NETWORK CN INC
Form 10-K/A
January 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2009

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

For the transition period from ____ to ____

Commission file number 000-30264

NETWORK CN INC.

(Exact name of registrant as specified in its charter)

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

Suite 3908, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

(Address of principal executive offices)
(852) 2833-2186

(Registrant’s telephone number, including area code)

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

(Title of Each Class)

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

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

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

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

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

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

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

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

As of June 30, 2009, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately $7.9 million.

The number of shares outstanding of each of the issuer's classes of common stock, as of March 15, 2010 is as follows:

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

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K (this “Form 10-K/A”) amends the Annual Report on Form 10-K of Network CN Inc. (the “Company”) for the fiscal year ended December 31, 2009, originally filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 31, 2010 (the “Original Report”). This Form 10-K/A is being filed to solely to amend the Company’s disclosures throughout the Original Report, including under Item 1. “Business,” Item 1A. “Risk Factors,” Item 5 “Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities,” Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Item 10 “Directors, Executive Officers and Corporate Governance,” Item 11 “Executive Compensation,” Item 12 “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” Item 13 “Certain Relationships and Related Transactions, and Director Independence,” and Item 15 “Exhibits, Financial Statement Schedules.”

Unless otherwise indicated, this report speaks only as of the date that the Original Report was filed. No attempt has been made in this Form 10-K/A to update other disclosures presented in the Original Report. This Form 10-K/A does not reflect events occurring after the filing of the Original Report or modify or update those disclosures, including the exhibits to the Original Report affected by subsequent events, except that this Form 10-K/A includes as exhibits 31.1, 31.2, 32.1 and 32.2 new certifications by the Company’s Chief Executive Officer and Chief Financial Officer as required by Rule 12b-15.

PART I

ITEM 1. BUSINESS

Overview

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

Our total advertising revenues were $1,266,927, $4,622,270 and $1,442,552 for the years ended December 31, 2009, 2008 and 2007 respectively. Our net loss attributable to NCN common stockholders was $37,359,188, $59,484,833 and $14,646,619 for the years ended December 31, 2009, 2008 and 2007 respectively. Our results of operations were negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2009, including the following:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- slowing demand due to the worldwide financial crisis and deteriorating economic conditions in China, leading many customers to cut their advertising budget. The impact of the reduction in the pace of our advertising spending is expected to be more significant on our new digital form

of media than traditional advertising platforms.

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

Since early 2010, we have begun to restructure our organization by consolidating our PRC operations into one directly owned PRC entity, Yi Gao. We expect that this consolidation will enhance our operational efficiency and effectiveness and should reduce our operating expenses for the foreseeable future. For details, please refer to Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations, "Recent Developments – Corporate Restructuring" below.

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

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

History

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

From early 2006 until 2008, we had two business divisions: our Media Business Division and a Non-Media Business Division. We initially focused on the Non-Media Business Division, which was mainly comprised of a travel network through which we provided agency tour services and hotel management services. In 2006, we acquired 55% of the equity interest in Tianma, a PRC company engaged in the provision of tour services to customers both inside and outside of the PRC. In 2006 and 2007, we earned substantially all of our revenues from these tour services. We also provided day-to-day management services to hotels and resorts in the PRC. During the latter half of 2006, we adjusted our primary focus away from the tourism and hotel management business to the building of a media network with the goal of becoming a nationwide leader in out-of-home, digital display advertising, roadside LED digital video panels and mega-size video billboards. In November 2006 we secured a media-related contract for installing and managing out-of-home LED advertising video panels. In 2007, we secured further rights to operate mega-size LED and roadside LED panels in prominent cities in the PRC through either entering business agreements with authority parties or business combination exercise, and began generating revenues from our Media Business.

Disposal of Non-Media Business Division

On June 16, 2006, to take advantage of China's booming travel market, we acquired, through NCN Management Services, 55% of the equity interests of Tianma, a travel agency headquartered in Guangdong Province in the PRC, for an aggregate purchase price of $936,283, $833,333 of which was in cash and $102,950 of which was in 362,500 shares of our common stock. The results of operations of Tianma have been included in the Company's consolidated statement of operations since the completion of the acquisition on June 16, 2006. Tianma is an authorized inbound and outbound travel operator and provides travel agency services to customers for both inbound and outbound travel. It organizes independent inbound and outbound tour and travel packages for a variety of destinations within China and internationally. Tour packages may include air and land transportation, hotels, restaurants and tickets to tourist destinations and other excursions. Tianma books all elements of such packages with third-party service providers, such as airlines, car rental companies and hotels, or through other tour package providers and then resells such packages to its clients.

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

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

On September 30, 2008, the Company completed the sale of its 99.9% interest in NCN Landmark to an independent third party for a cash consideration of $20,000. The acquirer acquired NCN Landmark along with its subsidiary, 100% interest in Beijing NCN Landmark Hotel Management Limited, a PRC corporation. The Company reported a gain on the sale, net of income taxes of $4,515.

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

Acquisition of Quo Advertising

On January 31, 2007, we exerted 100% control over Quo Advertising, an advertising agency headquartered in Shanghai, China, pursuant to a purchase and sale agreement and a trust agreement, dated January 24, 2007, between the Company and two independent PRC individuals. As we were unable to directly own 100% equity interest in Quo Advertising under the PRC law and regulations, through trust arrangements, we designated two PRC citizens to hold Quo Advertising's equity interest on behalf and for the benefit of us. The Company obtained 100% control over Quo Advertising at a consideration of $907,600, $64,000 of which was in cash and the balance of which was in 300,000 shares of our common stock, valued at $843,600. The results of operations of Quo Advertising have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 31, 2007.

Quo Advertising was founded in 1996 in Shanghai, China and provided advertising design, production, public relations and event management services for domestic and international clients before our acquisition. The acquisition strengthens our media network in the PRC. Our media business was mainly run through Quo Advertising in 2007 and 2008.

Acquisition of Xuancaiyi

Effective September 1, 2007, we acquired, through Quo Advertising, a 51% majority of the equity interests of Xuancaiyi, an advertising agency located in Beijing, China, for a consideration of up to RMB12,245,000 (approximately $1,667,000) in cash, payable over time based on Xuancaiyi's achievement of certain net profit targets. An initial payment of RMB2,500,000 (approximately $330,000) was made in September 2007 and the balance of the payment was due as follows: (1) up to RMB 2,454,300 (approximately $336,700) based on Xuancaiyi's net profit for the four months ended December 31, 2007; (2) up to RMB 1,834,500 (approximately $251,700) based on Xuancaiyi's net profit for the first quarter of fiscal year 2008; (3) up to RMB 1,827,400 (approximately $250,700) based on Xuancaiyi's net profit for the second quarter of fiscal year 2008; (4) up to RMB1,819,100 (approximately $249,500) based on Xuancaiyi's net profit for the third quarter of fiscal year 2008; and (5) up to RMB1,809,700 (approximately $248,300) based on Xuancaiyi's net profit for the fourth quarter of fiscal year 2008. As Xuancaiyi failed to achieve the net profit targets in each of the above periods, no further cash payment was made with respect to the above earn-out consideration. The results of operations of Xuancaiyi have been included in the Company's consolidated statement of operations since the acquisition date on September 1, 2007.

Xuancaiyi was founded in 2007 and obtained the right to manage and operate a mega-size high resolution LED advertising billboard in a prominent location in China's capital city, Beijing. The billboard, covering more than 758 square meters, is located on the East Third Ring Road near the exit of the Airport Highway. As of December 31, 2008, a business agreement entered into between Xuancaiyi and its media partner has expired and so Xuancaiya has maintained minimal operations thereafter. In the second quarter of fiscal 2009, we disposed of the entire 51% equity interests of Xuancaiyi to its minority shareholders at $nil consideration.

Acquisition of Cityhorizon BVI

On January 1, 2008, we entered into a share purchase agreement with our wholly owned subsidiary Cityhorizon Hong Kong, to acquire 100% of the equity interest in Cityhorizon BVI and its PRC operating entities, Lianhe and Bona, from Cityhorizon BVI's sole shareholder, for an aggregate purchase price of $8,738,000, $5,000,000 of which was in cash and the balance of which was in 1,500,000 shares of restricted common stock of par value of $0.001 each, valued at $3,738,000. Lianhe was a wholly foreign owned enterprise of Cityhorizon BVI in China while Cityhorizon BVI exerted 100% effective control over Bona, a local PRC company, through a trust arrangement. The results of operations of Cityhorizon BVI, Lianhe and Bona have been included in our consolidated statement of operations since the completion of the acquisition on January 1, 2008.

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

Consolidation of Variable Interest Entity - Botong

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

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

Botong was founded in 2007 and obtained the right to manage and operate for a 6-year period, a mega-size high resolution LED advertising billboard located at Haoyou Emporium Wangujing in Beijing. There has been no change of its business since the date of acquisition.

Other Contractual Arrangements with the PRC Operating Companies

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

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

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

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

These commercial arrangements enable us to exert effective control on these entities, namely Bona and Quo Advertising and their respective subsidiaries, if any, and transfer their economic benefits to the Company for financial results consolidation pursuant to FIN 46(R). In the opinion of our PRC legal counsel, these commercial arrangements are in compliance with all existing PRC laws, rules and regulations and are enforceable in accordance with their terms and conditions although there are substantial uncertainties regarding the interpretation and implementation of current PRC laws and regulation.

As of the date of this annual report, Lianhe has not received any technology and management consulting services fees from Bona and Quo Advertising as they have operated at a net loss since entering into these contractual agreements. We also didn’t register aforementioned equity pledge agreements with the relevant PRC authorities as we believed that the risk of the PRC shareholders of Bona and Quo Advertising failing to perform their respective obligations under the above contractual arrangements was not high. Furthermore, the registration of the equity pledge agreements with the relevant PRC authorities would incur more costs and time if we want to designate other person as the new PRC shareholders. As our advertising business has been run through Yi Gao, our directly owned subsidiary since the early of 2010, we believed the relevant risk imposed on our operations has been reduced.

Corporate Structure

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

Available Information

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

Our corporate headquarters are located at Suite 3908, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, Special Administrative Region of the People's Republic of China. Our telephone number is (852) 2833-2186. We maintain a website at www.ncnmedia.com that links to our electronic SEC filings and contains information about our subsidiaries which is not a part of this report. All the above documents are available free of charge on our website as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Industry Overview

The recent worldwide financial crisis and the deteriorating economic conditions in China created a number of challenges to China's advertising industry during the 2009 period, as budget conservatism prevailed among advertisers throughout the period. Although there were signs of recovery in China in late 2009, most advertisers continued to be cost-conscious and preferred to commit to short-term contracts rather than long-term contracts. Competition in the domestic out-of-home advertising sector is very intense and many local operators offered significant sales discounts to compete for market share.

In 2009, The State Administration for Industry and Commerce of the PRC, estimated that Television will remain the dominant advertising medium in the PRC in the coming future, followed by print media, outdoor, internet and radio advertising. It was believed that the media and advertising industry will remain as one of the fastest growing markets in China. According to a market research report issued by a reputable international investment bank in late of 2008, total advertising spending in China is expected to show sustained growth above 8% over the next 10 years. For out-of-home advertising, overall out-of-home advertising spending is expected to slow to 10% and 14% year-over-year in 2009 and 2010, respectively, from 20% in 2008.

In the past, we have expended our resources to build an out-of-home media throughout different PRC cities. In preparation for the upcoming 2010 Shanghai World Expo which we believe could bring us new business and revenues, we have allocated substantial resources in Shanghai while minimizing our Beijing operations. We believe that, in order to increase our market share in out-of-home advertising in China, in the long-run, we will have to increase our advertising locations, obtain more exclusive arrangements in desirable locations and to provide a wider range of media and advertising services through entering business agreements or business combination exercises with third parties.

Our Services

We install and operate roadside advertising panels in major cities throughout China. The following table summarizes by location the number of roadside advertising panels that the Company has the right to install and operate and the installation status:

Location	No. of Advertising Panels (1)	Panels Installed As of March 1, 2010	Panels Owned As of March 1, 2010	Expiration (2)
Nanjing Road Pedestrian Street, Shanghai	52	52	52	2010
Total as of March 1, 2010	52	52	52	

The following table summarizes by location the number of mega-size advertising panels that the Company has the right to install and operate and the installation status:

Location	No. of Advertising	Panels Installed	Panels Owned

	Panels (1)	As of March 1, 2010	As of March 1, 2010	Expiration (2)
Wuhan	1	1	1	2012
Beijing	1	1	1	2013
Total as of March 1, 2010	2	2	2	

1) The size of the Company's typical roadside advertising panels ranges from 1.5 square meters to 4 square meters, while the mega-size advertising panels are typically from 80 square meters to over 120 square meters.
2) Although the Company has a contractual right to operate the panels for certain period of time, governmental authorities in the PRC could limit the period during which we can operate the panels if the government interprets the current rules and regulations differently or if it were to implement new rules and regulations.

The following table summarizes the percentage of sold and unsold air time in 2009 on our panels in Shanghai, Wuhan and Beijing.

Location	Percentage of Sold airtime	Percentage of Unsold airtime
Nanjing Road Pedestrian Street, Shanghai		
- 28 Roadside LED panels	3%	97%
- 24 Rollersheets	44%	56%
- 28 Lightboxes (back side of Roadside LED panels)	54%	46%
Wuhan – Mega-sized LED	8%	92%
Beijing - Mega-sized LED	6%	94%

Our Suppliers

In some of our media projects, we are responsible for installing advertising panels and billboards. We design the shape of our advertising panels and billboards according to the terms approved by the relevant PRC governmental documents. We identify suppliers of component parts used in our advertising panels and contract assembly of our advertising panels to third-party contract assemblers who will assemble our advertising panels according to our specification. We select component suppliers based on price and quality.

We did not install any advertising panels in 2009 and 2007. During 2008, only 2 suppliers accounted for 20% or more of our panel installation costs. Xian Qingsong Technology Co., Ltd and Shenzhen LAMP Technology Co., Ltd, accounted for 31% and 26% to our panel installation costs respectively.

Our Customers

The media and advertising industry is one of the fastest growing markets in China. Out-of-home advertising is attractive because of relatively modest content production costs, less regulatory exposure, low maintenance costs and centralized operations made efficient by computers and other technology solutions. Industry analysts look for out-of-home advertising spending in China to grow at a 20% compounded annual growth rate through 2010. We are upbeat on the long-term prospect for the China sector although a temporary pause occurred in 2009 as the economy was hit by the global economic downturn.

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

Name of Customer	Advertising Sales %
For the year ended December 31, 2009	
Shanghai Wenchang Advertising Co., Ltd	16%
Shanghai Chuangtian Advertising Co., Ltd	15%
Kinetic	15%
Beijing Dentsu Advertising Co., Ltd.	11%
For the year ended December 31, 2008	
OMD	38%
Beijing Dentsu Advertising Co., Ltd.	16%
For the year ended December 31, 2007	
MGI Luxury Asia Pacific Ltd	26%
Shanghai Gaorui Advertising Company Limited	16%
Binli (Shanghai) Commercial Company Limited	14%
SMH International Trading (Shanghai) Co., Ltd	14%

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

Sales and Marketing

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

Competition

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

The Company may also face competition from new entrants into the out-of-home LED advertising sector. Our sector is characterized by low initial fixed costs for entrance in term of LED panel requirements and it is uncommon for advertising clients to enter into exclusive arrangements. In addition, as of December 10, 2005, wholly foreign-owned advertising companies are allowed to operate in China, which may expose us to increasing competition from international advertising media companies attracted by the opportunities in China.

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

In addition, we believe our business will be adversely affected by the recent global financial turmoil. In order to enhance our competitive power, we will strictly control our operating costs, actively explore ways to terminate commercially non-viable concession right contracts and continue to search for other prominent advertising projects in order to expand our advertising network. We believe that expanding our advertising network will enable us to offer more competitive pricing to our advertising clients, thereby increasing our profitability.

Our Intellectual Property

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

- The technology of a display module and settings method for colored LED panels, which expires on November 22, 2017;
- The technology of the display system with blind spot checking function, which expires on November 27, 2017; and
- The invention of methodology in light intensity tuning for out-of-home LED panels, which expires on November 8, 2027;

We have also applied for the following patent rights from the PRC State Intellectual Property Office:

- The invention of methodology and monitoring system for staff in their out-of-home LED panel maintenance;
- The invention of blind spot checking methodology for multi-LED panels; and
- The invention of centralized remote management methodology for out-of-home LED panels.

Our Research and Development

No material costs have been incurred on research and development activities for the fiscal years 2009, 2008 and 2007. We do not expect to incur significant research and development costs in the coming future.

Employees

As of December 31, 2009, the Company and its subsidiaries and variable interest entities had approximately 33 employees at our offices located at our Hong Kong and PRC offices, all of which are full-time employees.

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

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

Government Regulation

Limitations on Foreign Ownership in the Advertising Industry

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

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