ALAMO GROUP INC
Form DEF 14A
March 20, 2008
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant /X/
Filed by a party other than the Registrant / /

Check the appropriate box:
/ / Preliminary Proxy Statement
/ / CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
/X/ Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Section 240.14a-12

Alamo Group Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person (s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/X/ No fee required.

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(1) Title of each class of securities to which transaction applies:
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(2) Aggregate number of securities to which transaction applies:
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:
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(2) Form, Schedule or Registration Statement No.:
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(3) Filing Party:
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(4) Date Filed:

ALAMO GROUP INC.

1627 East Walnut Street

Seguin, Texas 78155

Dear Fellow Stockholders:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Alamo Group Inc., to be held on Wednesday, May 7, 2008, at 9:00 a.m. local time, at the Westin Riverwalk Hotel, 420 West Market Street, San Antonio, Texas. We hope that you will be able to attend the meeting. Matters on which action will be taken at the meeting are explained in detail in the notice of meeting and proxy statement accompanying this letter.

In addition to the specific matters to be acted upon, there will be a report on the progress of the Company and an opportunity for questions of general interest to the stockholders.

Whether or not you expect to be present and regardless of the number of shares you own, please mark, sign and mail the enclosed proxy in the envelope provided as soon as possible. Stockholders may also vote through the Internet or by telephone. If you attend the meeting, you may revoke your proxy and vote in person.

Thank you for your support. We hope to see you at the meeting.

Donald J. Douglass

Chairman of the Board of Directors

March 20, 2008

ALAMO GROUP INC.

1627 East Walnut Street

Seguin, Texas 78155

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 7, 2008

To the Stockholders of

Alamo Group Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Alamo Group Inc. (the "Company") will be held at the Westin Riverwalk Hotel, 420 West Market Street, San Antonio, Texas, on Wednesday, May 7, 2008, at 9:00 a.m. local time, for the following purposes:

(1) To elect seven (7) directors to the Board of Directors to serve until the next Annual Meeting of Stockholders or until their successors are elected and qualified;

(2) To ratify the Audit Committee s appointment of Ernst & Young LLP as the Company's independent auditors for the 2008 fiscal year;

(3) To transact such other business as may properly come before the meeting or any adjournment thereof.

In accordance with the By-Laws of the Company, the Board of Directors fixed the record date for the meeting on March 14, 2008. Only stockholders of record at the close of business on that date will be entitled to vote at the meeting or any adjournment thereof.

Stockholders who do not expect to attend the meeting in person are urged to sign the enclosed proxy and return it promptly. A return envelope is enclosed for that purpose. Stockholders may also vote through the Internet or by telephone. Instructions are included on the proxy card.

A complete list of stockholders entitled to vote at the meeting, showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of twelve days commencing April 21, 2008, at the offices of the Company s Counsel which is Oppenheimer, Blend, Harrison and Tate, Inc. located at 711 Navarro, Suite 600, San Antonio, Texas 78205-1796.

By Order of the Board of Directors

Robert H. George

Secretary

Dated: March 20, 2008

Seguin, Texas 78155

_ALAMO GROUP INC.

1627 East Walnut Street

Seguin, Texas 78155

PROXY STATEMENT

The accompanying Proxy is solicited by the Board of Directors of Alamo Group Inc., a Delaware corporation (the "Company", "we", "our" and "us"), to be voted at the 2008 Annual Meeting of Stockholders to be held on May 7, 2008, and at any adjournments thereof. The meeting will be held at 9:00 a.m. local time, at the Westin Riverwalk Hotel, 420 West Market Street, San Antonio, Texas. This Proxy Statement and the accompanying Proxy are being mailed to Stockholders on or about March 31, 2008. The Annual Report of the Company for fiscal 2007, including audited financial statements for the fiscal year ended December 31, 2007, and a proxy card are enclosed.

VOTING AND PROXIES

Only holders of record of Common Stock of the Company at the close of business on March 14, 2008 (the Record Date), shall be entitled to vote at the meeting. There were 20,000,000 authorized shares of Common Stock, par value $.10 per share ("Common Stock"), of the Company and 9,796,829 shares of Common Stock outstanding on the Record Date. Each share of Common Stock is entitled to one vote. Any Stockholder giving a proxy has the power to revoke same at any time prior to its use by giving notice in person or in writing to the Secretary of the Company.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the 2008 Annual Meeting of Stockholders and any adjournment thereof.

A plurality of the votes cast at the Annual Meeting is required for the election of each individual nominated by the Board of Directors. The ratification of Ernst & Young LLP s appointment as the Company s independent auditor requires the affirmative vote of a majority of the votes cast by the Stockholders represented at the annual meeting and entitled to vote thereon.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed by the Company for the meeting. The inspectors of election will treat abstentions and broker non-votes as shares that are present for purposes of determining the presence of a quorum. Abstentions may be specified on all proposals except the election of directors. Abstentions are present and entitled to vote for purposes of determining the approval of any matter submitted to the Stockholders for a vote and will thus have the same effect as a negative vote on the proposal to ratify the appointment of Ernst & Young. If a broker indicates on a proxy that it does not have the discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered present and entitled to vote with respect to that matter.

BENEFICIAL OWNERSHIP OF COMMON STOCK

Listed in the following table are the only beneficial owners that the Company is aware of as of February 28, 2008, of more than five percent of the Company's outstanding Common Stock. In addition, this table includes the outstanding voting securities beneficially owned by its directors, its executive officers that are listed in the Summary Compensation Table and by its directors and executive officers as a group as of February 28, 2008. Unless indicated otherwise below, the address of each person named on the table below is: c/o Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

Beneficial Owner of Common Stock	**Amount and Nature of Beneficial Ownership(1)**	**Percent of Class(2)**
Capital Southwest Venture Corporation	2,830,300 (3)	28.89%
12900 Preston Road, Suite 700		
Dallas, TX 75230		
Third Avenue Management LLC	2,578,615 (4)	26.32%
Formerly EQSF Advisors, Inc.		
622 Third Avenue, 32nd Floor		
New York, NY 10017		
Dimensional Fund Advisors LP	819,146 (5)	8.36%
1299 Ocean Avenue, 11th Floor		
Santa Monica, CA 90401		
Met Investors Advisory, LLC	562,013 (6)	5.74%
5 Park Plaza, Suite 1900		
Irvine, CA 92614		
Tradewinds Global Investors, LLC	514,444 (7)	5.25%

2049 Century Park East, 20th Floor		
Los Angeles, CA 90067		
Donald J. Douglass	334,925 (8)	3.4%
Ronald A. Robinson	320,000 (9)	3.3%
Jerry E. Goldress	29,000	*
James B. Skaggs	16,100	*
David H. Morris	12,018 (10)	*
David W. Grzelak	500 (10)	*
Gary L. Martin	2,830,300 (3)	*
Dan E. Malone	5,000 (9)	*
Robert H. George	15,750 (9)	*
Richard J. Wehrle	12,540 (9)	*
Geoffrey Davies	21,550 (9)	*
Donald C. Duncan	9,200 (9)	*
All Directors and Executive Officers as a Group (12 Persons)	3,606,883 (8)(9)(10)	36.82%

* Less than 1% of class

(1) In each case the beneficial owner has sole voting and investment power, except as otherwise provided herein.

(2) The calculation of percent of class is based on the number of shares of Common Stock outstanding as of February 28, 2008, being 9,796,829 shares.

(3) Includes shares owned by Capital Southwest Corporation (Capital Southwest) (170,300 shares), the parent corporation of Capital Southwest Venture Corporation (2,660,000 shares). Mr. Martin, a director of the Company, serves as President and CEO of both Capital Southwest Venture Corporation and Capital Southwest Corporation. Mr. Martin has share voting and investment power with respect to the shares of Common Stock owned by Capital Southwest Venture Corporation and Capital Southwest Corporation. Mr. Martin personally disclaims beneficial ownership of these shares.

(4) Based on a Schedule 13G dated February 14, 2008, by which Third Avenue Management LLC (TAM) reported that as of December 31, 2007, it or any of TAM s small cap funds had shared voting power over none of such shares, had sole voting power over 1,893,284 such shares, and had sole dispositive power over 2,578,615 of such shares. TAM has beneficial ownership in 2,578,615 shares as of December 31, 2007.

(5) Based on Schedule 13G dated February 6, 2008, by which Dimensional Fund Advisors Inc. reported that as of December 31, 2007, it had shared voting power over none of such shares, had sole voting power over 819,146 shares and had sole dispositive power of 819,146 shares. Dimensional Fund Advisor Inc. has beneficial ownership in 819,146 shares as of December 31, 2007.

(6) Based on Schedule 13G dated February 14, as amended on February 21, 2008, by which Met Investors Advisory, LLC (MIA) reported that as of December 31, 2007, it had shared voting power over 562,013 shares, had sole voting power over none of the shares and shared dispositive power over 562,013 shares. MIA has beneficial ownership in 562,013 shares as of December 31, 2007. The 562,013 shares held by MIA are also included in the shares held by TAM above.

(7) Based on Schedule 13G dated February 14, 2008, by which Tradewinds Global Investors LLC (TGI) reported that as of December 31, 2007, it had shared voting power over none of the shares, had sole voting power over 446,970 shares and sole dispositive power over 514,444 shares. TGI has beneficial ownership in 514,444 shares as of December 31, 2007.

(8) Includes 59,194 shares owned by The Douglass Foundation, a non-profit organization of which Helen D. Douglass, Mr. Douglass wife, is the President; 16,951 shares in the Douglass Charitable Lead Unitrust of 2000 of which Mrs. Douglass is trustee; and 43,100 shares owned by Helen D. Douglass. Various members of Mr. Douglass family hold shares of stock of the Company which are not included in this table and Mr. Douglass disclaims beneficial ownership of those shares.

(9) Includes shares available for exercise under various stock options as follows: for Mr. Robinson 275,000 shares; for Mr. Malone 5,000; for Mr. George 11,350 shares; for Mr. Wehrle 11,350 shares; for Mr. Davies 20,350 shares; and for Mr. Duncan 6,400 shares.

(10) Includes shares available for exercise under a non-qualified stock options as follows: for Mr. Morris 7,500 shares and for Mr. Grzelak 500 shares.

PROPOSAL 1 - ELECTION OF DIRECTORS

The By-Laws of the Company provide that the number of directors which shall constitute the whole Board of Directors shall be fixed and determined from time to time by resolution adopted by the Board of Directors. Currently, the size of the Board of Directors has been fixed at seven (7) directors. Each director elected at the annual meeting will serve until the next annual meeting of Stockholders or until a successor is elected and qualified. Unless otherwise instructed, shares represented by properly executed proxies in the accompanying form will be voted for the individuals nominated by the Board of Directors set forth below. Although the Board of Directors anticipates that the listed nominees will be able to serve, if at the time of the meeting any such nominee is unable or unwilling to serve, such shares may be voted at the discretion of the proxy holders for a substitute nominee. The Nominating/Corporate Governance Committee of the Board of Directors recommended the following individuals to the Board of Directors and the Board of Directors nominated them. Certain information concerning such nominees, including all positions with the Company and principal occupations during the last five years, is set forth below.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Donald J. Douglass, age 76, founded the Company in 1969 and has served as Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Douglass resigned his position as Chief Executive Officer on July 7, 1999 and retired from his position as an employee of the Company on December 31, 1999 but continues to serve as a director and Chairman of the Board of the Company.

Ronald A. Robinson, age 55, has been President, Chief Executive Officer and a director of the Company since 1999. Mr. Robinson previously was President of Svedala Industries, Inc., the U.S. subsidiary of Svedala Industries AB of Malmo, Sweden, a leading manufacturer of equipment and systems for the worldwide construction, mineral processing and materials handling industries. Mr. Robinson joined Svedala in 1992 when it acquired Denver Equipment Company of which he was Chairman and Chief Executive Officer.

Jerry E. Goldress, age 77, has been a director of the Company since 2000 and is Chairman and Chief Executive Officer of Grisanti, Galef & Goldress, Inc. (GGG), a turnaround management consulting firm. Mr. Goldress has been with GGG since 1973 and has been its Chairman and Chief Executive Officer since 1981. In his consulting capacity, he has been President of more than one hundred manufacturing, distribution and retail organizations.

David W. Grzelak, age 57, has been a director of the Company since August 2006 and has been Chairman and Chief Executive Officer of Komatsu America Corporation since April 2002. He has full profit and loss responsibilities for U.S. Komatsu Operations relating to the construction, utility and mining industries. Komatsu America Corporation manufactures and markets Komatsu, Dressta and Galion lines of hydraulic excavators, wheel loaders, crawler dozers, off-highway trucks and motor graders.

Gary L. Martin, age 61, has been a director of the Company since May 2007. In 2007, Mr. Martin was elected President and CEO of Capital Southwest Corporation, where he served as Vice President since 1992, a publicly owned venture capital investment company located in Dallas, Texas, and has been a Director of Capital Southwest Corporation since 1988. From 1979 through April 2007 Mr. Martin was Chief Executive Officer and President of The Whitmore Manufacturing Company which is a specialty manufacturer of lubricants and coatings for industrial applications. Capital Southwest Corporation directly or indirectly owns 100% of Whitmore Manufacturing Company.

David H. Morris, age 66, has been a director of the Company since 1996. Mr. Morris retired as President and Chief Operating Officer of The Toro Company in November 1995. He had served in that capacity since December 1988. Mr. Morris was first employed by The Toro Company in February 1979 and served in various executive positions with The Toro Company and its subsidiaries.

James B. Skaggs, age 70, has been a director of the Company since 1996 and retired as Chairman of the Board, Chief Executive Officer and President of Tracor, Inc. in June 1998. Tracor provided technology products and services to governmental and commercial customers worldwide in the areas of information systems, aerospace, defense and systems engineering. Mr. Skaggs was Tracor s Chief Executive Officer, President and a Director since November 1990 and its Chairman of the Board since December 1993.

The following table shows the current membership of each committee and the number of meetings held by each committee during 2007:

	Compensation Committee	Audit Committee	Nominating/ Corp Gov
Donald Douglass			
Jerry Goldress	X	X	Chair
David Grzelak	X	X	X
Gary Martin	X		X
David Morris		Chair	X
Ronald Robinson			
James Skaggs	Chair	X	
Fiscal 2007 Meetings	2	5	3

INFORMATION CONCERNING DIRECTORS

None of the nominees for director or the executive officers of the Company has a family relationship with any of the other executive officers or other nominees for director. Except for Messrs. Goldress and Martin, none of the directors or nominees is a director of any other company which has a class of securities registered under, or is required to file reports under, the Securities Exchange Act of 1934, as amended (the Exchange Act), or of any company registered under the Investment Company Act of 1940. Mr. Martin is a director of Capital Southwest Corporation. Mr. Goldress is a director of Rockford Corporation and he serves on its audit committee and compensation committees.

Non-management directors may meet in executive session, without the Chief Executive Officer, at any time, and there are regularly scheduled non-management executive sessions at each meeting of the Board of Directors and Committees thereof. The Chairman of the Board and the Chair of each Committee preside over their respective executive sessions.

In determining independence, each year the Board affirmatively determines whether each director has no material relationship with the Company other than as a director. When assessing the materiality of a director s relationship with the Company, the Board considers all relevant facts and circumstances, not merely from the director s standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm s length in the ordinary course of business and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions.

The Board of Directors has determined that all of the current directors except Mr. Robinson, President and CEO, have no material relationship with the Company or its auditors and are independent within the meaning of the New York Stock Exchange (NYSE) listing standards on director independence requirements and the standard of director independence established under on our Corporate Governance Guidelines covered above and which are available at (www.alamo-group.com) under the Our Commitment tab. However, the Board of Directors has determined that Mr. Martin, President and CEO of Capital Southwest Corporation, cannot chair or be a voting member of the Audit Committee because, in his capacity at Capital Southwest Corporation, he has the authority to vote more than 20% of the Company s outstanding shares. Mr. Douglass, who retired in 1999 as Chief Executive Officer of the Company, receives a supplemental retirement benefit, has been determined by the Board as independent since 2004.

If you and other interested parties wish to communicate with the Board of Directors of the Company, you may send correspondence to the Corporate Secretary, Alamo Group Inc., 1627 East Walnut Street, Seguin,Texas 78155. The Secretary will submit your correspondence to the Board of Directors or the appropriate committee or Board member, as applicable. The Board s Policy regarding shareholder communication with the Board of Directors is available at (www.alamo-group.com) under the Our Commitment tab.

Stockholders and other interested parties may communicate directly with non-management directors of the Board by sending your correspondence to the Chairman of the Board, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

The Board has delegated some of its authority to three committees of the Board of Directors. These are the Audit Committee, Nominating/Corporate Governance Committee and Compensation Committee. All three committees have published Charters on the Company s website (www.alamo-group.com) under the Our Commitment tab.

Vote required. A plurality of the votes cast at the Annual Meeting is required for the election of each individual nominated by the Board of Directors. All proxies will be voted ***FOR*** *these nominees unless a contrary choice is indicated.*

THE BOARD OF DIRECTORS HAS APPROVED THE SLATE OF DIRECTORS AND

RECOMMENDS A VOTE FOR THE ELECTION OF ALL SEVEN NOMINEES, WHICH IS DESIGNATED AS PROPOSAL NO. 1 ON THE ENCLOSED PROXY.

MEETINGS AND COMMITTEES OF THE BOARD

During the fiscal year ended December 31, 2007, the Board of Directors held five meetings. All members of the Board attended all five meetings. Each director attended at least 75% or more of the total number of meetings of the Board and committees on which the director served during 2007. It is a policy of the Board that all directors attend the Annual Stockholders Meeting. All of our directors attended the Annual Stockholders Meeting in May 2007.

THE AUDIT COMMITTEE

In January of 2007, the Audit Committee of the Board of Directors consisted of Messrs. Morris (Chairman), Goldress, Grzelak and Skaggs, and they were reappointed in May 2007. The Committee met five times during fiscal 2007. All Committee members were present at the meetings with the exception of Mr. Goldress who missed one meeting due to illness. The duties and responsibilities of the Committee include, among other things:

- Appoint, approve compensation and oversee the work of the independent auditor
- Review at least annually a report by the independent auditor describing the firm s internal control procedures and any material issues raised by the most recent internal control review
- Pre-approve all audit services and associated fees by the independent auditors
- Pre-approve all permissible non-audit services to be provided by the independent auditor
- Review the independence of the independent auditor
- Review scope of audit and resolve any difficulties or disagreements with management encountered during the audit or any interim periods
- Review and discuss with management and the independent auditor the annual audit and quarterly financial statements of the Company
- Recommend to the Board whether the financial statements should be included in the Annual Report Form 10-K as reviewed
- Review adequacy of Company s internal controls
- Review adequacy of Company s disclosure controls
- Approve scope of internal auditor s audit plan
- Review policies and procedures with respect to earnings press releases, financial information and guidance presented to analysts
- Review financial risk management procedures
- Oversee Company s compliance system with respect to legal and regulatory compliance and Code of Business Conduct and Ethics

- Establish and maintain procedures for handling complaints regarding accounting, internal controls and ethics, including a way to report anonymously

The Audit Committee reports to the Board on its activities and findings.

The Board of Directors has determined that under current NYSE listing standards all members of the Committee are financially literate, are audit committee financial experts, and are independent under the Company s Corporate Governance Guidelines and NYSE listing requirements, and that each has accounting or related financial management expertise as required by the NYSE listing standards. The Committee s Charter and Corporate Governance Guidelines, which have been approved by the Board of Directors, are reviewed annually and may be viewed on the Company s website (www.alamo-group.com) under the Our Commitment tab.

- 8 -

REPORT OF THE AUDIT COMMITTEE

The information contained in this report shall not be deemed to be soliciting material or filed with the Securities and Exchange Commission (the SEC) or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Alamo Group Inc. specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act.

The Audit Committee is comprised of four independent members of the Company s Board of Directors. Each member of the Audit Committee is independent under applicable law and NYSE listing requirements. The duties and responsibilities of the Audit Committee are set forth in the Audit Committee Charter, which the Board of Directors adopted on May 1, 2000 and reviews on an annual basis.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. In fulfilling its oversight responsibilities in fiscal 2007, the Committee reviewed and discussed the quarterly Form 10-Q s and the audited financial statements included in the Annual Report on Form 10-K with management, including quality, not just the acceptability, of the accounting principles, the reasonableness of significant adjustments, and the clarity of disclosures in the financial statements.

The Committee reviewed with management and with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company s accounting principles and such other matters as are required to be discussed by the independent auditors with the Committee under generally accepted auditing standards (including Statement on Auditing Standards No. 61). In addition, the Committee has discussed with the independent auditors the auditors independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board (including Independence Standards Board Standard No. 1), and considered the compatibility of non-audit services with the auditors independence.

The Committee discussed with the independent auditors the overall scope and plans for their audit. They also discussed with management the overall scope and plans for the Company s assessment of internal control. The Committee meets with the independent auditors and the internal auditor, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. The Committee held five meetings during fiscal year 2007. All members were present at the meetings with the exception of Mr. Goldress who missed one meeting due to illness.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC. The Audit Committee has also recommended, subject to stockholder ratification, the appointment of Ernst & Young LLP as the Company s independent auditors for the fiscal year 2008. Audit, audit-related and any permitted non-audit services provided to the Company by Ernst & Young LLP are subject to pre-approval by the Audit Committee.

AUDIT COMMITTEE

David H. Morris, Chairman

Jerry E. Goldress, Member

David W. Grzelak, Member

James B. Skaggs, Member

THE NOMINATING/CORPORATE GOVERNANCE COMMITTEE

In January 2007, the Nominating/Corporate Governance Committee consisted of Messrs. Goldress (Chairman), Douglass, Morris and Thomas and in May 2007, Messrs. Goldress (Chairman), Grzelak, Martin and Morris were appointed as the new members of the Committee. During 2007, the Committee held three meetings and all members were present. The Committee has the following responsibilities, among other things, to:

- Evaluate director candidates and has sole authority to retain a search firm, approve its fees and scope of service
- Recommend to the Board of Directors nominees for Board election by the stockholders based upon their qualifications, knowledge, skills, expertise, experience and diversity
- Review Board composition to reflect the appropriate balance of knowledge, skills, expertise, experience and diversity
- Review size of the Board and meeting frequency
- Recommend to the Board standing committees
- Review, at least annually, the Code of Business Conduct & Ethics
- Oversee and establish procedures for the annual evaluation of the Board and management

The Board of Directors has determined that the members of the Committee are independent under the Company s Corporate Governance Guidelines and NYSE listing requirements. The Committee s Charter and Corporate Governance Guidelines are reviewed annually and may be viewed on the Company s website (www.alamo-group.com) under the Our Commitment tab.

The Nominating/Corporate Governance Committee will consider director candidates recommended by stockholders. The Committee s Policy Regarding Director Candidates Recommended by Stockholders, the Corporate Governance Guidelines (including our standards of director independence) and Code of Conduct and Ethics are on our website (www.alamo-group.com) under Our Commitment tab and are available to any stockholder who requests them by writing to Corporate Secretary, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

Any stockholder of the Company who complies with the notice procedures set forth below and is a stockholder of record at the time such notice is delivered to the Company may make a director recommendation for consideration by the Nominating/Corporate Governance Committee. A stockholder may make recommendations at any time, but recommendations for consideration as nominees at the annual meeting of stockholders must be received not less than 120 days before the first anniversary of the date of the proxy statement released to stockholders in connection with the previous year s annual meeting. Therefore, to submit a candidate for consideration for nomination at the 2008 annual meeting of stockholders, a stockholder must have submitted the recommendation, in writing, by December 1, 2007. The written notice must demonstrate that it is being submitted by a stockholder of the Company and include information about each proposed director candidate, including name, age, business address, principal occupation, principal qualifications and other relevant biographical information. In addition, the stockholder must provide confirmation of each candidate s consent to serve as a director. A stockholder must send recommendations to the Nominating/Corporate Governance Committee, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

The Nominating/Corporate Governance Committee identifies, evaluates and recommends director candidates to the Board of Directors. In identifying and recommending nominees for positions on the Board of Directors, the Nominating/Corporate Governance Committee places primary emphasis on (i) judgment, character, expertise, skills and knowledge useful to the oversight of our business; (ii) diversity of viewpoints, backgrounds, experiences and other demographics; (iii) business or other relevant experience; and (iv) the extent to which the interplay of the nominee's expertise, skills, knowledge and experience with that of other members of the Board will build a board that is active, collegial and responsive to the needs of the Company.

Upon identifying a director candidate, the Committee initially determines the need for additional or replacement Board members and evaluates all the director candidates under the criteria described above, based on the information the Committee receives with the recommendation or otherwise possesses, which may be supplemented by certain inquiries. If the Committee determines, in consultation with other Board members including the Chairman, that a more comprehensive evaluation is warranted, the Committee may then obtain additional information about the director candidate s background and experience, including by means of interviews. The Committee will then evaluate the director candidate further, again using the evaluation criteria described above. The Committee receives input on such director candidates from other directors, including the Chairman, and recommends director candidates to the full Board of Directors for nomination. The Committee may engage a third party to assist in the search for director candidates or to assist in gathering information regarding a director candidate s background and experience. If the Committee engages a third party, the Committee approves the fee that the Company pays for these services.

THE COMPENSATION COMMITTEE

In January 2007 the Compensation Committee of the Board of Directors consisted of Messrs. Thomas (Chairman), Goldress, Morris and Skaggs, and in May of 2007, Messrs. Skaggs (Chairman), Goldress, Grzelak and Martin were appointed as the new Compensation Committee members. The Committee met two times during fiscal 2007. All Committee members were present at the meetings. The duties and responsibilities of the Committee include, among other things, to:

- Review and approve, at least annually, the goals and objectives and the structure of the Company s plans for executive compensation, incentive compensation, equity-based compensation, and employee benefit plans, and make recommendations to the Board
- Evaluate annual performance of the CEO in light of the goals of the Company s executive compensation plans, and recommend his or her compensation based on this evaluation
- In consultation with the CEO, review, evaluate and recommend to the Board the compensation of all executive officers and key managers
- Evaluate and recommend to the Board compensation of directors for Board and Committee service
- Review and recommend to the Board any severance agreement made with any executive officer
- Review and recommend to the Board the amount and terms of all individual stock options
- Review and recommend to the Board all equity-based compensation plans that are subject to stockholder approval
- Approve and issue the Compensation Discussion and Analysis required by the SEC for inclusion in the Company s proxy statement

The Compensation Committee has the authority to delegate its duties and responsibilities to subcommittees as it deems necessary and advisable. The role of our executive officers in determining compensation is discussed below under Compensation Discussion and Analysis. The Compensation Committee has authority under its charter to retain, at the Company s expense, such consultants and other advisors as it deems necessary to assist it in the fulfillment of its duties. The Committee did not retain a compensation consultant in 2007.

The Board of Directors has determined that the members of the Committee are independent under the Company s Corporate Governance Guidelines and NYSE listing requirements. The Committee s Charter and Corporate Governance Guidelines are reviewed annually and may be viewed on the Company s website (www.alamo-group.com) under the Our Commitment tab.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for the Company s principal executive officer, principal financial officer and the three most highly compensated executive officers other than the principal executive officer and principal financial officer (Named Executive Officers or NEOs) for 2007. All NEOs are listed in the Summary Compensation Table. This section also includes information regarding, among other things, the overall objectives of the Company s compensation program and each element of compensation that we provide.

Objectives of Our Compensation Program

The Compensation Committee of the Board of Directors has responsibility for establishing, implementing, monitoring and approving the compensation program for NEOs. The Committee recommends proposed compensation program changes, salaries, annual cash incentive compensation amounts and incentive stock options for the NEOs to the Board of Directors for approval. The Committee acts pursuant to a charter that has been approved by the Board.

The compensation program for the NEOs is designed to attract, retain and reward talented executives who have the experience and ability to contribute materially to the Company s long-term success and thereby build value for its shareholders. The program is intended to provide competitive base salaries as well as short and long term incentives which align management and shareholder objectives and provide the opportunity for NEOs to participate in the success of the Company and its individual business units. The program s annual cash incentive and its longer term stock-based incentive compensation provide potential upside for exceeding financial targets with significant downside risk for missing performance targets. This balances retention with reward for delivering increased shareholder value and provides closely aligned objectives for Company management and shareholders.

Role of the CEO and Committee in Compensation Decisions

The Committee reviews and recommends all compensation for the CEO to the Board of Directors for its approval. The Committee reviews recommendations by the CEO for the compensation of other NEOs as well as other executive officers and designated key employees. The CEO annually reviews the performance of each NEO (other than the CEO, whose performance is reviewed by the Committee). The recommendations based on these reviews, including salary adjustments, annual cash incentive awards and stock options, are presented to the Committee. The Committee reviews these recommendations and can exercise its discretion in modifying and recommending adjustments or awards to executives. The final decisions are then recommended for approval by the Committee to the Board of Directors. Decisions regarding compensation for key managers are made by the CEO and other NEOs of the Company.

Components of Executive Compensation

For the fiscal year ended December 31, 2007, the principal components of compensation for NEOs were:

- Base salary

- Incentive Compensation Plan
- Stock Option Program
- Perquisites
- Other employee benefits

Base Salary

The Company provides NEOs and other key managers with competitive base salaries to compensate them appropriately for services rendered during the fiscal year. The Committee primarily considers the following for each of the NEOs as well as other executive officers and designated key employees:

- The Company s performance and individual contributions to that performance
- Experience in the position
- Periodic review of survey data on similar positions with comparable companies
- In selected cases, other relevant factors may be considered

Base salary levels were determined by the Committee in February 2007, most of which were effective May 1, 2007, and again in February 2008, generally to be effective May 1, 2008. Any review of promotions or other changes in job responsibilities are also typically considered during this timeframe.

The base salary level for Ronald A. Robinson, President and Chief Executive Officer was recommended by the Committee and approved by the Board of Directors in February 2007, effective May 1, 2007, at $400,000 per annum and was reset at $425,000 in February 2008 to be effective May 1, 2008. The base salary levels for all of our NEOs other executive officers and designated key employees were determined by the Committee based on those factors described in the preceding paragraphs in February 2007 and February 2008, effective May 1st of each year.

Incentive Compensation Plan

In 1999, the Committee adopted a revised version of the Alamo Group Incentive Compensation Plan (ICP). The ICP is a cash incentive plan which allows the Committee to reward of the Company s NEOs and key managers based upon three factors:

- The overall performance of the Company
- The performance of the segment of the Company or division and/or business unit in which the employee is expected to contribute
- The individual performance of the employee

In February of each year, the Committee reviews with the Company proposed changes, if any, to the ICP plan and then adopts the plan for the current year. The Committee, in its sole discretion, is entitled to interpret the plan. Bonuses under the plan are not deemed fully earned until paid.

ICP target incentive includes a 75% objective component and 25% subjective component. All incentives under the Plan are accrued and expensed monthly during each Plan Year and paid within 75 days after the end of the Plan Year.

For 2007, the objective component of the ICP was based on the relationship between Actual Earnings and Target Earnings for the Company or each division, subsidiary or unit. Target Earnings for the Company and its divisions, subsidiaries and units are approved at the beginning of each Plan Year by the Board of Directors based on management s proposed financial plan for the year considering anticipated market conditions and appropriate goals for earnings growth.

Generally, Target Earnings are the Company s or divisions , subsidiaries or units projected earnings before interest and taxes (EBIT) which include an appropriate accrual for the estimated payments under the ICP Plan. Actual Earnings are the actual earnings before interest and taxes (EBIT) calculated in a manner consistent with the Target Earnings and include adequate accruals to cover all estimated payments under the ICP Plan. Actual and/or Target Earnings for any given year are subject to revision by the Committee if the Committee deems it appropriate to adjust for the effect of items such as extraordinary additions to or reversals of reserves, acquisitions and divestitures, gains or losses from the sale of assets, and operating income and expenses of discontinued operations. The specific quantitative targets for the

following performance priorities are not disclosed because we believe disclosure of this information would cause the Company competitive harm. These targets are based on our business plan for the fiscal year, and are intended to be challenging but achievable.

In 2007, while certain divisions of the Company achieved their intended target levels under the objective component of the ICP, the NEOs, with the exception of Mr. Davies, received no compensation for their objective component. In the last 3 years, under the ICP Plan, the NEOs, with the exception of Mr. Davies, received no compensation for their objective component of the plan, since other than Mr. Davies the NEOs respective objective components were based upon Company-wide targets, which were not met.

Actual payments under the objective components of the 2007 ICP could range from 0% to 150% of target, on the basis of performance, from 75% (threshold) to 125% (maximum) of the Target Earnings established by the Committee as follows:

Performance Level	**ICP Payment Level**	**Percentage Change in ICP payment for each**
% of Target Earnings	**% of Target Payment**	**% of actual to budget**
75% - 100%	0 to 100%	4%
100% - 125%	100 to 150%	2%

In each of the above brackets of Actual Earnings to Target Earnings, the Actual ICP Incentive Earned as a percentage of the Target Incentive is graduated by the Incremental ICP change to determine the Actual ICP Incentive Earned (rounded to the nearest dollar).

In February 2008, pursuant to the ICP, the Committee approved total incentive payments applicable to 2007 of $1,083,426 to participating employees. These payments were expensed in 2007 and paid in March 2008. Incentive payments expensed in 2006 and paid in March 2007 totaled $1,126,887. Included in these totals were ICP payments to Ronald A. Robinson, President and Chief Executive Officer, of $93,750 and $105,469, applicable to 2007 and 2006 respectively. Mr. Robinson also received a special bonus of $100,000 paid in 2006 related to the completion of the Gradall acquisition.

Awards made to the NEOs under the ICP for performance in 2007 are reflected in the Bonus column of the Summary Compensation Table on page 17.

For 2008 the Committee recommended, and the Board of Directors approved, a change in the criteria for the objective component of the plan. For participants other than corporate participants (CEO, NEOs and other key managers) the criteria is as follows:

Objective Component	**Criteria**
50%	Actual EBIT vs. Target EBIT
25%	Actual inventory improvement vs. Plan
Subjective Component	
25%	Based on subjective criteria

For corporate participants, the criteria will be as follows:

Objective Component	**Criteria**
75%	Diluted earnings per share with zero payment at less than 90% of the prior year; target payment at 100 percent of identified target earnings and maximum incentive payment of 150% of target if identified maximum target earnings are met or exceeded
Subjective Component	
25%	Based on subjective criteria

The above reflects the general criteria for the CEO, NEOs and other key managers. Some of them and their direct reports may have exceptions to the above criteria based upon their job classifications and areas they can influence or specifically target for improvement..

The chart below reflects the NEO s target % of base salary incentive at targeted performance.

NEO	% Of Base Salary Incentive At Target Performance
Ronald Robinson	75%
Dan Malone	30%
Geoffrey Davies	35%
Robert George	25%
Richard Wehrle	25%
Donald Duncan	25%

Stock Option Programs

The Company s stock option program relates stockholder value and our executive long-term compensation. The program provides an opportunity for increased equity ownership by our executives while maintaining competitive levels of total compensation.

From time to time the Committee has recommended, and the Board of Directors has granted, qualified and non-qualified stock options to the NEOs, key employees and directors. Stock option award levels vary among participants based on their performance and positions within the Company.

Options are granted at the New York Stock Exchange s closing price of the Company s stock on the effective date of grant and thus will have no ultimate value unless the value of the Company s stock appreciates. The Company has never granted options with an exercise price that is less than the closing price of the Company s Common Stock on the grant date, nor has it granted options which are priced on a date other than the effective date of the grant. We do not grant options during blackout periods when insider transactions are prohibited; options are generally granted at the Company s closing price on the date of grant, which generally is the third business day after the Company s press release announcement of earnings or disclosure of other material non-public information. Newly hired executive officers who are eligible to receive options are awarded such options at the next regularly scheduled Committee meeting following their hire date. The Committee believes these options provide a significant incentive for the option holders to enhance the value of the Company s Common Stock by continually improving the Company s performance.

All options granted by the Committee become vested and exercisable for 20% of the total optioned shares after one year following the grant and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. The options have a term of 10 years. Upon termination or retirement of an employee or Director prior to February 2006, the option holder had 30 days to exercise vested shares except in the case of death (subject to one year limitation). For options granted after February 2006, and if the employee or Director is at least 62 years of age and has at least 5 years of service with the Company, then all outstanding options become fully vested upon termination of employment (not for cause) or retirement.

Perquisites

The Company s NEOs and key managers receive various perquisites provided by or paid for by the Company. These perquisites can include memberships in social and professional clubs, car allowances, a 401(k) restoration plan, and some gross-up payments equal to the taxes payable on certain perquisites.

- Club memberships reimbursement for dues and business expenses, usually negotiated at start of employment
- Car allowances/company vehicles an allowance paid monthly for usage of personal vehicle or a company vehicle is provided where required, also usually negotiated at start of employment
- 401(k) restoration plan provides a supplemental compensation benefit to a select group of executive officers and

highly compensated employees who cannot participate at the same level as other employees of the Company
- Gross-up payments provided in certain limited situations, such as commuting and relocation expenses, that are taxable events
- Reimbursement of certain commercial airfare, hotel and vehicle expenses in connection with Mr. Robinson s commuting that was approved by the Committee

We provide these perquisites because, in many cases, such as membership in social and professional clubs, the perquisites are often used by the executives for business-related activities and entertainment, and these perquisites are provided by many companies to their named executive officers and are therefore necessary to enable the Company to retain and recruit capable managers. Under the last item above, under listed perquisites, the Board agreed to reimbursement of certain expenses in connection with Mr. Robinson s commuting from his home in Colorado Springs, Colorado to the corporate office in Seguin, Texas, including commercial airfare, hotel and car rental.

The Committee reviews the perquisites provided to the NEOs on an annual basis, in an attempt to ensure that they continue to be appropriate in light of the Committee s overall goal of designing a compensation program for NEOs.

Other Employee Benefits

NEOs participate in all other benefits generally offered to employees.

Tax Implications

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct compensation of more than $1,000,000 that is paid to certain individuals. The Company believes that compensation paid under the management incentive plans is generally fully deductible for federal income tax purposes. For fiscal 2007, there were no salaries in excess of $1,000,000 for any named executive officer of the Company. The Company does not currently provide to the NEOs any other compensation components such as long-term grant programs, or deferred compensation.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for stock-based payments relating to its Stock Option Program in accordance with the requirements of Financial Accounting Standards Board Statement 123(R).

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Alamo Group Inc. oversees the Company s compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussions referred above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Proxy Statement to be filed in connection with the Company's 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

James B. Skaggs, Chairman

Jerry E. Goldress, Member

David W. Grzelak, Member

Gary L. Martin, Member

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table describes the annual compensation for our NEOs for the Fiscal years 2007, 2006 and 2005.

Name and Principal Position	Year	Salary ($)	Bonus Payments ($)[1]	Option Awards ($)[2]	Non-Equity Incentive Compensation Plan ($)[3]	All Other Compensation ($)[4][5]	Total ($)
Ronald A. Robinson	2007	390,891		169,301	93,750	116,270	770,212
President & CEO	2006	356,746		140,350	105,469	76,778	679,343
	2005	321,976	100,000	129,632	98,438	88,309	738,355
Dan E. Malone	2007	193,998	25,000	34,739	19,688	4,410	277,835
Executive VP and CFO, Principal Financial Officer	2006						
	2005						
Richard J. Wehrle	2007	145,550		30,262	11,094	5,179	192,085
VP & Controller, Principal Accounting Officer	2006	130,541		25,714	12,563	4,289	173,107
	2005	117,431	17,000	24,428	9,300	4,037	172,196
Robert H. George	2007	150,939		30,262	11,250	6,602	199,053

VP, Secretary & Treasurer	2006	134,884		25,714	12,938	6,725	180,261
	2005	126,258	17,000	24,428	9,675	6,564	183,925
Donald C. Duncan	2007	149,200		28,768	9,438	6,522	193,928
VP & General Counsel	2006	141,888		32,184	7,250	6,797	188,119
	2005	130,084	17,000	30,898	7,650	6,330	191,962
Geoffrey Davies	2007	250,000		57,750	99,865	22,756	430,371
VP & Managing Director	2006	214,733		57,676	70,483	18,621	361,513
Alamo Group Europe Ltd.	2005	201,596		49,098	53,487	18,932	323,113

(1) In 2006, the Compensation Committee approved a special bonus for the year 2005 of $100,000 to Mr. Robinson and $17,000 each to Mr. Wehrle, Mr. George and Mr. Duncan related to the completion of the Gradall acquisition. In the case of Mr. Malone, the amount in 2007 represents a starting bonus of $25,000.

(2) The amount shown in this column constitutes options granted under the Company s stock option program. The amounts are valued based on the aggregate grant date fair value of the award determined pursuant to Financial Accounting Standards Board Statement for Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (FAS123R). See Note 1 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the relevant assumptions used in calculating grant date fair value pursuant to FAS123R.

(3) Discretionary ICP incentives approved and paid in 2006, 2007 and 2008.

(4) With the exception of Mr. Davies amounts represent the employer s contribution under the Alamo Group (USA) Inc. tax-qualified 401k plan (the 401(k) Plan). In the case of Mr. Robinson, each year the amounts include perquisites in excess of $10,000 which includes reimbursing of commuting expenses ($69,011 in 2007, $54,573 in 2006, $56,697 in 2005), a car allowance, club dues and restoration payments pursuant to the Alamo Group Inc. 401(k) Restoration Plan (the Restoration Plan). Such restoration payments are equivalent to matching contributions that would have been or would be made under the Company s 401(k) plan but were foregone due to certain limitations on contributions to 401(k) plans in the Internal Revenue Code of 1986.

(5) The amount reflects Alamo Group Europe Ltd. s contribution to Mr. Davies retirement plan in the United Kingdom.

Employment Agreements

All NEOs of the Company serve at the discretion of the Board of Directors. The NEOs are appointed to their positions by the Board until the next annual meeting of directors or until their successors have been duly qualified and appointed. There are currently no employment agreements with any NEOs of the Company.

2007 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Under-lying Options (#)[2]	Exercise or Base Price of Option Awards ($)[3]	Grant Date Fair Value of Stock and Option Awards ($)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Ronald A. Robinson	05/07/2007	0	300,000	460,000					25,000	25.18	144,755
Dan E. Malone	03/08/2007	0	63,000	94,500					25,000	24.13	173,695
Richard J. Wehrle	05/07/2007	0	35,500	53,250					5,000	25.18	28,955
Robert H. George	05/07/2007	0	36,000	54,000					5,000	25.18	28,955

Donald C. Duncan	05/07/2007	0	30,200	45,300					3,000	25.18	17,370
Geoffrey Davis		0	84,455	126,683							

(1) Amounts shown are estimated possible payouts for fiscal 2007 under the Company s Incentive Compensation Plan. These amounts are based on the individual s fiscal 2007 base salary and position. The maximum amount shown is 150% of the target amount. Actual incentives received by the NEOs for fiscal 2007 are reported in the summary compensation table under the column entited Non-Equity Incentive Plan Compensation.

(2) The amount in this column reflects the number of shares granted to named officer under the 2005 Incentive Stock Option Plan.

(3) The amount shown in this column constitutes options granted under the Company s stock option program. The amounts are valued based on the aggregate grant date fair value of the award determined pursuant to Financial Accounting Standards Board Statement for Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (FAS123R). See Note 1 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the relevant assumptions used in calculating grant date fair value pursuant to FAS123R.

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END

The following table lists all outstanding equity awards held by our NEOs as of December 31, 2007:

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Ronald A. Robinson President & CEO	200,000		8.9375	07/07/2009
	25,000		8.9375	07/07/2009
	40,000	10,000	12.10	05/12/2013
	10,000	15,000	19.79	05/04/2015
		25,000	25.18	05/07/2017
Dan E. Malone Executive VP & CFO, Principal Financial Officer		25,000	24.13	03/08/2017
Richard J. Wehrle VP & Controller, Principal Accounting Officer	3,750		9.25	08/31/2009
	4,000	1,000	12.10	05/13/2013
	2,400	600	17.85	02/20/2014
	1,200	1,800	19.79	05/04/2015
		5,000	25.18	05/07/2017
Robert H. George	3,750		9.25	08/31/2009
	4,000	1,000	12.10	05/13/2013

VP, Secretary & Treasurer	2,400	600	17.85	02/20/2014
	1,200	1,800	19.79	05/04/2015
		5,000	25.18	05/07/2017
Donald C. Duncan	1,400	2,800	12.10	05/13/2013
	2,400	600	17.85	02/20/2014
VP & General Counsel	1,200	1,800		

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115”. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities” applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157 “Fair Value Measurements”. The adoption of this statement did not have a material effect on the Company's financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised), “Business Combinations” (“SFAS No. 141 (R)”), replacing SFAS No. 141, “Business Combinations” (“SFAS No. 141”), and SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”. SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require; the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the impact of adopting SFAS No. 141 (R) and SFAS No. 160 on its financial statements and related disclosures.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133 “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133) as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently assessing the impact of adopting SFAS 161 on its financial statements and related disclosures.

In May 2008, the FASB issued SFAS 162 “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used. Any effect of applying the provisions of this statement will be reported as a change in accounting principle in accordance with SFAS No. 154 “Accounting Changes and Error Corrections”. SFAS No. 162 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60.” The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” This Statement will not have any impact on the Company’s consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1 “Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion”. APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer’s nonconvertible debt borrowing rate. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The Company is currently evaluating the impact of the adoption of this position could have on its financial condition, results of operations and cash flows.

In June 2008, the FASB issued Emerging Issues Task Force Issue 07-5 “Determining whether an Instrument (or Embedded Feature) is indexed to an Entity’s Own Stock” (“EITF No. 07-5”). This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of Statement of Financial Accounting Standard No 133 “Accounting for Derivatives and Hedging Activities” (“SFAS 133”) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. EITF No.07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. The Comapny is currently evaluating the impact of adoption of EITF No. 07-5 on its financial statements and related disclosures.

In June 2008, FASB issued EITF Issue No. 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5 (“EITF No. 08-4”)”. The objective of EITF No.08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible notes and related warrants transactions.

NOTE 4. RECLASSIFICATION

To better present the results of the Company, the “by function of expense” method for the presentation of the Statements of Operations and Comprehensive Loss has been adopted. Comparative amounts for prior periods have been reclassified to achieve a consistent presentation. The reclassification does not have an effect on total revenues, total expenses, loss from operations, net loss and net loss per share.

NOTE 5. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal consolidated subsidiaries and variable interest entities as of June 30, 2008 were as follows:

Name	Place of incorporation	Ownership interest attributable to the Company	Principal activities
NCN Group Limited	British Virgin Islands	100%	Investment holding
NCN Media Services Limited	British Virgin Islands	100%	Investment holding
NCN Management Services Limited	British Virgin Islands	100%	Investment holding
Crown Winner International Limited	Hong Kong	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative and management services
NCN Huamin Management Consultancy (Beijing) Company Limited	The PRC	100%	Provision of administrative and management services
Shanghai Quo Advertising Company Limited	The PRC	100%	Provision of advertising services
Xuancaiyi (Beijing) Advertising Company Limited	The PRC	51%	Provision of advertising services
Guangdong Tianma International Travel Service Co., Ltd.	The PRC	55%	Provision of tour services
NCN Landmark International Hotel Group Limited	British Virgin Islands	99.9%	Provision of hotel management services
Beijing NCN Landmark Hotel Management Limited	The PRC	99.9%	Provision of hotel management services
Teda (Beijing) Hotels Management Limited	The PRC	100%	Dormant; undergoing liquidation process
NCN Asset Management Services Limited	British Virgin Islands	100%	Dormant
NCN Travel Services Limited	British Virgin Islands	100%	Dormant
NCN Financial Services Limited	British Virgin Islands	100%	Dormant
NCN Hotels Investment Limited	British Virgin Islands	100%	Dormant
NCN Pacific Hotels Limited	British Virgin Islands	100%	Dormant
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	100%	Dormant
Cityhorizon Limited (Note 6)	British Virgin Islands	100%	Investment holding
Huizhong Lianhe Media Technology Co., Ltd (Note 6)	The PRC	100%	Provision of high-tech services
Beijing Huizhong Bona Media Advertising Co., Ltd. (Note 6)	The PRC	100%	Provision of advertising services
Huizhi Botong Media Advertising Beijing Co., Ltd (Note 6)	The PRC	100%	Provision of advertising services
Crown Eagle Investment Limited	Hong Kong	100%	Dormant

Profit Wave Investment Limited	Hong Kong	100%	Dormant
Qingdao Zhongan Boyang Advertising Co., Ltd.	The PRC	60%	Provision of advertising services

Remarks :

1) The Company established its wholly owned subsidiaries Crown Eagle Investment Limited and Profit Wave Investment Limited in January 2008.

2) The Company established its subsidiary Qingdao Zhongan Boyang Advertising Co., Ltd. in March 2008.

19

NOTE 6. BUSINESS COMBINATIONS

(a) Acquisition of Cityhorizon BVI

On January 1, 2008, the Company and its wholly owned subsidiary Cityhorizon Limited ("Cityhorizon Hong Kong"), a Hong Kong company, entered into a Share Purchase Agreement with Cityhorizon BVI, Huizhong Lianhe Media Technology Co., Ltd. ("Lianhe"), a wholly owned subsidiary of Cityhorizon BVI, Beijing Huizhong Bona Media Advertising Co., Ltd. ("Bona"), a wholly owned subsidiary of Cityhorizon BVI, and Liu Man Ling, an individual and sole shareholder of Cityhorizon BVI pursuant to which the Company, through its subsidiary Cityhorizon Hong Kong, acquired 100% of the issued and outstanding shares of Cityhorizon BVI from Liu Man Ling. Pursuant to the Share Purchase Agreement, the Company in January 2008 paid the Liu Man Ling US$5,000,000 in cash and issued Liu Man Ling 1,500,000 shares of restricted common stock of par value of $0.001 each, totaling $3,738,000. The total purchase consideration was $8,738,000. The purpose of the acquisition was to strengthen the Company's Media Network in China.

The acquisition has been accounted for using the purchase method of accounting and the results of operations of Cityhorizon BVI, Lianhe and Bona have been included in the Company's consolidated statement of operations since the completion of the acquisition on January 1, 2008.

The allocation of the purchase price is as follows:

Cash	$	2,427,598
Prepayments for advertising operating rights		2,450,794
Prepayments and other current assets		170,347
Equipment, net		1,995,702
Intangible assets, net		1,973,865
Liabilities assumed		(280,306)
Total purchase price	$	8,738,000

Intangible assets represent the acquired application systems developed internally by Lianhe for controlling LED activities. Based on a valuation performed by an independent valuer, the fair value of the acquired application systems as of the date of acquisition amounted to RMB31,000,000 (equivalent to US$4,252,564). This fair value, after deducting negative goodwill of $2,278,699 arising from business combination with Cityhorizon BVI, Lianhe and Bona, equaled to $1,973,865. Such net amount was amortized over the useful lives of the application systems.

20

(b) 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 Huizhi Botong Media Advertising Beijing Co., Ltd ("Botong"), a company organized under the laws of the PRC, and their respective registered shareholders, pursuant to which Lianhe provides 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 such shareholder's interest in Botong for the performance of such Botong's payment obligations under its respective exclusive technology and management consulting services agreements. In addition, Lianhe has been assigned all voting rights by the shareholders of Botong and has the option to acquire the equity interests of Botong at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders.

In addition, as of January 1, 2008, Lianhe committed to extend loan totaling US$137,179 to the registered shareholders of Botong for the purpose of financing such shareholders' investment in Botong. Through the above contractual arrangements, Lianhe becomes the primary beneficiary of Botong which is a variable interest entity as defined under FIN 46 (Revised) "Consolidation of Variable Interest Entities". The results of operations of Botong have been included in the Company's consolidated statement of operations since January 1, 2008.

On January 1, 2008, the net assets of Botong was as follows:

Cash	$	653
Prepaid expenses and other current assets		102,154
Equipment, net		599,348
Intangible asset		551,031
Liabilities assumed		(1,116,007)
Net assets	$	137,179

Identifiable intangible right with a fair value of $551,031 as of the effective date of Lianhe and Botong entering into the above contractual arrangements is amortized over the remaining contract period of Botong's advertising right.

NOTE 7. INTANGIBLE ASSETS, NET

Intangible assets subject to amortization as of June 30, 2008 and December 31, 2007 are:

	As of June 30, 2008 (Unaudited)	As of December 31, 2007 (Audited)
Amortized intangible rights		
Gross carrying amount	$ 7,137,097	7,825,267
Less: accumulated amortization	(892,152)	(999,106)
Less: provision for impairment loss	-	(711,611)
Amortized intangible rights, net	6,244,945	6,114,550
Unamortized intangible right		
Gross carrying amount	-	815,902
Less: provision for impairment	-	(815,902)
Unamortized intangible right, net	-	-
Amortized acquired application systems		
Gross carrying amount	$ 1,973,865	-
Less: accumulated amortization	(98,694)	-
Amortized acquired application systems, net	1,875,171	-
Intangible assets, net	$ 8,120,116	6,114,550

During the three months ended June 30, 2008, the Company wrote-off all the intangible rights which were covered in full by a provision for impairment. Total amortization expense of intangible assets of the Company for the three months ended June 30, 2008 and 2007 were $259,665 and $81,707 respectively while for the six months ended June 30, 2008 and 2007 amounted to $519,330 and $161,178 respectively.

NOTE 8. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

(a) 12% Convertible Promissory Note and Warrants

On November 12, 2007, the Company entered into a 12% Note and Warrant Purchase Agreement with Wei An Developments Limited (“Wei An”) with respect to the purchase by Wei An a convertible promissory note in the principal account of $5,000,000 at interest rate of 12% per annum (the “12% Convertible Promissory Note”). The 12% Convertible Promissory Note is convertible into the Company’s common stock at the conversion price of $2.40 per share. Pursuant to the agreement, the Company is subject to a commitment fee of 2% of the principal amount of the 12% Convertible Promissory Note. The term of the 12% Convertible Promissory Note is six months and the Company has the option to extend the 12% Convertible Promissory Note by an additional six-month period at an interest rate of 14% per annum and be subject to an additional commitment fee of 2% of the principal amount of the note. However, the Company has the right to prepay all or any portion of the amounts due under the note at any time without penalty or premium. In addition, pursuant to the Warrant Purchase Agreement, the Company issued warrants to purchase up to 250,000 shares of the Company’s common stock at the exercise price of $2.30 per share, which are exercisable for a period of two years.

22

On February 13, 2008, the Company fully redeemed 12% Convertible Promissory Note due May 2008 at a redemption price equal to 100% of the principal amount of $5,000,000 plus accrued and unpaid interest. No penalty or premium was charged for such early redemption. The Company recognized the unamortized portion of the associated deferred charges and debt discount as expenses included in amortization of deferred charges and debt discount on the consolidated statements of operation during the period of extinguishment.

(b) 3% Convertible Promissory Notes and warrants

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

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

1) On November 19, 2007, Convertible Notes in the aggregate principal amount of $6,000,000, Warrants exercisable for 2,400,000 shares at $2.50 per share and Warrants exercisable for 1,714,285 shares at $3.50 per share were issued;

2) On November 28, 2007, Convertible Notes in the aggregate principal amount of $9,000,000, Warrants exercisable for 3,600,000 shares at $2.50 per share and Warrants exercisable for 2,571,430 shares at $3.50 per share were issued; and

3) On January 31,2008, Convertible Notes in the aggregate principal amount of $35,000,000, Warrants exercisable for 14,000,000 shares at $2.50 per share and Warrants exercisable for 10,000,000 shares at $3.50 per share were issued.

The 3% Convertible Promissory Notes, maturing on June 30, 2011, bear interest at 3% per annum payable semi-annually in arrears. The 3% Convertible Promissory Notes are convertible into shares of common stock at an initial conversion price of $1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price will be adjusted downward on an annual basis if the Company should fail to meet certain annual earnings per share (“EPS”) targets described in the Purchase Agreement. In the event of a default, or if the Company’s actual EPS for any fiscal year is less than 80% of the respective EPS target, certain Investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. As of June 30, 2008, although the Company recorded a net loss, the Company anticipates improvement of its media operations, and believes that the likelihood of the Investors calling for early redemption is remote.The Warrants grant the holders the right to acquire shares of common stock at $2.50 and $3.50 per share, subject to customary anti-dilution adjustments. The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward in accordance with the provisions of the Purchase Agreement. The warrants shall expire on June 30, 2011, pursuant to the Purchase Agreement.

On January 31, 2008, the Company issued $35,000,000 in 3% Convertible Promissory Notes and amended and restated $15,000,000 in 3% Convertible Promissory Notes issued in late 2007. Concurrent with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its directly wholly owned subsidiary, NCN Group Limited (“NCN Group”), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the “NCN Group Note”). The Company entered into a Security Agreement, dated January 31, 2008, pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company’s indirectly wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations.

As of June 30, 2008, none of the conversion options and warrants associated with the above convertible promissory notes was exercised.

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

	12% Convertible Promissory Note	3% Convertible Promissory Notes (first and second tranche)	3% Convertible Promissory Notes (third tranche)	Total
Proceeds of convertible promissory notes	$ 5,000,000	$ 15,000,000	$ 35,000,000	$ 55,000,000
Allocation of proceeds:				
Allocated relative fair value of warrants	(333,670)	(2,490,000)	(5,810,000)	(8,633,670)
Allocated intrinsic value of beneficial conversion feature	-	(4,727,272)	(11,030,303)	(15,757,575)
Total net proceeds of the convertible promissory notes as of June 30, 2008	4,666,330	7,782,728	18,159,697	30,608,755
Repayment of convertible promissory note	(5,000,000)	-	-	(5,000,000)
Amortization of debt discount for the six months ended June 30, 2008	333,670	5,008,748	11,520,224	16,862,642
Net carrying value of convertible promissory notes	$ -	$ 12,791,476	$ 29,679,921	$ 42,471,397

Warrant and Beneficial Conversion Features

The fair value of the financial instruments associated with warrants of both 12% convertible promissory note and 3% convertible promissory notes was determined utilizing Black-Scholes option pricing model, which is consistent with the Company's historical valuation methods. The following assumptions and estimates were used in the Black-Scholes option pricing model: (1) 12% convertible promissory note: volatility of 182%; an average risk-free interest rate of 3.52%; dividend yield of 0%; and an expected life of 2 years, (2) 3% convertible promissory notes: volatility of 47%; an average risk-free interest rate of 3.30%; dividend yield of 0%; and an expected life of 3.5 years.

Both the warrants and embedded conversion features issued in connection with 12% convertible promissory note and 3% convertible promissory notes meet the criteria of EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock” for equity classification and also met the other criteria in paragraph 11(a) of SFAS 133 “Accounting for Derivative Instruments and Hedging Activities”. Accordingly, the conversion features do not require derivative accounting. The intrinsic value of beneficial conversion feature is calculated according to EITF Issue No. 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio” and EITF Issue No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”. For 3% convertible promissory note, as the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company’s market price of common stock at commitment date, it was considered to have a beneficial conversion feature while for the 12% convertible promissory note, no beneficial conversion feature existed. The value of beneficial conversion feature is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As 3% convertible promissory notes are convertible at the date of issuance, the respective debt discount being equal to the value of beneficial conversion feature of $15,757,575 is fully amortized through interest expense as of the date of issuance.

Amortization of Deferred Charges and Debt Discount

The amortization of deferred charges and debt discount for the three months ended June 30, 2008 were as follows:

		Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	$	-	-	-	-
3% convertible promissory notes	$	426,195	-	115,378	541,573
Total	$	426,195	-	115,378	541,573

The amortization of deferred charges and debt discount for the six months ended June 30, 2008 were as follows:

		Warrants	Conversion Features	Deferred Charges	Total
12% convertible promissory note	$	259,204	-	80,700	339,904
3% convertible promissory notes	$	735,942	11,030,303	225,954	11,992,199
Total	$	995,146	11,030,303	306,654	12,332,103

NOTE 9. COMMITMENTS AND CONTINGENCIES

(a) Commitments

1. Rental Lease Commitment

The Company’s existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of June 30, 2008:

Six months ending December 31,2008	$	646,391
Fiscal years ending December 31,		
2008	$	646,391
2009		1,185,851
2010		930,661
2011		196,886
Total	$	2,959,789

2. Annual Rights and Operating Fee Commitment

Since November 2006, the Company, through its subsidiaries NCN Media Services Limited, Quo Advertising , Xuancaiyi, Bona and Botong has acquired advertising rights from third parties to operate 1,984 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels for periods ranging from 1 to 20 years.

The following table sets forth the estimated future annual commitment of the Company with respect to the rights of 1,984 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels that the Company held as of June 30, 2008:

	(In millions)	
Six months ending December 31,2008	$	14.49
Fiscal years ending December 31,		
2008	$	14.49
2009		14.65
2010		4.25
2011		4.18
2012		4.10
Thereafter		25.47
Total	$	67.14

3. Capital commitments

As of June 30, 2008, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately $250,000.

(b) Contingencies

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 June 30, 2008 and management's opinion as to the likelihood of loss in respect of loss contingency.

The Company's 55%-owned subsidiary, Tianma, is a defendant in proceedings brought in the Guangzhou Yuexiu District Court. The proceedings were finalized on October 9, 2006. The facts surrounding the proceeding are 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 accident 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 ($302,000) 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 ($288,000) 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 there is a reasonably high chance of overturning the court's decision. 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 June 30, 2008.

NOTE 10. STOCKHOLDERS' EQUITY

(a) Stock, Options and Warrants Issued for Services

1. In February 2006, the Company issued an option to purchase up to 225,000 shares of common stock to its legal counsel at an exercise price of $0.10 per share. So long as the counsel's relationship with the Company continues, one-twelfth of the shares underlying the option vested and became exercisable each month from the date of issuance. The option was exercisable for 120 days after termination of the 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 assumptions and estimates: expected dividend 0%, volatility 147%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of an option recognized for the three months ended June 30, 2008 and 2007 were $nil while during the six months ended June 30, 2008 and 2007 were $nil and $1,317 respectively. The option was exercised in April 2007.

2. In August 2006, the Company issued a warrant to purchase up to 100,000 shares of restricted common stock to a consultant at an exercise price $0.70 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value recognized for the three months ended June 30, 2008 and 2007 were approximately $nil and $10,258 respectively while during the six months ended June 30, 2008 and 2007 were $nil and $20,403 respectively.

3. In April 2007, the Company issued 45,000 S-8 shares of common stock of par value of $0.001 each, totaling $18,000 to its legal counsel for services rendered.

4. In April 2007, the Company issued 377,260 S-8 shares of common stock of par value of $0.001 each, totaling $85,353 to its directors and officers for services rendered.

5. In July 2007, NCN Group Management Limited entered into Executive Employment Agreements (the "Agreements") with Godfrey Hui, Chief Executive Officer, Daniel So, Managing Director, Daley Mok, Chief Financial Officer, Benedict Fung, the President, and Stanley Chu, General Manager. Pursuant to the Agreements, each executive was granted shares of the Company's common stock subject to annual vesting over five years in the following amounts: Mr. Hui, 2,000,000 shares; Mr. So, 2,000,000 shares; Dr. Mok 1,500,000 shares; Mr. Fung 1,200,000 shares and Mr. Chu, 1,000,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of $699,300 and $nil included in Payroll on the consolidated statement of operations for the three months ended June 30, 2008 and 2007 respectively while during the six months ended June 30, 2008 and 2007 were $1,398,600 and $nil respectively. Out of the total shares granted under the Agreements, on January 2, 2008, an aggregate of 660,000 S-8 shares with par value of $0.001 each were vested and issued to the concerned executives.

6. In August 2007, the Company issued 173,630 shares of restricted common stock of par value of $0.001 each, totaling $424,004 to a consultant for services rendered. The value of stock grant is fully amortized and recognized during the six months ended December 31, 2007.

7. In August 2007, the Company issued 230,000 S-8 shares of common stock of par value of $0.001 each, totaling $69,500 to its directors and officers for services rendered.

8. In September, 2007, the Company entered into a service agreement with independent directors, Peter Mak, Gerd Jakob, Edward Lu, Ronglie Xu and Joachim Burger. Pursuant to the service agreements, each independent director was granted shares of the Company’s common stock subject to a vesting period of ten months in the following amounts: Peter Mak:15,000 shares; Ronglie Xu:15,000 shares; Joachim Burger:15,000 shares, Gerd Jakob:10,000 shares and Edward Lu:10,000 shares. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized $43,485 and $nil of non-cash stock-based compensation included in Payroll on the consolidated statement of operation for the three months ended June 30, 2008 and 2007 respectively while during the six months ended June 30, 2008 and 2007 were $86,970 and $nil respectively. On July 21, 2008, an aggregate of 65,000 S-8 shares of common stock of par value of $0.001 each were vested and issued to the independent directors.

9. In November 2007, the Company was obligated to issue a warrant to purchase up to 300,000 shares of restricted common stock to a placement agent for provision of agency services in connection with the issuance of 3% convertible promissory notes as mentioned in Note 8 – Convertible Promissory Notes and Warrants at an exercise price $3.0 per share which are exercisable for a period of two years. The fair value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by SFAS 123R with the following weighted average assumptions: expected dividend 0%, volatility 182 %, a risk-free rate of 4.05 % and an expected life of two (2) year. The value of the warrant recognized for the three months ended June 30, 2008 and 2007 were $31,958 and $nil respectively while during the six months ended June 30, 2008 and 2007 were $63,916 and $nil respectively. .

10. In December 31, 2007, the Company committed to grant 235,000 S-8 shares of common stock to certain employees of the Company for their services rendered during the year ended December 31, 2007. In connection with these stock grants and in accordance with SFAS 123R, the Company recognized non-cash stock-based compensation of $611,000 in Payroll on the consolidated statement of operation for the year ended December 31, 2007. Such 235,000 S-8 shares of par value of $0.001 each were issued on January 2, 2008. In addition, the Company committed to grant certain shares of common stock to an employee pursuant to his employment contract for service rendered. Accordingly, the Company recognized the non-cash stock-based compensation of $70,125 and $nil for the three months ended June 30, 2008 and 2007 while $70,125 and $nil for the six months ended June 30, 2008 and 2007.

(b) Stock Issued for Acquisition

1. In January 2007, in connection with the acquisition of Quo Advertising, the Company issued 300,000 shares of restricted common stock of par value of $0.001 each, totaling $843,600.

2. In January 2008, in connection with the acquisition of Cityhorizon BVI, the Company issued 1,500,000 shares of restricted common stock of par value of $0.001 each, totaling $3,738,000 as part of consideration.

(c) Stock Issued for Private Placement

In April 2007, the Company issued and sold 500,000 shares of restricted common stock of par value of $0.001 each, totaling $1,500,000 in a private placement. No investment banking fees were incurred as a result of this transaction.

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

On November 12, 2007, pursuant to the 12% Note and Warrant Purchase Agreement of $5,000,000, the Company issued warrants to purchase up to 250,000 shares of the Company's common stock at the exercise price of $2.30 per share, which are exercisable for a period of two years to Wei An. The allocated proceeds to the warrants of $333,670 based on the relative fair value of 12% Convertible Promissory Notes and warrants were recorded as reduction in the carrying value of the note against additional-paid in capital. As the effective conversion price is higher than the Company's market price of common stock at commitment date, no beneficial conversion existed. Please refer to Note 8 – Convertible Promissory Note and Warrant for details.

On November 19, 2007, pursuant to the 3% Note and Warrant purchase Agreement, the Company issued warrants to purchase up to 2,400,000 shares of the Company's common stock at the exercise price of $2.5 per share and 1,714,285 shares of the Company's common stock at the exercise price of $3.5 per share associated with the convertible notes of $6,000,000 in the first closing. On November 28, 2007, the Company also issued warrants to purchase up to 3,600,000 shares of the Company's common stock at the exercise price of $2.5 per share and 2,571,430 shares of the Company's common stock at the exercise price of $3.5 per share. The allocated proceeds to these warrants were $2,490,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of $4,727,272 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 8 – Convertible Promissory Note and Warrant for details.

On January 31, 2008, the Company issued $35,000,000 in 3% Convertible Promissory Notes and amended and restated $15,000,000 in 3% Convertible Promissory Notes issued in late 2007. In addition, the Company issued additional warrants to purchase 14,000,000 shares of the Company's common stock at $2.50 per share and warrants to purchase 10,000,000 shares of the Company's common stock at $3.50 per share. Concurrently with the Third Closing, the Company loaned substantially all the proceeds from 3% Convertible Promissory Notes to its direct wholly owned subsidiary, NCN Group Limited ("NCN Group"), and such loan was evidenced by an intercompany note issued by NCN Group in favor of the Company (the "NCN Group Note"). The Company entered into a Security Agreement, dated as of January 31, 2008 pursuant to which the Company granted to the collateral agent for the benefit of the Investors a first-priority security interest in certain of its assets, including the NCN Group Note and 66% of the shares of NCN Group. In addition, NCN Group and certain of the Company's indirect wholly owned subsidiaries each granted the Company a security interest in certain of the assets of such subsidiaries to, among other things, secure the NCN Group Note and certain related obligations. The allocated proceeds to these warrants were $5,810,000 in aggregate which were recorded as reduction in the carrying value of the notes against additional paid-in capital. As the effective conversion price after allocating a portion of the proceeds to the warrants was less than the Company's market price of common stock at commitment date, it was considered to have a beneficial conversion feature with value of $11,030,303 recorded as a reduction in the carrying value of the notes against additional paid-in capital. Please refer to Note 8 – Convertible Promissory Note and Warrant for details.

NOTE 11. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2008 and 2007, the Company did not entered into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

NOTE 12. NET LOSS PER COMMON SHARE

Net loss per share information for the three and six months ended June 30, 2008 and 2007 was as follows:

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Numerator:				
Net loss	$ (8,078,990)	$ (2,162,530)	$ (26,892,750)	$ (5,376,925)
Denominator:				
Weighted average number of shares outstanding, basic	71,546,608	65,581,866	71,482,405	68,054,224
Effect of dilutive securities				
Options and warrants	-	-	-	-
Weighted average number of shares outstanding, diluted	71,546,608	65,581,866	71,482,405	68,054,224
Losses per ordinary share – basic and diluted				
Net loss per share – basic and diluted	$ (0.11)	$ (0.03)	$ (0.38)	$ (0.08)

32

The diluted net loss per share is the same as the basic net loss per share for the three and six months ended June 30, 2008 and 2007 as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share. The securities that could potentially dilute basic earnings (loss) per share in the future that were not included in the computation of diluted earnings (loss) per share because of anti-dilutive effect as of June 30, 2008 and 2007 were summarized as follows:

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Potential common equivalent shares:				
Stock options for services		141,308		141,308
Stock warrants for services (1)	63,368	-	63,368	-
Conversion feature associated with convertible promissory notes to common stock	30,303,030	-	30,303,030	-
Common stock to be granted to directors executives and employees for services (including non-vested shares)	7,135,000	-	7,135,000	-
Total	37,501,398	141,308	37,501,398	141,308

Remarks:

(1) As of June 30, 2008, the number of potential common equivalent shares associated with warrants issued for services was 63,368 which was related to a warrant to purchase 100,000 common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of $0.70, which expired in August 2016.

33

NOTE 13. BUSINESS SEGMENTS

The Company has changed their operating segments in 2007 as a result of change of internal organization structure by management. Each segment operates exclusively. The Company's Media Network segment provides marketing communications consultancy services to customers in China. The Company's Travel Network segment provides tour services as well as management services to hotels and resorts in China. The Company's Investment Holding segment represents the companies which provide administrative and management services to its subsidiaries or fellow subsidiaries. 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 June 30, 2008	Media Network	Travel Network	Investment Holding	Total
Revenues	$ 1,053,888	$ 9,727,135	$ -	$ 10,781,023
Net loss	5,279,724	47,615	2,751,651	8,078,990
Depreciation and amortization				
- Equipment and intangible rights	419,693	2,507	19,014	441,214
- Deferred charges and debt discount	-	-	541,573	541,573
Interest expense	-	-	379,166	379,166
Assets	40,067,350	2,741,623	9,864,507	52,673,480
Capital Expenditures	45,074	-	121,090	166,164

For the Three Months Ended June 30, 2007	Media Network	Travel Network	Investment Holding	Total
Revenues	$ 106,025	$ 5,038,199	$ -	$ 5,144,224
Net loss	124,897	23,843	2,013,790	2,162,530
Depreciation and amortization				
- Equipment and intangible rights	9,172	1,701	87,779	98,652
Assets	1,639,925	1,374,071	9,186,948	12,200,944
Capital Expenditures	618	1,270	5,612	7,500

For the Six Months Ended June 30, 2008	Media Network	Travel Network	Investment Holding	Total
Revenues	$ 1,638,055	$ 18,185,617	$ -	$ 19,823,672
Net loss	9,980,822	29,419	16,882,509	26,892,750
Depreciation and amortization				
- Equipment and intangible rights	849,096	4,903	29,173	883,172
- Deferred charges and debt discount	-	-	12,332,103	12,332,103
Interest expense	-	-	725,791	725,791
Assets	40,067,350	2,741,623	9,864,507	52,673,480
Capital Expenditures	3,132,588	5,285	122,154	3,260,027

For the Six Months Ended June 30, 2007	Media Network	Travel Network	Investment Holding	Total
Revenues	$ 499,924	$ 7,414,027	$ -	$ 7,913,951
Net loss	26,466	124,894	5,225,565	5,376,925
Depreciation and amortization				
-Equipment and intangible rights	9,525	3,298	176,022	188,845
Assets	1,639,925	1,374,071	9,186,948	12,200,944
Capital Expenditures	3,330	(276)	12,587	15,641

34

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

CAUTIONARY STATEMENTS

The following management’s discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the Company’s consolidated financial statements and the notes thereto included in “Part I — Financial Information, Item 1. Financial Statements.” All amounts are expressed in U.S. dollars.

OVERVIEW

Network CN Inc. (“we” or “the Company”), originally incorporated on September 10, 1993, is a Delaware company with headquarters in the Hong Kong Special Administrative Region, the People’s Republic of China (“the PRC” or “China”). It was operated by different management teams in the past, under different operating names, pursuing a variety of business ventures. The most recent former name was Teda Travel Group, Inc. On August 1, 2006, the Company changed its name to “Network CN Inc.” in order to better reflect the Company’s vision under its new and expanded management team.

Our original business plan in early 2006 was to build a nationwide information and entertainment network in the PRC. To achieve this goal, we have established two business divisions: the Media Business division and the Non-Media Business division. During the latter half of 2006, we adjusted our primary focus away from the Non-Media Business to our Media Business and began building 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. We took the first step in November 2006 by securing a media-related contract for installing and managing outdoor LED advertising video panels. In 2007, we acquired Shanghai Quo Advertising Company Limited (“Quo Advertising”), an advertising agency in Shanghai, China and Xuancaiyi (Beijing) Advertising Company Limited (“Xuancaiyi”), an advertising agency in Beijing, China. During January 2008, the Company and its wholly owned subsidiary Cityhorizon Limited, a Hong Kong company (“Cityhorizon Hong Kong”), completed the acquisition of 100% of the issued and outstanding shares of Cityhorizon Limited, a British Virgin Islands company, (“Cityhorizon BVI”) and by entering into a series of commercial agreements giving effective control of Quo Advertising, Beijing Huizhong Bona Media Advertising Co. Ltd (“Bona”) and Huizhi Botong Media Advertising Beijing Co. Ltd (“Botong”) to the Company. We secured rights to operate mega-size digital video billboards and roadside LED panels in prominent cities in the PRC and began generating revenues from our Media Business. As of June 30, 2008, we acquired advertising rights from third parties to operate 1,984 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels, a portion of which were put into operation during this quarter. In the coming quarters, we expect to continue to place additional LED panels into operation, which will contribute to the Company’s media business revenue in the coming quarters.

The Non-Media Business is mainly composed of a Guangdong travel agency, Tianma International Travel Service Co., Ltd. (“Tianma”). In 2006, we acquired 55% of the equity interest of Tianma for $936,283. Tianma engages in the provision of tour services to customers both inside and outside of the PRC.

Although Tianma contributes the majority of the Company’s revenues, its net result was roughly breakeven for the six months ended June 30, 2008. Tianma is facing increasing competition from hotels and airlines as they increase selling efforts or engage in alliances with other travel service providers. The fuel price surge started in 2007 and crude oil prices rose to more than US$120 per barrel. Since fuel is a major cost component for airlines and other travel providers, rising prices have increased our operating expenses and have an adverse impact on the profitability of our tour services. The Company does not foresee any major contribution from Tianma in the near future.

Starting from November 2006, anticipating higher profitability from the media sector, the Company changed its focus to developing its media business. Minimal resources have since been deployed for its travel agency business.

As of June 30, 2008, the Company’s assets under the Media Network amounted to more than $40 million. The Company has successfully transformed into a media company. In order to streamline the Company’s operations and after taking the above factors into consideration, the Board of Directors of the Company resolved in June 2008 for management to actively explore ways to dispose of Tianma.

In the past, the Company also planned to establish a fully integrated and comprehensive business-to-business (B2B) and business-to-consumer (B2C) travel network by providing a broad range of products and services, but no resources had so far been invested. Due to our change in focus, we had abandoned the idea of developing such an e-Network.

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 March 24, 2008.

CRITICIAL 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 adjust 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 because of the need to make estimates about the effect of matters that are inherently uncertain.

(1) Principles of Consolidation

The condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities. Variable interest entities are those entities in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the Company is the primary beneficiary of these entities. In accordance with Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"), the primary beneficiary is required to consolidate the VIE for financial reporting purposes. All significant intercompany transactions and balances have been eliminated upon consolidation.

(2) Prepayment for advertising operating rights

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

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

(3) Equipment, Net

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

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

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

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

(4) Intangible Assets, Net

Intangible assets are stated at cost less accumulated amortization and provision for impairment loss. Intangible rights that have indefinite useful lives are not amortized. Other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives of 16 months to 20 years. The amortization methods and estimated useful lives of intangible assets are reviewed regularly.

(5) Impairment of Long-Lived Assets

Long-lived assets, including intangible rights with definite lives, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An intangible right that is not subject to amortization is reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset and intangible right exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(6) Convertible Promissory Notes and Warrants

In 2007, the Company issued 12% convertible promissory note and warrants and 3% convertible promissory notes and warrants. In 2008, the Company issued additional 3% convertible promissory notes and warrants. As of June 30, 2008 and December 31, 2007, the warrants and embedded conversion feature were classified as equity under Emerging Issues Task Force ("EITF") Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and met the other criteria in paragraph 11(a) of Statement of Financial Accounting Standards ("SFAS") No.133 "Accounting for Derivative Instruments and Hedging Activities". Such classification will be reassessed at each balance sheet date. The Company allocated the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes was determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The embedded beneficial conversion feature associated with convertible promissory notes was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments".

The portion of debt discount resulting from the allocation of proceeds to the financial instruments related to warrants associated with convertible promissory notes is being amortized to interest expense over the life of the convertible promissory notes, using the effective yield method. A portion of debt discount resulting from the allocation of proceeds to the beneficial conversion feature is recognized as interest expense over the minimum period from the date of issuance to the date of earliest conversion, using the effective yield method.

(7) Early Redemption of Convertible Promissory Notes

Should early redemption of convertible promissory notes occur, the unamortized portion of the associated deferred charges and debt discount would be fully written off and any early redemption premium will be recognized as expense upon its occurrence. All related charges, if material, would be aggregated and included in a separate line "charges on early redemption of convertible promissory notes". Such an expense would be included in ordinary activities on the consolidated statement of operations as required by SFAS No.145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections".

Pursuant to the provisions of agreements in connection with the 3% convertible promissory notes, in the event of a default, or if the Company's actual EPS in any fiscal year is less than 80% of the respective EPS target, certain investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount The Company accounts for such potential liability of 20% internal rate of return on the then outstanding principal amount in accordance with SFAS No. 5 "Accounting for Contingencies".

(8) Revenue Recognition

For hotel management services, the Company recognizes revenue in the period when the services are rendered and collection is reasonably assured.

For tour services, the Company recognizes services-based revenue when the services have been performed. Guangdong Tianma International Travel Service Co., Ltd ("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, car rental 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. For air-tickets, Tianma normally books a block of air tickets with airlines in advance and pays the full amount of the tickets 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 resell the air tickets to other travel agents or customers. For hotels, meals and transportation, Tianma usually pays an upfront deposit of 50-60% of the total cost. The remaining balance is then settled after completion of the tours.

2. Tianma, through its sub-agents, advertises tour and travel packages at prices 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 and costs of the tour) for a particular tour is reached, Tianma will contact the customers for tour confirmation and request 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 or deposits to such providers.

Tianma is the principal in such transactions and 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.

For advertising services, the Company recognizes revenue in the period when advertisements are either aired or published.

(9) Stock-based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "Share-Based Payment", a revision to SFAS No. 123 "Accounting for Stock-Based Compensation", and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. Effective January 1, 2006, the Company adopted SFAS 123R, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. SFAS 123R requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized in expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value, as required by SFAS No. 123R, which is measured as of the date required by EITF Issue 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". In accordance with EITF 96-18, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached ("performance commitment date") or the date at which performance is complete ("performance completion date"). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

(10) Income Taxes

The Company accounts for income taxes under SFAS No. 109 “Accounting for Income Taxes”. Under SFAS 109, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under 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.

(11) Foreign Currency Translation

The assets and liabilities of the Company’s subsidiaries denominated in currencies other than United States (“U.S.”) dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For statement of operations’ items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders’ equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the consolidated statements of operations.

(12) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. SFAS No. 157 defined fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. In February 2008, the FASB released FASB Staff Position No. FAS 157-2 “Effective Date of FASB Statement No. 157”, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, expect those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2008. The adoption of this statement did not have a material effect on the Company's future reported financial position or results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157 "Fair Value Measurements". The adoption of this statement did not have a material effect on the Company's financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS No. 141 (R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred.
SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require; the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the impact of adopting SFAS No. 141 (R) and SFAS No. 160 on its financial statements and related disclosures.

In March 2008, the FASB issued SFAS No. 161 "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently assessing the impact of adopting SFAS 161 on its financial statements and related disclosures.

In May 2008, the FASB issued SFAS 162 "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used. Any effect of applying the provisions of this statement will be reported as a change in accounting principle in accordance with SFAS No. 154 "Accounting Changes and Error Corrections." SFAS No. 162 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60." The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will not have any impact on the Company's consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1 “Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion.” APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer’s nonconvertible debt borrowing rate. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The Company is currently evaluating the impact of the adoption of this position could have on its financial condition, results of operations and cash flows.

In June 2008, the FASB issued Emerging Issues Task Force Issue 07-5 “Determining whether an Instrument (or Embedded Feature) is indexed to an Entity’s Own Stock” (“EITF No. 07-5”). This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of Statement of Financial Accounting Standard No 133 “Accounting for Derivatives and Hedging Activities” (“SFAS 133”) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. EITF No.07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. The Comapny is currently evaluating the impact of adoption of EITF No. 07-5 on its financial statements and related disclosures.

In June 2008, FASB issued EITF Issue No. 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5 (“EITF No. 08-4”)”. The objective of EITF No.08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Company is currently evaluating the impact of adoption of EITF No. 08-4 on the accounting for the convertible notes and related warrants transactions.

RESULTS OF OPERATIONS
For the three months ended June 30, 2008 and 2007

Revenues

In the three months ended June 30, 2008 our revenues were derived from the sale of travel services and advertising services. Revenues increased by 109% to $10,781,023 for the three months ended June 30, 2008, as compared to $5,144,224 for the corresponding prior year period. The increase was primarily attributable to an increase in travel services revenues generated from Tianma and revenue from advertising services also increased in the period. Revenues from travel services and advertising services for the three months ended June 30, 2008 were $9,727,135 and $1,053,888, respectively, as compared to $5,038,199 and $106,025, respectively, for the corresponding prior year period, an increase of 94% and 894%, respectively.

Cost of Travel Services

Cost of travel services increased by 95% to $9,628,249 for the three months ended June 30, 2008 compared to $4,930,215 for the corresponding prior year period, as a result of the increase in fuel prices. The fuel price surge started in 2007 and crude oil prices rose to more than US$120 per barrel. Since fuel is a major cost component for airlines and other travel providers, rising prices have increased our operating expenses and had an adverse impact on the profitability of our tour services.

Cost of Advertising Services

Cost of advertising services for the three months ended June 30, 2008 was $4,645,264, an increase of 4135% compared to $109,691 for the corresponding prior year period. The significant increase was attributable to the consolidation of Botong and Bona in 2008. In addition, there is an increase in amortization of advertising rights which were acquired in the later half of 2007 and the early of 2008 and depreciation of media display equipments as the Company started to generate LED advertising income in late 2007.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended June 30, 2008 increased by 1203% to $941,697 compared to $72,239 for the corresponding prior year period, primarily due to increase in advertising services provided by the Company.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2008 increased by 28% to $2,806,436 compared to $2,190,975 for the corresponding prior year period. The increase was mainly due to the rapid expansion of our corporate structure.

Interest expenses

Interest expense for the three months ended June 30, 2008 were $920,739, compared to $105 for the corresponding prior year period. The increase was primarily due to the issuance of convertible promissory notes in late 2007 and early 2008.

Net loss

The Company incurred a net loss of $8,078,990 for the three months ended June 30, 2008, an increase of 274% compared to a net loss of $2,162,530 for the corresponding prior year period. The increase in net loss was driven by several factors: (1) increase in cost of advertising services related to our media business as mention above, (2) the increase in amortization of deferred charges and a debt discount associated with the issuance of convertible promissory notes in late 2007 and early 2008, (3) the increase in amortization charges of intangible assets of $259,665 as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in Jan 2008 and (4) an increase in professional fees, payroll and other administrative expenses as a result of our rapid expansion.

For the six months ended June 30, 2008 and 2007

Revenues

In the six months ended June 30, 2008 our revenues were derived from the sale of travel service and advertising service. Revenues increased by 150% to $19,823,672 for the six months ended June 30, 2008, as compared to $7,913,951 for the corresponding prior year period. The increase was primarily attributable to an increase in travel services revenues generated from Tianma and revenue from advertising services also increased in the period. Revenues from travel services and advertising services for the six months ended June 30, 2008 were $18,185,617 and $1,638,055, respectively, as compared to $7,414,027 and $499,924, respectively, for the corresponding prior year period, an increase of 145% and 228%, respectively.

Cost of Travel Services

Cost of travel services increased by 146% to $17,930,072 for the six months ended June 30, 2008 compared to $7,295,139 for the corresponding prior year period, as a result of the increase in fuel prices. The fuel price surge started in 2007 and crude oil prices rose to more than US$120 per barrel. Since fuel is a major cost component for airlines and other travel providers, rising prices have increased our operating expenses and had an adverse impact on the profitability of our tour services.

Cost of Advertising Services

Cost of advertising services for the six months ended June 30, 2008 was $8,606,604, an increase of 2315% compared to $356,373 for the corresponding prior year period. The significant increase was attributable to the consolidation of Botong and Bona in 2008. In addition, there is an increase in amortization of advertising rights which acquired in the latter half of 2007 and in the early of 2008 and depreciation of media display equipments the Company started to generate LED advertising income in late 2007.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended June 30, 2008 increased by 1227% to $1,582,015 compared to $119,245 for the corresponding prior year period, primarily due to increase in advertising services provided by the Company.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2008 increased by 3% to $5,723,928 compared to $5,538,937 for the corresponding prior year period. The increase was mainly due to the rapid expansion of our corporate structure.

Interest expenses

Interest expense for the six months ended June 30, 2008 were $13,057,894 compared to $422 for the corresponding prior year period. The significant increase was primarily due to the issuance of convertible promissory notes in 2007 and 2008. The value of beneficial conversion feature is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As convertible promissory notes are convertible at the date of issuance, the respective debt discount being equal to the value of beneficial conversion feature of $11,030,303 is fully amortized through interest expense as of the date of issuance.

Net loss

The Company incurred a net loss of $26,892,750 for the six months ended June 30, 2008, an increase of 400% compared to a net loss of $5,376,925 for the corresponding prior year period. The increase in net loss was driven by several factors: (1) increase in cost of advertising services related to our media business as mention above, (2) the increase in amortization of deferred charges and a debt discount associated with the issuance of convertible promissory notes in late 2007 and 2008, (3) the increase in amortization charges of intangible assets of $519,330 as a result of the addition of identifiable intangible assets arising from the consolidation of Botong and Lianhe in Jan 2008 and (4) an increase in professional fees, payroll and other administrative expenses as a result of our rapid expansion.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2008, the Company had cash of $12,776,103 compared to $2,233,528 as of December 31, 2007, representing an increase of $10,542,575. The increase was attributable to issuance of convertible promissory note during the period.

Net cash utilized by operating activities for the six months ended June 30, 2008 was $13,889,375, as compared with $2,371,477 for the corresponding prior year period. The increase in net cash used in operating activities was attributable to an increase in fees paid to acquire rights to install and operate LED panels and billboards.

Net cash used in investing activities for the six months ended June 30, 2008 was $5,968,955, compared with net cash used in investing activities of $61,640 for the corresponding prior year period. For the six months ended June 30, 2008, the investing activities consisted primarily of the purchase of equipment related to our media business as well as costs associated with the acquisition of Cityhorizon BVI.

Net cash provided by financing activities was $28,900,000 for the six months ended June 30, 2008, compared with net cash provided by financing activities of $1,519,380 for the corresponding prior year period. The increase was primarily attributable to the issuance of $35,000,000 in 3% Convertible Promissory Notes, offset by $5,000,000 paid to redeem outstanding 12% promissory notes due May 2008. For the six months ended June 30, 2007, the financing activities were attributable to a private placement that raised proceeds of $1,500,000.

Capital Expenditures

We continue to seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions. During the six months ended June 30, 2008, we acquired assets of $3,260,027 which were financed through working capital.

Commitments

Since November 2006, the Company, through its subsidiaries, NCN Media Services Limited, Quo Advertising, Xuancaiyi, Bona and Botong, have acquired rights from third parties to operate 1,984 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels for periods ranging from 1 to 20 years.

A summary of the estimated future annual rights and operating fee commitments based on the 1,984 roadside advertising panels, 11,000 in-building LCD and 11 mega-size advertising panels as of June 30, 2008 is as follows:

	(In millions)	
Six months ending December 31,2008	$	14.49
Fiscal years ending December 31,		
2008	$	14.49
2009		14.65
2010		4.25
2011		4.18
2012		4.10
Thereafter		25.47
Total	$	67.14

As of June 30, 2008, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately $250,000.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The follow discussion about our market risk disclosures involves forward-looking statements. Actual results could differ from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest rate sensitivity – The Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market rates. The Company's fair value interest-rate risk arises from convertible notes issued which issued at fixed rates.

Foreign currency exchange risk – We face exposure to adverse movements in foreign currency exchange rates. Because our financial results are denominated in U.S. dollars, our foreign currency exchange exposure is related to the fact that our operating business are currently conducted in China and substantially all of our revenues and expenses are denominated in Renminbi ("RMB") and our funding are denominated in United States Dollars ("USD"), fluctuations in exchange rates between USD and RMB will affect our balance sheet and financial results. Our assets and liabilities related to RMB were related to accounts receivable and payables. Since July 2005, RMB has been 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 foreign currency 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. As of June 30, 2008, we do not expect an increase or decrease in the foreign exchange rate for RMB will have a material impact on our financial position. We have not hedged against foreign currency fluctuations.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). The purpose of this evaluation was to determine if, as of the Evaluation Date, our disclosure controls and procedures were operating effectively such that the information, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were operating effectively.

(b) Changes in Internal Control over Financial Reporting. There have been no significant changes in our internal controls over financial reporting that occurred during the second quarter of fiscal year 2008 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures

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 are recorded, processed, summarized and reported, within the time period specified in the SEC'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's 55%-owned subsidiary, Tianma, is a defendant in proceedings brought in Guangzhou Yuexiu District Court. The proceedings were finalized on October 9, 2006. The facts surrounding the proceeding are 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 accident 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 ($302,000) 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 ($288,000) 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 there is a reasonably high chance of overturning the court's decision. In addition, the Company has been indemnified for any future liability upon the acquisition by the prior owners of Tianma.

Other than as described above, we are not aware of any material, active or pending legal proceedings against the Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings adverse to the Company in which any of our directors, officers or affiliates of the Company, any owner of record or beneficiary of more than 5% of any class of voting securities of the Company, or security holder is a party or has a material interest.

Item 1A. Risk Factors

1. Risks Related to Operating Our 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, our liquidity and our ability to access to capital and to operate our business.

The PRC economy differs from the economies of most developed countries in many respects, including the extent 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 allocating resources, controlling payment of foreign currency-denominated obligations, establishing monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has 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 our ability to access to capital and to operate our business.

China's central bank announces on 16 January 2008 that it will raise the required reserve ratio for commercial banks by half a percentage point as of 25 January 2008. As such, the ratio would be raised to 15 %, the highest since 1984. The intention of this action, together with other stringent monetary policies, is to reduce their lending power in an effort to cool down the economic overheating. Together with this action, the central bank totally raised the reserve ratio 11 times and benchmark interest rates six times from last year. Since from last few years, excess liquidity is a major challenge for the China government as it results in bubbles and economic overheating. China's stock market benchmark Shanghai Composite Index almost doubled last year and the economy expanded 11.5 % in the first three quarters of 2007.

Such move is due to the fact that the PRC government has prime concern about Renminbi appreciation and accelerating inflation pressure. In January 2008, it is reported that China's macro data showed a slightly decrease in both the trade surplus and money supply from November. China's December trade surplus is US$22.7 billion and it shows a jump of 48 % from a year earlier. Due to the export surplus, M2, the broadest measure of money supply, rises 16.7 % to US$5.55 trillion from a year earlier. Along with the trade surplus growth, it helps push up foreign reserves to a total US$1.53 trillion by the end of 2007. At the same time, economic growth is likely to continue accelerating. Inflation in China surges to 6.9 % in November 2007, the fastest since 1996.

It is expected that the PRC government will continue to institute further tightening measures to cool down the risk of the liquidity-fueled A-share bubble and hot property market. The interest rate and the reserve requirement ratio would likely go higher in this year. These actions, together with other actions and policies of the government, could materially affect our liquidity and operation in business.

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

The political environment in the PRC may adversely affect the Company’s business operations. 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, foreign investment and so on. 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 on March 16, 2007 to introduce a new uniform taxation regime in the PRC. Both resident and non-resident enterprises deriving income from the PRC will be 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%. We may not enjoy 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 PRC 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. The Company may be requested 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 therefore affect our operations.

Recently, the Chinese economy has experienced periods of rapid expansion. During this period, there have been high rates of inflation. As a result, the PRC government adopted various corrective and cool-down measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has moderated since 1995, high inflation would 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, Renminbi ("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, and remitted outside of the PRC. Effective from 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 PRC 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 has been 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 foreign currency 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.

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

Due to the Company’s assets are located in PRC, 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 be able to receive the distributions on liquidation that they are otherwise entitled to under U.S. bankruptcy law.

If any of our PRC companies 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 through commercial agreements with shareholders of Quo Advertising, Lianhe, Bona and Botong. 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, Quo Advertising, Xuancaiyi, Lianhe and Bona 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 has only allowed 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, we designated a PRC citizen to hold 55% of the equity interest of Tianma in trust for our benefit. Tianma directly operates our traveling agent business.

Since 2005, the PRC government has allowed foreign investors to directly own 100% of an advertising business if the foreign investor has at least three years of direct operations in the advertising business outside of China or to 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 was run through our contractual arrangements with our PRC operating subsidiary Quo Advertising. Quo Advertising was owned by two PRC citizens designated by us and directly operated our advertising network projects. In January 2008, we restructured our advertising business after further acquiring the media subsidiaries namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising, Bona and Botong. In addition, Lianhe also entered into an equity pledge agreement and an option purchase agreement with each of the shareholders of Quo Advertising, Bona and Botong pursuant to which these shareholders had pledged 100% of their shares to Lianhe and granted Lianhe the option to acquire their shares at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders. These commercial arrangements enable us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation.

Since we believe that there is risk in our structural arrangement with advertising entities and Tianma, we try to minimize this risk by consulting a local legal counsel in China. The local legal counsel critically analyzes and reviews the documents and agreements. Based on the advice given by the local legal counsel, we make amendments in our legal documents and, if necessary, and prepare additional legal document in order to improve our position for the case of any legal proceeding. Although the risk cannot be avoided totally, we believe that we performed our reasonable effort to reduce the risk arising from our contractual arrangement.

We have been and will continue to be dependent on these PRC operating companies to operate our traveling agent and advertising business in 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 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 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, 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.

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 legal counsel that our arrangements with our affiliated Chinese entities are valid under current PRC laws and regulations. However, we cannot assure 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 28 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, Lianhe, Bona, Botong, and Quo Advertising with 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 our investors could be affected.

The PRC tax authorities may require us to pay additional taxes in connection with our acquisitions of offshore entities that conduct 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 our investors 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 and advertising businesses. If our contractual arrangements and commercial agreement arrangements with our affiliated Chinese personnel are violated, our related businesses will be damaged.

As mentioned earlier, we depend on commercial agreements and contractual arrangements to run our advertising and traveling businesses respectively in China. These agreements and contracts 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 commercial agreements and contractual arrangements. Should such a situation occur, we may be unable to enforce these agreements and contracts, and unable to enforce our control over our operating subsidiaries to conduct our businesses.

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.

2. 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 Beijing, Shanghai, Nanjing, Wuhan and so on to manage and operate LED outdoor advertising video panels and mega-size digital video billboards. In January 2008, we restructured our advertising business after further acquiring the media companies namely Lianhe and Bona. We anticipate that we would enter 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 sensitive to changes in economic conditions and advertising trends.

The advertisers' spending to advertise is highly depends on the changes in general economic conditions and advertising trends. A deterioration of economic conditions would lead to a decrease in demand for advertising, the advertisers would reduce the advertising expenditures and significantly affect our revenue.

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 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 have been allowed to operate in China since 2005, exposing us to even greater competition.

Moreover, it becomes more difficult to increase the number of desirable locations in major cities because most of the locations have already been occupied by our competitors and limitation by municipal zoning and planning policies. In other cities, although we could increase the locations, they would only generate less economic return to the Company. Anyway, we anticipate the economic return would increase with the pace of economic development of these cities. If we are unable to increase the placement of our out-of-home advertising market, we may be unable to expand our client base to sell advertising time slots on our network or increase the rates we charge for time slots. 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 tackling these problems by further acquisition of well-established advertising company like Quo Advertising, Lianhe and Bona. We cannot guarantee that we will be able to compete against new or existing competitors to generate profit.

Moreover, due to the less desirable locations currently the Company has, we can only charge the advertisers for at a lower rates. If the Company is unable to continuously secure more desirable locations for deployment of our advertising poster frames, we may be unable or need to lower our rates to attract advertisers to purchase time slots from us to generate satisfactory profit.

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

The Company continues 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-size digital video billboards in China. We have concluded several major agreements and are currently searching for more opportunities. Nevertheless, many of the most desirable locations in the major cities have been occupied by our competitors. If we are unable to or need to pay extra considerations in order to enter into any new agreements, it may highly increase our costs of sales and may be unable to convince our advertisers to purchase more advertising time and generate our satisfactory profits.

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-size digital video billboards. The desire of advertisers to advertise on our out-of-home media networks depends on the size and coverage of the networks, the desirability of the locations of the LED panels and billboards, our brand name and charging rate. If we fail to increase the number of locations, displays and billboards in our networks to provide the advertising services to suit the needs of our advertisers, we may be unable to attract them to purchase our advertising time to generate revenues.

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 purchasing time slots from us and 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, together with other uncertainties like locations coverage, acceptance by public etc, we may be unable to generate satisfactory 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-size 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-size digital video billboard. However, we cannot provide any guarantee that we can obtain all the relevant government approvals for all of our installations in China. If such approvals are not granted, we will be unable to install LED panels 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-size roadside LED video panels. We also use mega-size 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.

3. Risks Related to Our Travel 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 travel business.

The travel industry is highly competitive, which may influence our ability to compete with other market participants.

We operate in markets that contain numerous competitors. 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 to travel-related industry.

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

- International and regional economic conditions;
- the availability of and demand for hotel rooms and apartments;
- the desirability of particular locations and changes in travel patterns of domestic and foreign travelers;
- taxes and government regulations that influence or determine wages, prices, interest rates, and other costs;
- the availability of capital to allow us and joint venture partners to fund investments;
- the increase 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 on the travel services market.

The uncertain pace of the lodging and travel 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. Although showing some improvements in Asia Pacific, business and leisure travel from United States and Europe 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. 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 travel 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 travel population. In recent years, our business has been hurt by decreases in travel resulting from SARS and downturns in US and Europe 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.

Future increase in fuel prices and the possible downturn in the US and global economies in 2008 may inhibit economic activity and therefore affect our travel operations.

The travel business is facing two more uncertainties. First, fuel prices have surged by 48 % in 2007 and as of February 2008 the crude oil price rise to US$100 per barrel. Since fuel is a major cost component for airlines and traffic, the rising fuel price has had an adverse impact on the costs of our travel business and results lower our profitability. Second, there are indications of an economic downturn in the US and global economies in 2008, which could have an adverse effect on China's economic growth, which would then have a negative impact on the China travel market.

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.

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 travel which could adversely affect our revenues.

Our 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 throughout the year.

4. Risks Related To Regulation of Our Business and 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.

Our travel operations are conducted by Tianma through our contractual arrangements. Meanwhile, our media operations are conducted by Lianhe, Botong, Bona and Quo Advertising though commercial agreements arrangement.

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. Before 2008, all of our advertising business is run through Quo Advertising, which is owned by two PRC citizens designated by us. Quo Advertising holds the requisite licenses to provide advertising services in China. We have entered into contractual agreements with the shareholders of Quo Advertising, which provide us with the substantial ability to control Quo Advertising and its subsidiaries.

In January 2008, we restructured our advertising business after further acquiring the media companies namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into an exclusive management consulting services agreement and an exclusive technology consulting services agreement with each of Quo Advertising, Bona and Botong. In addition, we entered into an equity pledge agreement and an option agreement with each of the shareholders of Quo Advertising, Bona and Botong and pursuant to which these shareholders had pledged 100% of their shares to Lianhe and granted Lianhe the option to acquire their shares at a mutually agreed purchase price which shall first be used to repay any loans payable to Lianhe or any affiliate of Lianhe by the registered PRC shareholders These commercial arrangements enable us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation.

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 and commercial agreement arrangement with our PRC operating companies and their 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 respectively. In January 2008, we restructure our advertising business after further acquiring the media companies namely Lianhe and Bona. We, through our newly acquired company, Lianhe, entered into a series of commercial agreements with each of Quo Advertising, Bona and Botong and their respective registered shareholders. It enables us to exert effective control on these entities, and transfer their economic benefits to us for financial results consolidation. These contractual arrangements and commercial agreement arrangements may not be as effective in providing us with control over Tianma and media subsidiaries as direct ownership. If our PRC operating subsidiaries or any of their subsidiaries and shareholders fails to perform their respective obligations under these contractual arrangements and commercial agreement 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 and commercial agreement 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 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 and commercial agreements, 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 and commercial agreement 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 accordingly.

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

There are no formal PRC laws or regulations that define or regulate out-of-home advertising. It has been reported that the relevant PRC government authorities are currently considering adopting new regulations governing out-of-home advertising. We cannot predict the timing of establishing such regulations and their impacts on our Company. 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% equity 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 business and our organization structure.

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 decide to finance Tianma or advertising subsidiaries by means of capital contributions. These capital contributions to Tianma or advertising subsidiaries 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, these would adversely affect the liquidity of our operating subsidiaries and our ability to expand the business.

5. 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 Hui who is our founder, Chairman and Chief Executive Officer, and Daniel 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.

The 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, Xuancaiyi, Lianhe, Bona 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 through acquisitions like that of Tianma, Quo Advertising, Xuancaiyi, Lianhe and Bona. 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 operations, 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, Quo Advertising, Xuancaiyi, Lianhe and Bona.

Although we had conducted due diligence with respect to the acquisition of Tianma, Quo Advertising, Xuancaiyi, Lianhe and Bona, 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.

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 Annual Report that are not residents of the United States.

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

Since November 2007, we have issued convertible promissory notes with warrants. Our related interest payments on such convertible promissory notes could impose financial burdens on us. If further new debt is added to our consolidated debt level, the related risks that we now face could intensify. Covenants in the convertible notes and warrants agreements governing our existing convertible notes, and debt we may incur in the future, may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments, and encumber or dispose of assets. In addition, financial covenants contained in agreements relating to our existing and future debt could lead to a default in the event our results of operations do not meet our plans and we are unable to amend such financial covenants prior to default. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us, our financial condition and our capital structure.

We need additional funds to expand our business through company and project 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 may require further funding for capital investment in acquiring target companies and projects. To raise funds, we may, upon having the consent from our investors, need to issue new equities or bonds 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 to our adequacy of the internal control measures over our financial reporting, as required by Section 404 of the U.S. Sarbanes-Oxley Act in future, we may be adversely affected.

As a public company, we are required to report our internal control structure and procedures for financial reporting in our Annual Report on Form 10-KSB under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 by 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. Starting from 2008, the auditor’s report is required for every financial year end.

The Company has paid attention to its internal control procedures. In 2007 we established an internal control working group to investigate and evaluate our operations and improve procedures wherever necessary. With the participation and guidance of management, we have evaluated our internal control systems such that our management can report on, and our independent public accounting firm can attest to our internal control system pursuant to the requirements under Section 404 of the Sarbanes-Oxley Act of 2002.

The Company believes that it has adequate internal control procedures in place. However, we are still exposed to potential risks from Section 404 of the Sarbanes-Oxley Act of 2002 that requiring companies to have high standard of internal control procedures. It may be possible that our management cannot attest to our effectiveness of 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 independent registered public accounting firm 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 National Association of Securities Dealers ("NASD") has adopted rules that require a broker-dealer, when providing investment recommendations, 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 their customers buying our common stock, which may limit ability of our investors to buy and sell our stock and hence 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, as and if declared by the Board of Directors out of funds of the Company legally available for the payment of dividends. 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.

Certain terms of the Company's convertible promissory notes and Common Stock warrants could result in other security holders suffering potentially significant dilution.

The Company's convertible promissory notes and warrants, as well as the purchase agreement, contain various provisions that protect the interests of the holders of these securities in a manner that may be adverse to our Common Stock holders. The 3% Convertible Promissory Notes bear interest at 3% per annum payable semi-annually in arrears and mature on June 30, 2011. The 3% Convertible Promissory Notes are convertible into shares of common stock at an initial conversion price of $1.65 per share, subject to customary anti-dilution adjustments. In addition, the conversion price will be adjusted downward on an annual basis if the Company should fail to meet certain annual earnings per share ("EPS") targets described in the Purchase Agreement. In the event of a default, or if the Company's actual EPS for any fiscal year is less than 80% of the respective EPS target, certain Investors may require the Company to redeem the 3% Convertible Promissory Notes at 100% of the principal amount, plus any accrued and unpaid interest, plus an amount representing a 20% internal rate of return on the then outstanding principal amount. The Warrants grant the holders the right to acquire shares of common stock at $2.50 and $3.50 per share, subject to customary anti-dilution adjustments. The exercise price of the Warrants will also be adjusted downward whenever the conversion price of the 3% Convertible Promissory Notes is adjusted downward in accordance with the provisions of the Purchase Agreement.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other information

Not applicable.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Description of Document
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 of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

79

SIGNATURES

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

NETWORK CN INC.

Date: August 11, 2008	By:	/s/ GODFREY HUI Godfrey Hui, Chief Executive Officer
Date: August 11, 2008	By:	/s/ DALEY MOK Daley Mok, Chief Financial Officer