our existing operations. We may also expose ourselves to other potential risks like unforeseen or hidden liabilities of the acquired companies, the allocation of resources from our existing business to the new operation, uncertainties in generating expected revenue, employee relationships and governing by new regulations after integration. The occurrence of any of these unfavorable events in our recent acquisitions or possible future acquisitions could have an effect on our business, financial condition and results of operations.

There may be unknown risks inherent in our acquisitions of Tianma and Quo Advertising.

Although we had conducted due diligence with respect to the acquisition of Tianma and Quo Advertising, there is no assurance that all risks associated with the companies have been revealed. To protect us from associated liabilities, we have received guarantees of indemnification from the original owners. However, if we were to enforce such guarantees, it 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.

The unaudited pro forma financial information included in this annual report may differ significantly from the actual consolidated financial information.

The results of operations of Tianma have been included in our consolidated statement of operations since the completion of the acquisition on June 16, 2006. It may contain some adjustments that are based on estimates. We did not intend to show how Tianma would have actually performed if the acquisition had in fact occurred from the beginning of the fiscal year or to project the results of operations or financial position.

All of our directors and officers are outside 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 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 within the United States or Canada 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, investors may not be able to commence an action in a Canadian court predicated upon the civil liability provisions of the securities laws of the United States. The foregoing risks also apply to those experts identified in this report that are not residents of the United States.

We need additional funds to expand our business through acquisitions. If we are unable to raise additional funds, we would be restricted from further business expansion.

Since we are at the expansion stage of our business, we require funding for capital investment in acquiring target companies and carrying out numerous projects. To raise funds, we need to issue new equity, which could result in additional dilution to our shareholders and in operating and financing covenants that would restrict our operations and strategy. If we are unable to raise additional funds, our business expansion would be hampered.

If we issue additional shares, this may result in dilution to our existing stockholders.

Our Certificate of Incorporation authorizes the issuance of 800,000,000 shares of common stock and 5,000,000 shares of preferred stock. Our Board of Directors has the authority to issue additional shares up to the authorized capital stated in the Certificate of Incorporation. Our Board of Directors may choose to issue shares to acquire one or more businesses or to provide additional financing in the future. The issuance of shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we issue additional shares, there may be a reduction in the proportionate ownership and voting power of all other stockholders. Further, any issuance may result in a change of control of the Company.

The authorized preferred stock constitutes what is commonly referred to as “blank check” preferred stock. This type of preferred stock allows the Board of Directors to designate the preferred stock into a series, and determine separately for each series any one or more relative rights and preferences. The Board of Directors may issue shares of any series without further stockholder approval. Preferred stock authorized in series allows our Board of Directors to hinder or discourage an attempt to gain control by a merger, tender offer at a control premium price, or proxy contest. Consequently, the preferred stock could entrench our management. In addition, the market price of our common stock could be affected by the existence of the preferred stock.

If we or our independent registered public accountants cannot attest our adequacy in the internal control measures over our financial reporting, as required by Section 404 of the U.S. Sarbanes-Oxley Act, for the fiscal year ending December 31, 2007, we may be adversely affected.

As a public company, we are subject to report our internal control structure and procedures for financial reporting in our annual reports on Form 10-KSB, as a requirement of Section 404 of the U.S. Sarbanes-Oxley Act of 2002 by the U.S. Securities and Exchange Commission (the “SEC”). The report must contain an assessment by management about the effectiveness of our internal controls over financial reporting. Additionally, our independent registered public accounting firm will be required to issue reports on management's assessment of our internal control over financial reporting and their evaluation of the operating effectiveness of our internal control over financial reporting. The auditor's report is required for financial year ending December 31, 2008. It is possible that our management cannot attest our effectiveness in internal controls over financial reporting. Furthermore, even if our management attests to our internal control measures to be effective, our independent registered public accountants may not be satisfied with our internal control structure and procedures. If our management cannot attest to our internal control measures at any time in the future, or if our accountants are not satisfied with our internal control structure, it could result in an adverse impact on us in the financial marketplace due to the loss of investor confidence in the reliability of our financial statements, which could negatively impact our stock market price.

Trading may be restricted by the SEC, which may limit a stockholder’s ability to buy and sell our stock.

The SEC has adopted Rule 15g-9, which generally defines “penny stock” to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share. Our securities are covered by rules that impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The rules require a broker-dealer, prior to a transaction in penny stock, to deliver a standardized risk disclosure document in a form prepared by the SEC. This provides information about the nature and level of risks in the penny stock market. The broker-dealer

must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, these rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investors' interest in and limit the marketability of our common stock.

NASD sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status and investment objectives. Under interpretations of these rules, the NASD believes that there is a high probability that low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an effect on the market for our shares.

Stockholders should have no expectation of any dividends.

The holders of our common stock are entitled to receive dividends when declared by the Board of Directors out of funds available. To date, we have not declared nor paid any cash dividends. The Board of Directors does not intend to declare any dividends in the near future, but instead intends to retain all earnings, if any, for use in our business operations.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this quarterly report, being March 31, 2007, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer along with our company's Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer along with our company's Chief Financial Officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no significant changes in our company's internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Guangdong Yongan Travel Agency (“Yongan”) arranged a local tour in April 2001. Yongan rented a car from an agent of Tianma but the car did not belong to Tianma. A car accident happened during the tour, causing 20 injuries and one death. Guangzhou Police issued a proposed determination on the responsibilities of the accidents on May 18, 2001. The proposal determined that the driver who used a non-functioning car was fully liable for the accident. Those tourists sued Yongan for damages and Guangzhou Intermediate People’s Court made a final judgment in 2004 that Yongan was liable and Yongan paid approximately RMB2.2 million ($275,000) to the injured. In 2005, Yongan sued the agent of Tianma, Tianma and the car owner. In October 2006, the Guangzhou Yuexiu District Court made a judgment that the agent was liable to pay RMB2.1 million ($262,500) plus interest for damages. Tianma and the car owner have joint-and-several liabilities.

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

Item2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2007, the Company issued 300,000 shares of restricted common stock with a fair value of $843,600 as part of the purchase consideration for acquisition of Quo Advertising.

Item 3. Default Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETWORK CN INC.

Date: May 18, 2007	By:	/s/ GODFREY CHIN TONG HUI Godfrey Chin Tong Hui, Chief Executive Officer
Date: May 18, 2007	By:	/s/ DALEY MOK Daley Mok, Chief Financial Officer

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