NETWORK CN INC
Form 10QSB
May 21, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2007

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

For the transition period from ____ to ____

Commission file number 000-30264

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

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

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

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

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

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

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

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

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

Transitional Small Business Disclosure Format: YES o NO x

NETWORK CN INC.
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SPECIAL NOTE REGARDING FORWARD—LOOKING STATEMENTS

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

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

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

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

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

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

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

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

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

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

(A) Nature of Operations and Organization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B) Principles of Consolidation

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

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

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

(C) Use of Estimates

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

(D) Property and Equipment

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

(E) Long-Lived Assets

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

(F) Cash and Cash Equivalents

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

(G) Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

(H) Earnings (Loss) per Share

Basic earnings (loss) per common share are computed by dividing the net income (loss) applicable to common stock stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding. The effect of 364,173 and 61,579 warrants and options outstanding was not included in diluted loss per share as of March 31, 2007 and 2006 as the effect was anti-dilutive.

(I) Foreign Currency Translation

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

(J) Income Taxes

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

(K) Business Segments

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

(L) Stock-Based Compensation

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

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

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

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

(M) New Pronouncements

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

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

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

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

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

NOTE 2 RECLASSIFICATION

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

NOTE 3 ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

<u>NOTE 4</u> **<u>INTANGIBLE RIGHTS</u>**

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

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

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

NOTE 5 RELATED PARTY TRANSACTIONS

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

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

NOTE 6 BUSINESS SEGMENTS

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

For the Three Months Ended March 31, 2007	Hotel Management	Travel Agency	Advertising Agency	Investment Holding	Total
Revenue	$ -	$ 2,375,828	$ 393,899	$ -	$ 2,769,727
Net income (loss) from continuing operations	(71,248)	(33,199)	98,327	(3,230,727)	(3,236,847)
Depreciation and amortization	1,237	360	353	88,243	90,193
Assets					