

China Networks International Holdings Ltd  
Form 20-F/A  
June 26, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F/A  
(Amendment No. 1)

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2011

OR

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

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-34395

CHINA NETWORKS INTERNATIONAL HOLDINGS LTD.  
(Exact name of Registrant as specified in its charter)

Not Applicable  
(Translation of Registrant's name into English)

British Virgin Islands  
(Jurisdiction of incorporation or organization)

801 Block C  
Central International Trade Center  
6A Jianguomenwai Avenue  
Chaoyang District, Beijing, 100022  
People's Republic of China

(86) 108591-1829  
(Address of principal executive offices)  
801 Block C  
Central International Trade Center

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6A Jianguomenwai Avenue  
Chaoyang District, Beijing, 100022  
People's Republic of China  
(86) 108591-1829

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

|   |   |
|---|---|
| Title of each class                           | Name of each exchange on which registered |
| Ordinary Shares, par value \$0.0001 per share | None                                      |
| Warrants to Purchase Ordinary Shares          | None                                      |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (December 31, 2011): 64,179,098 ordinary shares.

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☐

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

### EXPLANATORY NOTE

This Amendment No. 1 to Form 20-F for the fiscal year ended December 31, 2011, which was originally filed with the Securities and Exchange Commission on May 15, 2012 (the "Form 20-F"), is being filed (i) to include the aggregate fees in connection with certain professional services rendered by the Company's independent registered accounting firm for 2011, which information was inadvertently omitted from Item 16C of the Form 20-F, (ii) to correct minor, immaterial errors in the financial statements included under Item 18 of the Form 20-F, which financial statements are included herewith in their entirety, and (iii) for purposes of furnishing Interactive Data File disclosure as Exhibit 101 in accordance with Rule 405 of Regulation S-T. In accordance with the applicable grace period, the Interactive Data File disclosure in Exhibit 101 is being furnished less than 30 days after the original filing of the Form 20-F.

Other than as expressly set forth above, this Amendment No. 1 to Form 20-F does not, and does not purport to, amend, update or restate the information in any other item of the Form 20-F, or reflect any events that have occurred after the Form 20-F was originally filed; however, this Amendment includes as exhibits 12.1, 12.2, 13.1 and 13.2 new certifications by the Company's Chief Executive Officer and Chief Financial Officer.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by UHY Vocation HK CPA Limited, our independent registered public accounting firm, for the fiscal years ended December 31, 2011 and 2010.

|                    | Fiscal Year Ended December 31, |                   |
|--------------------|--------------------------------|-------------------|
|                    | 2011                           | 2010              |
| Audit Fees         | \$ 45,000                      | \$ 178,000        |
| Audit-Related Fees | -                              | -                 |
| Tax Fees           | -                              | -                 |
| All Other Fees     | -                              | -                 |
| <b>TOTAL</b>       | <b>\$ 45,000</b>               | <b>\$ 178,000</b> |

“Audit Fees” consisted of the aggregate fees billed for professional services rendered for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

“Audit Related Fees” consisted of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our regulatory filings and were not otherwise included in Audit Fees.

“Tax Fees” consisted of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

“All Other Fees” consisted of the aggregate fees billed for products and services provided and not otherwise included in Audit Fees, Audit Related Fees or Tax Fees.

## Audit Committee's Pre-Approval Policies and Procedures

Our audit committee pre-approves all auditing services and permitted non-audit services to be performed for us by our independent auditor, including the fees and terms thereof (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by our audit committee prior to the completion of the audit).

## ITEM 18. FINANCIAL STATEMENTS

The full text of our audited consolidated financial statements for the years ended December 31, 2011, 2010 and 2009 begins on page F-1 of this annual report.

ITEM 19. EXHIBITS

| Exhibit<br>Number | Description  |
|-------------------|--|
| 12.1              | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)               |
| 12.2              | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)               |
| 13.1              | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2              | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS*          | XBRL Instance Document   |
| 101.SCH*          | XBRL Taxonomy Extension Schema Document  |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 26, 2012

CHINA NETWORKS  
INTERNATIONAL HOLDINGS LTD.

/s/ Li Shuangqing  
Li Shuangqing  
Chief Executive Officer



CHINA NETWORKS INTERNATIONAL HOLDINGS,  
LTD.

REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2011 AND 2010

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD

We have audited the accompanying consolidated balance sheets of China Networks International Holdings, Ltd (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Networks International Holdings, Ltd as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Notes 1 and 5, the Company has limited operations and did not generate any revenue for the year 2011. This condition raises substantial doubt about China Networks International Holdings Ltd’s ability to continue as a going concern. Management’s plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

UHY VOCATION HK CPA LIMITED  
Certified Public Accountants

Hong Kong, the People’s Republic of China,

May 15, 2012

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
CONSOLIDATED BALANCE SHEETS

|  | December<br>31,<br>2011 | December<br>31,<br>2010 |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| <b>CURRENT ASSETS</b>  |                         |                         |
| Cash   | \$2,005,727             | \$14,896,498            |
| Restricted cash  | 236,400                 | 236,400                 |
| Accounts receivable  | -                       | 151,195                 |
| Receivable from YR TV station  | 3,331,675               | 3,645,268               |
| Other receivables and prepaid expenses   | 225,720                 | 197,123                 |
| Other receivable - Hetong's shareholder  | -                       | 161,566                 |
| Deferred financing costs   | -                       | 1,279,879               |
| Receivable from disposal of subsidiaries to Kunming TV Station   | 2,371,095               | 22,081,747              |
| Total current assets   | 8,170,617               | 42,649,676              |
| PROPERTY & EQUIPMENT-NET   | 11,944                  | 63,428                  |
| PROGRAM INVENTORY  | -                       | 19,944                  |
| INTANGIBLE ASSETS, NET   | -                       | 6,190,792               |
| <b>TOTAL ASSETS</b>  | <b>\$8,182,561</b>      | <b>\$48,923,840</b>     |
| <b>LIABILITIES AND EQUITY</b>  |                         |                         |
| <b>CURRENT LIABILITIES</b>   |                         |                         |
| Accounts payable   | \$-                     | \$51,357                |
| Customer deposits  | -                       | 108,246                 |
| Accrued interest   | -                       | 789,500                 |
| Other payable  | 330,854                 | 574,247                 |
| Accrued liabilities  | 87,430                  | 1,022,531               |
| Due to related parties   | 59,750                  | 59,750                  |
| Notes payable, net   | -                       | 9,042,263               |
| Payable to TV station  | 1,346,979               | 11,983,589              |
| Total current liabilities  | 1,825,013               | 23,631,483              |
| DEFERRED TAX LIABILITIES   | -                       | 59,396                  |
| COMMON STOCK SUBJECT TO REPURCHASE   | 236,400                 | 236,400                 |
| <b>TOTAL LIABILITIES</b>   | <b>2,061,413</b>        | <b>23,927,279</b>       |
| <b>EQUITY</b>  |                         |                         |
| China Networks International Holdings, Ltd. equity:  |                         |                         |
| Class A Preferred Shares \$0.0005 par value, 16,000,000 shares authorized, 7,264,503 shares issued and outstanding at December 31, 2011; liquidation preference of | 3,633                   | 8,000                   |

\$7,264,503)

|   |              |              |
|---|--------------|--------------|
| Common stock at \$0.0001 par value; (64,179,098 shares authorized, issued and outstanding at December 31, 2011) | 6,418        | 4,102        |
| Additional paid-in capital  | 26,419,357   | 33,870,121   |
| Accumulated deficit   | (22,350,656) | (10,470,373) |
| Accumulated other comprehensive income  | 954,490      | 524,362      |
| Total shareholders' equity  | 5,033,242    | 23,936,212   |
| Non-controlling interest  | 1,087,906    | 1,060,349    |
| Total equity  | 6,121,148    | 24,996,561   |
| TOTAL LIABILITIES AND EQUITY  | \$8,182,561  | \$48,923,840 |

See accompanying notes to the consolidated financial statements.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

|   |                      | For the year ended<br>December<br>31,<br>2010 | December<br>31,<br>2009 |
|---|----------------------|---|-------------------------|
|   | December 31,<br>2011 |   |                         |
| NET REVENUE   | \$-                  | \$3,751,410                                   | \$4,217,296             |
| COST OF REVENUE   | -                    | 2,394,173                                     | 1,478,202               |
| Gross profit  | -                    | 1,357,237                                     | 2,739,094               |
| OPERATING EXPENSES  |                      |   |                         |
| Selling expense   | 160                  | 19,903  | -                       |
| General and administrative expense  | 1,099,941            | 2,253,785                                     | 2,278,538               |
|   | 1,100,101            | 2,273,688                                     | 2,278,538               |
| (LOSS) / INCOME FROM OPERATIONS   | (1,100,101 )         | (916,451 )                                    | 460,556                 |
| OTHER INCOME/(EXPENSE)  |                      |   |                         |
| Other income/(expense)  | 321                  | (9,023 )                                      | (327,625 )              |
| Interest expense  | (193,900 )           | (1,790,304 )                                  | (6,800,158)             |
| Interest income   | 337,961              | 25,911  | 44,165                  |
| Impairment charges on intangible assets   | (6,506,969 )         | -   | -                       |
| Impairment charges on receivable from YR TV Station   | (680,000 )           | -   | -                       |
| Written off of debt discount and deferred finance cost  | (3,237,616 )         | -   | -                       |
| Gain on extinguishment and cancellation of debt   | -                    | 5,576,855                                     | 1,328,861               |
| Waiver of accrued liability   | -                    | -   | 960,000                 |
|   | (10,280,203 )        | 3,803,439                                     | (4,794,757)             |
| (LOSS)/INCOME BEFORE INCOME TAX   | (11,380,304 )        | 2,886,988                                     | (4,334,201)             |
| INCOME TAX  | (106,956 )           | 148,529                                       | 466,459                 |
| NET (LOSS)/INCOME FROM CONTINUED OPERATION  | (11,273,348 )        | 2,738,459                                     | (4,800,660)             |
| Discontinued operations, net of taxes<br>(including loss on disposal of subsidiaries of \$7,562,491 for 2010) | -                    | (3,408,986 )                                  | 7,249,093               |
| NET (LOSS)/INCOME   | (11,900,348 )        | (1,244,774 )                                  | 2,448,433               |
| Less: Net loss/(income) attributable to the non-controlling interest  | 20,065               | (2,400,256 )                                  | (4,120,887)             |
| NET LOSS ATTRIBUTABLE TO CHINA NETWORKS<br>INTERNATIONAL HOLDINGS, LTD.                                       | \$(11,253,283 )      | (3,070,783 )                                  | \$(1,672,454)           |
| Dividend on preferred stock   | (627,000 )           | (574,247 )                                    | -                       |

|   |                        |                     |                      |
|---|------------------------|---------------------|----------------------|
| <b>OTHER COMPREHENSIVE INCOME</b>   |                        |                     |                      |
| Foreign currency translation adjustment                                       | 430,128                | 527,668             | 67,614               |
| <b>COMPREHENSIVE LOSS</b>   | <b>\$(11,450,155 )</b> | <b>(3,117,362 )</b> | <b>\$(1,604,840)</b> |
|   |                        | -                   | -                    |
|   |                        |                     |                      |
| Basic and diluted income/(loss) from continuing operations per common share   | \$(0.22 )              | 0.08                | \$(0.64 )            |
| Basic and diluted (loss)/income from discontinued operations per common share | \$-                    | (0.10 )             | \$0.96               |
| Basic and diluted loss per common share                                       | \$(0.23 )              | (0.09 )             | \$(0.22 )            |
| Weighted average shares outstanding   | 50,317,319             | 32,826,462          | 7,519,691            |

See accompanying notes to the consolidated financial statements.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|   | Preferred Stock |        | Common Stock |        | Additional         | Accumulated    | Accumulated<br>Other<br>Comprehensive | Non-                    |      |
|---|-----------------|--------|--------------|--------|--------------------|----------------|---------------------------------------|-------------------------|------|
|   | Shares          | Amount | Shares       | Amount | Paid-in<br>capital | Deficit        | (Loss)/<br>Income                     | controlling<br>Interest |      |
| Balance at<br>January 1, 2009   | 980,000         | \$490  | 1,900,000    | \$950  | \$3,951,599        | \$(4,568,284 ) | \$(70,920 )                           | \$1,257,807             | \$57 |
| Change of<br>shares capital<br>structure due to<br>the Business<br>Combination                        | (980,000 )      | (490 ) | 11,027,888   | 343    | (3,951,599 )       | (1,481,902 )   | -                                     | -                       | (5   |
| Foreign<br>currency<br>translation<br>adjustment  | -               | -      | -            | -      | -                  | -              | 67,614                                | -                       | 67   |
| Additional<br>contribution<br>from<br>non-controlling<br>interest                                     | -               | -      | -            | -      | -                  | -              | -                                     | 87,602                  | 87   |
| Net income  | -               | -      | -            | -      | -                  | (1,672,454 )   | -                                     | 4,120,887               | 2,   |
| Balance at<br>December 31,<br>2009  | -               | -      | 12,927,888   | 1,293  | -                  | (7,722,640 )   | (3,306 )                              | 5,466,296               | (2   |
| Change of share<br>capital structure<br>due to the<br>cancellation of<br>Bridge Loan                  | 16,000,000      | 8,000  | 23,000,000   | 2,300  | 26,521,428         | -              | -                                     | -                       | 26   |
| Cancellation of<br>KERRY<br>PROPPER's<br>common stock<br>due to the<br>cancellation of<br>Bridge Loan | -               | -      | (2,000,000 ) | (200 ) | -                  | -              | -                                     | -                       | (2   |
| Issuance of<br>common<br>stock due to the<br>convertible loan   | -               | -      | 6,342,110    | 634    | -                  | -              | -                                     | -                       | 63   |
| Issuance of<br>common<br>stock due to the<br>convertible  | -               | -      | 750,000      | 75     | -                  | -              | -                                     | -                       | 75   |



|  |              |         |            |       |              |              |            |             |              |
|--|--------------|---------|------------|-------|--------------|--------------|------------|-------------|--------------|
| loan's placement fee   |              |         |            |       |              |              |            |             |              |
| Foreign currency translation adjustment  | -            | -       | -          | -     | -            | -            | 1,424,965  | -           | 1,424,965    |
| Decrease in non-controlling interest due to disposal of subsidiaries             | -            | -       | -          | -     | -            | 897,297      | (897,297 ) | (6,806,203) | (6,806,203)  |
| Gain on debt restructuring to related parties recognized as capital contribution | -            | -       | -          | -     | 7,348,693    | -            | -          | -           | 7,348,693    |
| Net loss   | -            | -       | -          | -     | -            | (3,645,030 ) | -          | 2,400,256   | (1,244,774)  |
| Balance at December 31, 2010   | 16,000,000   | 8,000   | 41,019,998 | 4,102 | 33,870,121   | (10,470,373) | 524,362    | 1,060,349   | 24,902,497   |
| Early redemption of preferred stock  | (8,735,497 ) | (4,367) | -          | -     | (8,731,130 ) | -            | -          | -           | (8,735,857)  |
| Issuance of common stock due to the repayment of convertible loan                | -            | -       | 8,195,000  | 820   | 982,580      | -            | -          | -           | 983,400      |
| Foreign currency translation adjustment  | -            | -       | -          | -     | -            | -            | 430,128    | 47,622      | 476,750      |
| Net loss   | -            | -       | -          | -     | -            | (11,880,283) | -          | (20,065 )   | (11,900,348) |
| Issuance of common stock to settle dividend payable                              | -            | -       | 14,964,100 | 1,496 | 297,786      | -            | -          | -           | 299,282      |
| Balance at December 31, 2011   | 7,264,503    | 3,633   | 64,179,098 | 6,418 | 26,419,357   | (22,350,656) | 954,490    | 1,087,906   | 6,419,748    |

See accompanying notes to the consolidated financial statements.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | For the year<br>ended December<br>31, 2011 | For the year<br>ended December<br>31, 2010 | For the year<br>ended December<br>31, 2009 |
|---|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |  |  |
| Net (loss)/income from continuing operations  | \$ (11,273,348 )                           | \$ 2,738,459                               | \$ (4,800,660 )                            |
| Adjustments to reconcile net (loss)/income from operations to net cash provided by/(used in) operating activities |  |  |  |
| Depreciation and amortization   | 4,496                                      | 252,097                                    | 255,095                                    |
| Amortization of debt discount and deferred financing cost   | 3,237,616                                  | 317,507                                    | 4,174,673                                  |
| Impairment loss on intangible assets  | 6,506,969                                  | -  | -  |
| Impairment loss on receivables from YR TV Station   | 680,000                                    | -  | -  |
| Provision for deferred income tax   | -  | 208,365                                    | 79,222                                     |
| Gain on extinguishment of debt  | -  | (5,576,855 )                               | (1,328,861 )                               |
| Increase/(decrease) in assets and liabilities   |  |  |  |
| Accounts receivables  | -  | 6,003,750                                  | (370,454 )                                 |
| Program inventory   | -  | 78,082                                     | (101,846 )                                 |
| Prepayment  | -  | -  | (68,904 )                                  |
| Other receivable -TV Stations   | -  | (7,315,664 )                               | (2,123,858 )                               |
| Other receivable and prepaid expense  | 101,364                                    | 800,058                                    | (413,476 )                                 |
| Accounts payable  | (5,881 )                                   | 232,436                                    | (41,925 )                                  |
| Customer deposits   | -  | (262,876 )                                 | 454,468                                    |
| Other payable - KM/YR TV station  | -  | -  | 1,748,615                                  |
| Accrued liabilities   | (274,811 )                                 | (273,793 )                                 | (484,552 )                                 |
| Other payable   | -  | (355,201 )                                 | (1,197 )                                   |
| Accrued interest  | 193,900                                    | 1,534,943                                  | 2,471,382                                  |
| Other payable - TV Stations   | -  | 3,841,963                                  | (4,711,356 )                               |
| Deferred tax liability  | -  | -  | -  |
| Taxes payable   | (506 )                                     | (114,359 )                                 | 130,529                                    |
| Cash (used in)/provided by operating activities- continuing operations  | (830,201 )                                 | 2,108,912                                  | (5,133,105 )                               |
| Cash provided by operating activities- discontinued operations  | -  | 23,661                                     | 2,812,782                                  |
| Net cash (used in)/provided by operating activities   | (830,201 )                                 | 2,132,573                                  | (2,320,323 )                               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |  |  |
| Loan receivable from related parties  | -  | -  | 306,090                                    |
| Other payable to TV Station   | (11,606,673 )                              | -  | -  |
| Purchase of property and equipment  | -  | (2,160 )                                   | (102,516 )                                 |
| Net proceeds from disposal of subsidiaries  | 19,884,341                                 | 3,835,503                                  | -  |
| Cash provided by investing activities- continued operations   | 8,277,668                                  | 3,833,343                                  | 203,574                                    |

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|   |           |            |            |
|---|-----------|------------|------------|
| Cash (used in) investing activities-discontinued operations | -         | (773,539 ) | (292,517 ) |
| Net cash provided by/(used in) investing activities         | 8,277,668 | 3,059,804  | (88,943 )  |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|  |               |               |            |
|--|---------------|---------------|------------|
| Due to related parties   | -             | (10,983,629 ) | (202,780 ) |
| Extinguishment of promissory notes                                     | -             | -             | (958,333 ) |
| Capital contribution from stockholder                                  | -             | 32,695        | (87,809 )  |
| Convertible debentures payable   | (11,000,000 ) | -             | -          |
| Redemption of Preferred Stock  | (8,735,497 )  | -             | -          |
| Dividends paid   | (571,111 )    | -             | -          |
| Cash obtained from the Business Combination                            | -             | -             | 1,449,122  |
| Proceeds from issuance of convertible debentures                       | -             | 9,744,371     | -          |
| Cash (used in)/provided by financing activities - continued operations | (20,306,608 ) | (1,206,563 )  | 200,200    |
| Cash provided by financing activities - discontinued operations        | -             | -             | 175,411    |
| Net cash (used in) / provided by financing activities                  | (20,306,608 ) | (1,206,563 )  | 375,611    |

|                              |           |         |         |
|------------------------------|-----------|---------|---------|
| EXCHANGE RATE EFFECT ON CASH | (31,630 ) | 522,173 | 209,035 |
|------------------------------|-----------|---------|---------|

|                                 |               |           |              |
|---------------------------------|---------------|-----------|--------------|
| NET (DECREASE)/INCREASE IN CASH | (12,859,141 ) | 3,985,814 | (2,033,655 ) |
|---------------------------------|---------------|-----------|--------------|

|                            |            |            |            |
|----------------------------|------------|------------|------------|
| CASH - BEGINNING OF PERIOD | 14,896,498 | 10,388,511 | 12,213,131 |
|----------------------------|------------|------------|------------|

|                      |           |            |            |
|----------------------|-----------|------------|------------|
| CASH - END OF PERIOD | 2,005,727 | 14,896,498 | 10,388,511 |
|----------------------|-----------|------------|------------|

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the period for:

|              |        |            |              |
|--------------|--------|------------|--------------|
| Interest     | \$ -   | \$ -       | \$ -         |
| Income taxes | \$ 796 | \$ 297,057 | \$ 1,734,077 |

**Non-cash investing and financing activities:**

Consideration for extinguishment of convertible notes liability

|                                  |         |              |      |
|----------------------------------|---------|--------------|------|
| paid in the form of common share | 983,400 | \$ 8,050,000 | \$ - |
|----------------------------------|---------|--------------|------|

|  |         |   |   |
|--|---------|---|---|
| Issuance of common shares in satisfaction of dividend payables | 299,282 | - | - |
|--|---------|---|---|

Consideration for extinguishment of convertible notes liability

|                                  |   |            |   |
|----------------------------------|---|------------|---|
| paid in the form of common share | - | 16,000,000 | - |
|----------------------------------|---|------------|---|

|   |   |           |   |
|---|---|-----------|---|
| Issuance of common shares in satisfaction of due to related parties | - | 7,000,140 | - |
|---|---|-----------|---|

|   |   |           |   |
|---|---|-----------|---|
| Issuance of common shares in satisfaction of accrued interest payable | - | 4,484,159 | - |
|---|---|-----------|---|

See accompanying notes to the consolidated financial statements.



CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

China Networks International Holdings, Ltd. (“CNIH” or the “Company”) was incorporated in Delaware on August 16, 2006 as Alyst Acquisition Corp. (“Alyst”) in order to serve as a vehicle for the acquisition of an operating business in any industry, with a focus on the telecommunications industry, through a merger, capital stock exchange, asset acquisition or other similar business combination. Alyst’s initial shareholders purchased 1,750,000 shares of common stock, par value \$0.0001 per share (“Common Stock”), in a private placement. On July 5, 2007, Alyst consummated its initial public offering (“IPO”) of 8,044,400 of its units (“Units”). Each Unit consisted of one share of Common Stock and one warrant to purchase one share of Common Stock at an exercise price of \$5.00 per share. Simultaneously with the consummation of the IPO, Alyst consummated a private placement of 1,820,000 warrants, each warrant entitled upon exercise to one share of Common Stock at an exercise prices of \$5.00 per share.

On June 24, 2009, Alyst announced that Alyst’s stockholders approved its proposed redomestication to the British Virgin Islands (“BVI”) and its proposed business combination with China Networks Media, Ltd., a British Virgin Islands company (“China Networks”). Alyst redomesticated to the British Virgin Islands through a merger with its wholly-owned subsidiary, CNIH, effective June 24, 2009, with CNIH as the surviving entity. With effect from June 26, 2009, the business combination among Alyst, CNIH, China Networks and its shareholders, was approved by regulators in the BVI and, thereafter, was consummated on June 29, 2009.

Upon consummation of the Business Combination, CNIH had outstanding 12,927,888 ordinary shares, par value \$0.0001 per share, 9,864,400 warrants, and an IPO Underwriters’ Purchase Option for 300,000 units, each unit containing one ordinary share and one warrant. As the result of consummation of the business combination, China Networks’ common and preferred shares were converted automatically into 9,422,760 CNIH common shares; therefore China Networks shareholders own approximately 73% of voting equity interests of CNIH. The business combination is considered a reverse acquisition with China Networks as the accounting acquirer. As such, the historical financial information presented herein prior to June 29, 2009 relates to the financial position and results of operations of China Networks. Through the business combination, China Networks acquired from Alyst net assets with a fair value of \$1,566,492, in which \$1,449,122 are in cash.

China Networks was formed to provide broadcast television advertising services in the People’s Republic of China (PRC) operating via joint venture partnerships with PRC state-owned television broadcasters (PRC TV Stations). The Company commenced operations on October 1, 2008. Activity through September 30, 2008 related to the Company’s formation, private placement offering, establishment of joint ventures and contractual relationships in the PRC, and business combination with Alyst. The Company has selected December 31 as its fiscal year end.

The accompanying financial statements include the accounts of CNIH, China Networks and its wholly owned subsidiary Advertising Networks Ltd. (“ANT”). ANT’s accounts include the accounts of its joint-ventures with the PRC TV Stations, Kunming Taishi Information Cartoon Co., Ltd (“Kunming JV”) and Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd (“Taiyuan JV”), as a result of ANT’s effective control of these entities through the composition of the board of directors. As a result of contractual arrangements with Beijing Guangwang Hetong Advertising and Media Co., Ltd. (“Hetong”) and its shareholders, the Company (through ANT) controls and is considered the primary beneficiary of Hetong, and, accordingly, consolidates the accounts of Hetong in its financial statements.

Hetong is a variable interest entity (VIE) as defined by Financial Accounting Standards Board Interpretation No. 46(R): Consolidation of Variable Interest Entities, an interpretation of ARB 51 (“FIN 46R”).

Kunming JV, Taiyuan JV and Hetong have been consolidated in these financial statements as of the date of their formation as described below. The operations of Kunming JV and Hetong and activity under the arrangements described below commenced on October 1, 2008. The operations of Taiyuan JV commenced on January 1, 2009.

All significant intercompany accounts, transactions and cash flows are eliminated on consolidation.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (CONT'D)

Establishment of Joint Ventures between ANT and the PRC TV Stations

**Establishment of Joint Ventures.** In 2008, China Networks established certain equity joint ventures with the state owned PRC TV Stations through its Hong Kong wholly-owned subsidiary, ANT. ANT established the equity joint venture Taiyuan JV with China Yellow River TV Station (“YR TV Station”) in Shanxi Province in June 2008; and established an equity joint venture Kunming JV with Kunming TV Station in Yunnan Province in July 2008 (Taiyuan JV and Kunming JV are collectively referred to as the “JV Tech Cos”, and YR TV Station and Kunming TV Station are collectively referred to as the “PRC TV Stations”). ANT holds 50% equity interest in the Kunming JV and Taiyuan JV, respectively, and Kunming TV Station and YR TV Station own the remaining 50% of the respective JV Tech Cos. Under the terms of the Kunming JV agreement, Kunming TV Station will contribute certain assets and contractual rights (see Exclusive cooperation agreement below) with a fair value of RMB150 million (approximately \$21,900,000) and ANT will contribute an equal amount in cash. Kunming TV Station and ANT have contributed 100% and 50%, respectively, of their obligations under this agreement at both December 31, 2009 and December 31, 2008. ANT is required to contribute the outstanding amount in twelve months after the establishment of Kunming JV. ANT has entered into a supplemental agreement with Kunming TV Station to extend the payment schedule of the outstanding cash contribution until April 30, 2010. ANT has contributed 100% of its obligation under this supplemental agreement before April 30, 2010. Under the terms of the Taiyuan JV agreement, YR TV Station will contribute certain assets and contractual rights (see Exclusive cooperation agreement below) with a fair value of RMB45 million (approximately \$6,600,000) and ANT will contribute an equal amount in cash. YR TV Station and ANT have contributed 100% before December 31, 2009. The Company subsequently disposed its interest in Kunming JV to Kunming TV station on December 14, 2010 (see paragraph “Disposal of Kunming JV and Kunming Ad Co.” below).

**Exclusive Cooperation Agreement.** Pursuant to the Exclusive Cooperation Agreement between the JV Tech Cos and the PRC TV Stations, the PRC TV Stations have exclusively and irrevocably granted to the JV Tech Cos the right to carry out advertising operations on its channels, and to provide to the JV Tech Cos all necessary and relevant support, as well as most-favored terms for the conduct of the advertising business. The PRC TV Stations share their resources with the JV Tech Cos, including, but not limited to, all client information (e.g. databases). Under the terms of this agreement, the PRC TV Stations will not engage any other party in any similar agreements. As such, the JV Tech Co’s has the exclusive right to carry out advertising business on PRC TV Stations’ channels.

Kunming JV and Kunming TV Station entered into such Exclusive Cooperation Agreement on August 6, 2008, while Taiyuan JV and YR TV Station entered such Exclusive Cooperation agreement on July 17, 2008.

**Establishment of Trustee Company.** In August 2008, Hetong, the trustee company, established two domestic advertising companies with Kunming TV Station and YR TV Station, under the respective name of Kunming Kaishi Advertising Co., Ltd. (“Kunming Ad Co.”) and Taiyuan Guangwang Hetong Advertising Co., Ltd. (“Taiyuan Ad Co.”) (Kunming Ad Co. and Taiyuan Ad Co. are collectively referred to as the “JV Ad Cos”). Hetong is 100% owned by two PRC nationals, who are the trustees.

In order to comply with current PRC laws limiting foreign ownership in the television advertising industry, China Networks’ operations are conducted through direct ownership of ANT and through contractual arrangements with Hetong. China Networks does not have an equity interest in Hetong, but instead derives indirect economic benefits from Hetong through a series of contractual arrangements. Through these arrangements, ANT controls Hetong, which in turn owns 50% of Kunming Ad Cos, and 50% of Taiyuan Ad Co. established with PRC TV Stations. The JV Tech

Cos collect the television advertising revenue earned by the JV Ad Cos pursuant to an Exclusive Services Agreement, using assets transferred from PRC TV Stations to the JV Tech Cos pursuant to an Asset Transfer Agreement.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (CONT'D)

Establishment of Joint Ventures between ANT and the PRC TV Stations (Cont'd)

**Asset Transfer Agreements.** Kunming TV Station and Kunming JV entered into an Asset Transfer Agreement on August 11, 2008, under which Kunming TV Station will transfer certain of its assets and contractual rights to Kunming JV, valued at RMB150 million, and Kunming JV will pay the same to Kunming TV Station. YR TV Station and Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd. (“Taiyuan JV”) also entered into such Asset Transfer Agreement on July 17, 2008, under which YR TV Station will transfer certain of its asset and contractual rights, valued at RMB45 million, to Taiyuan JV, and the same consideration will be paid by Taiyuan JV. All governmental, statutory and other approvals required for the transfer of these assets were obtained as of the date of the first transfer in August 2008. Taiyuan JV paid YR TV Station RMB45 million (approximately \$6.6 million) under this agreement before December 31, 2009. Kunming JV paid RMB85 million (approximately \$12.4 million) to Kunming TV Station before December 31, 2009 and the remaining RMB 65 million (approximately \$9.7 million) within 2010 under the Kunming Asset Transfer Agreement.

**Exclusive Services Agreement.** Pursuant to the Exclusive Services Agreement between the JV Tech Cos and the JV Ad Cos, the JV Tech Cos will be the sole and exclusive provider of services to JV Ad Cos relating to technical support for the production of advertising and advertising consulting. In addition, the JV Ad Cos will be the sole and exclusive advertising agent to the JV Tech Cos and will grant to the JV Ad Cos agency rights for all advertising under the exclusive right to carry out advertising operations, granted by the corresponding PRC TV Stations to the JV Tech Cos in accordance with the Exclusive Cooperation Agreement. Under the terms of the Exclusive Services Agreement, the JV Ad Cos will pay the service fee to the JV Tech Cos as accrued, in accordance with the JV Tech Cos’ regular invoices. As such, all of the JV Ad Cos’ pre-tax revenue (less the relevant business tax) generated during the term of this agreement and relating to the marketing of advertising and other operations will be transferred to the JV Tech Cos as the service fee.

Kunming JV and Kunming Ad Co. entered into an Exclusive Services Agreement on August 6, 2008, while Taiyuan JV and Taiyuan Ad Co. entered into an Exclusive Services Agreement on July 17, 2008.

ASC 810 “Consolidation” addresses financial reporting for entities over which control is achieved through a means other than voting rights. In accordance with the requirements of FIN 46R, China Networks has evaluated its relationships with the JV Ad Cos. The JV Ad Cos are considered variable interest entities (“VIEs”) as defined by FIN 46R. Through contractual arrangements with JV Ad Cos through Hetong, China Networks is considered the primary beneficiary of the JV Ad Cos as China Networks absorbs a majority of the risk and rewards of those entities. As such, China Networks consolidates the financial statements of the JV Ad Cos pursuant to FIN 46R as of the date their formation as described above.

**Disposal of Kunming JV and Kunming Ad Co.** Due to the Company's strategic plan on the restructuring and integration of Kunming assets, on September 1, 2010, CNIH entered into two agreements with its joint venture partner, Kunming TV Station, on the sale of the Company's assets in Kunming JV and Kunming Ad Co., which are located in Yunnan Province in the PRC, with a total consideration of \$22.6 million (RMB150 million) and \$0.1 million (RMB 0.7 million), respectively. On December 14, 2010, Kunming JV and Kunming Ad Co. were sold back to the Kunming TV Station. The disposition was completed on December 15, 2010. \$19.9 million of the proceeds was received for the year end December 31, 2011, \$1.6 million was received subsequent to December 2011. Management expects the remaining of \$0.8million will be settlement by the end of December 2012. The proceeds of the sale of the

Company's Kunming assets have been used to deliver an early repayment to holders of the Company's \$11 million senior secured convertible debentures.

**Termination of Business Contract with YR TV Station.** Due to the TV broadcasting internal restructuring of Shanxi Province in the PRC, YR TV station had merged with Shanxi Broadcasting Group since January 2011, YR TV Station has since then unilaterally terminated the Taiyuan JV agreement with ANT (see paragraph “Establishment of Joint Ventures” and “Exclusive Services Agreement” above). The Company had filed an arbitration to China International Economic and Trade Arbitration Commission (“CIETAC”) to claim YR TV Station the amount of approximately RMB54 million (approximately \$8,571,000) on October 9, 2011. The claim was amended in April 2012 to raise the damage sought to RMB81,417,196 (approximately \$12,900,000), the first hearing was held on April 16, 2012 in which the CIETAC request both parties to furnish further supporting document and evidence. The second hearing is expected to be held in early June. Up to the date of this report the arbitration is ongoing and no results have been determined yet, and there's no initial agreement been signed with YR TV Station.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (CONT'D)

In connection with the termination of the cooperation agreement and the transfer of the advertising business, Shanxi TV has also taken, as its own, the RMB 45,000,000 of registered capital contributed by the Company to the Yellow River JV. While the Company acknowledges the right of the PRC government to change policies and rules with respect to agreements with state-owned entities, such as Shanxi TV, however the Company believes that the return of the RMB 45,000,000 contributed to the Yellow River JV by the Company must be returned to the Company. The Company has attempted, in good faith, to negotiate a settlement with respect to the funds, however, to date Shanxi TV has refused to return the funds to the Company or enter into any settlement agreement.

Accordingly, all the assets and liabilities as affected by the arbitration was grouped together under heading “Receivables from YR TV Station” and “Payables to YR TV Station” on the Balance Sheet. Further details please read note 5.

Going Concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. However, subsequent to the disposal of Kunming entities and termination of contracts with YR TV Station, the Company did not generate any revenue during the year 2011 and had net cash used in operating activities, which have had a significant adverse impact on its business and continue to negatively impact its projected future liquidity. The Company's ability to continue as a going concern is dependent on many factors, including, among other things, the outcome of the YR TV Station litigation as described above, and sourcing new stream of revenue and operations. The Company expects that it will need to raise substantial additional capital to accomplish its business plan over the next several years. In addition, the Company may wish to selectively pursue possible acquisitions of businesses complementary to those of the Company in the future in order to expand its presence in the marketplace and achieve operating efficiencies. The Company expects to seek to obtain additional funding through a bank credit facility or private equity. There can be no assurance as to the availability or terms upon which such financing and capital might be available.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

Principles of consolidation - The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

Valuation of long-lived assets- The Company follows Accounting Standards Codification (“ASC”) 360, “Property, Plant and Equipment”. The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Please read Note 5 – “Receivables and Other Assets from YR TV Station under Arbitration” for a discussion of impairment charges the Company recognized in 2011 related to our investment in YR JV and YR Ad Co.

**Fair Value of Financial Instruments** - Accounting standards require the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The various levels of the fair value hierarchy are described as follows:

**Level 1** — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that we have the ability to access.

**Level 2** — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

**Level 3** — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Accounting standards require the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

For certain financial instruments, including cash, accounts and other receivables, accounts payable, short-term loans, accruals and other payables, it was assumed that the carrying amounts approximate fair value because of the near term maturities of such obligations. The carrying amounts of long-term loans payable approximate fair value since the interest rate associated with the debt approximates the current market interest rate.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT'D)

Cash and cash equivalents - Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time certificates of deposit with a maturity of three months or less when purchased.

Restricted cash – Restricted cash represents cash held in Alyst's checking account as at December 31, 2011 and 2010, which is obligated to be used for repurchase of 30,000 CNIH common shares, as stipulated by the Amendment to Stock Purchase Agreement between shareholders and Alyst in July 2009.

Accounts receivable – Accounts receivable are stated at the amount management expects to collect from balances outstanding at the period end. Allowances for doubtful accounts receivable balances are recorded when circumstances indicate that collection is doubtful for particular accounts receivable or as a general reserve for all accounts receivable. Management estimates such allowances based on historical evidence such as amounts that are subject to risk and customer credit worthiness. Accounts receivable are written off if reasonable collection efforts are not successful.

Management periodically reviews the outstanding account balances for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Property and equipment – Property and equipment are stated at cost including the cost of improvements. Maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided on the straight-line method based on the shorter of the estimated useful lives of the assets or lease term as follows:

|                                   |         |
|-----------------------------------|---------|
| Leasehold improvement             | 3 years |
| Furniture, fixtures and equipment | 5 years |
| Computer software                 | 1 year  |

Revenue recognition – The Company has advertising revenue, net of agency commissions and sales tax, and advertisement production revenue. Advertising revenue is generated from advertising time-slots sold to advertising agencies or advertisers to broadcast their advertisements on television or radio channels. Advertisement production revenue is generated from service provided to advertisers in designing and producing video advertisements. The Company recognizes revenue on advertisement when advertisements are broadcast or when the advertisement production service is provided, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Net sales represent the invoiced value of services, net of business tax and agency commissions. The Company is subject to business tax which is levied on majority of the Company's sales at the rate of 5.0-8.625% on the invoiced value of services.

The Company requires customers to prepay certain amounts, as determined by both parties, at the time the contracts are signed. Customer deposits are recognized into revenue when the related service is provided or advertisement is aired and all other revenue recognition criteria are met.

Cost of revenue – The Company's cost of revenue on advertising revenue includes amortization of purchased program inventory, costs to buy back certain advertising time-slots sold to agency companies which the Company's advertising customers need, and cost of producing advertisements.

Comprehensive income (loss) – The Company follows the Statement of Financial Accounting Standard (“SFAS”) No. 130, Reporting Comprehensive Income. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income (loss) for the periods presented includes net income (loss) and foreign currency translation adjustments.

Income taxes- Alyst was subject to US federal, New York State and New York City taxes prior to the redomestication to the BVI through a merger with CNIH. China Networks was originally incorporated in the Cayman Islands and subsequently reincorporated in the BVI. China Networks is not subject to income taxes under the current laws of the Cayman Islands or BVI. PRC entities are subject to the PRC Enterprise Income tax at the applicable rates on taxable income at the commencement of operations.

Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities or assets are recorded to reflect the tax consequences in future differences between the tax basis of assets and liabilities and the financial reporting amounts at each year end. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT'D)

**Foreign Currency-** The functional currency of each foreign operation is the local currency. The consolidated financial statements of the Company are presented in United States Dollars (“US\$”). Transactions in foreign currencies during the year are translated into US\$ at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies on the balance sheet date are translated into US\$ at the exchange rates prevailing on that date. Gains and losses on foreign currency transactions (if any) are included in the statement of operations.

The JV Tech Cos and JV Ad Cos translate their assets and liabilities into US\$ at the current exchange rate at the end of the reporting period. Revenues and expenses are translated into US\$ using the average exchange rate during the period. Gains and losses that result from the translation are included in other comprehensive loss.

**Earnings per Common Share –** The Company follows ASC 260, Earnings per Share, resulting in the presentation of basic and diluted earnings per share. Diluted earnings per common share assume that outstanding common shares were increased by shares convertible from preferred stock. Since the Company’s common stock equivalents are not dilutive for the year ended December 31, 2010 and 2009, the basic and diluted earnings per share for those periods are the same.

**Use of estimates -** The preparation of the Company’s financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to valuation of program rights and intangible assets, preferred stock valuation, discount on promissory notes, allowance for uncollectible accounts receivable, depreciation, useful lives of property, taxes, and contingencies. These estimates may be adjusted as more current information becomes available and any adjustment could be significant. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

**Non-controlling interest in consolidated financial statements –** ASC 810 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted this guidance on January 1, 2009. Please read note 4 – Noncontrolling Interests for further discussion.

**Recently Issued Accounting Pronouncements**

In May, 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011.

The Company has adopted the methodologies prescribed by this ASU by the date required, and the ASU does not have a material effect on its financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, which is an update to Topic 220, “Comprehensive Income.” This update eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders’ equity, requires consecutive presentation of the statement of net income and other comprehensive income and requires reclassification adjustments from other comprehensive income to net income to be shown on the financial statements. ASU 2011-05 is effective for all interim and annual reporting periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial position or results of operations.



CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, (“ASU 2011-08”), which amends current guidance to allow a company to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The amendment also improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. We do not expect that the adoption of ASU 2011-08 will have a material impact on our consolidated financial statements.

Except for the above, there are no recently issued accounting pronouncements adopted by the Company. Management does not believe that any recently issued, but not effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

The Group accounts for and discloses events that occur after the balance sheet but before financial statements are issued or are available to be issued through December 31, 2011.

**NOTE 3 – NONCONTROLLING INTERESTS**

The Company accounts for noncontrolling interests in accordance with FASB ASC 810, Consolidation, which requires: (i) ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled, and presented in the consolidated statements of financial position within equity, but separate from the parent's equity; (ii) the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statements of operations; (iii) changes in a parent's ownership interests that do not result in deconsolidation to be accounted for as equity transactions; and (iv) that a parent recognize a gain or loss in net income upon deconsolidation of a subsidiary, with any retained noncontrolling equity investment in the former subsidiary initially measured at fair value.

The noncontrolling interest for the Company as at December 31, 2011 represented YR TV Station’s share in Taiyuan Ad Co. and Taiyuan JV. Subject to the arbitration as discussed in note 3 above, the carrying amount of this noncontrolling is subject to the decision of CIETAC. Without a final decision by CIETAC, the Company continue to according for noncontrolling on the same basis as previous years.

**NOTE 4 – OTHER RECEIVABLES AND PREPAID EXPENSES**

Other receivables and prepaid expenses are summarized as follows:

|                                | December<br>31, 2011 | December<br>31, 2010 |
|--------------------------------|----------------------|----------------------|
| Other receivables and deposits | \$ 134,291           | \$ 22,806            |
| Prepaid expenses               | 90,202               | 134,414              |

|                           |           |            |
|---------------------------|-----------|------------|
| Due from staff and others | 1,227     | 39,903     |
|                           | \$225,720 | \$ 197,123 |

NOTE 5 –RECEIVABLES AND OTHER ASSETS FROM YR TV STATION UNDER ARBITRATION

|   | December<br>31, 2011 | December<br>31, 2010<br>(for<br>comparison) |
|---|----------------------|---|
| China YR TV Station- Loan               | 749,541              | 713,120                                     |
| China YR TV Station- Advertising income | 3,081,899            | 2,932,148                                   |
| China YR TV Station- Others             | 180,235              | 258,571                                     |
| Impairment                              | (680,000 )           | -   |
|   | \$3,331,675          | \$ 3,903,839                                |

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The receivables also consist of \$3,081,899 and \$2,932,148 advertisement income collected by YR TV Station on behalf of Taiyuan Ad Co. and \$749,541 and \$713,120 outstanding loan borrowed by YR TV Station on behalf of Taiyuan Ad Co. as of December 31, 2011 and 2010 respectively.

As discussed in Note 1 Organization “Termination of Business Contract with YR TV Station” and note 3 “Operations under Arbitration” above, the Company was forced to terminate cooperation with its joint venture partner, YR TV Station due to the PRC’s internal restructuring for TV broadcasting business in Shanxi Province, YR TV Station had merged with Shanxi Broadcasting Group. As of December 31, 2011, the carrying value of the assets that are under arbitration is separately presented in the Balance Sheet in the caption “Receivables from YR TV Station under arbitration” and these assets are no longer depreciated.

In April 2012, the Company formally filed arbitration against China YR TV Stations to the CIETAC. CIETAC is the major permanent arbitration institutions in China and responsible for independently and impartially resolves economic and trade disputes by means of arbitration. In this action the Company allege breach of contract by YR TV Station, seeking recovery of capital investment cost plus interest and others totaled RMB54 million (approximately \$8,571,000). The arbitration is pending the CIETAC’s decision which has not yet been issued.

In this instance, management has assessed the matters based on current information and made judgments concerning their potential outcome, giving consideration to the nature of the claim, the amount, and the probability of success. Management believes it will receive a positive award in the arbitration. Under this circumstances, the management determined that the carrying amount of the underlying assets subject to the CEITAC’s decision exceed the recoverable amount, consequently, the Company recorded an impairment loss of \$680,000, which represents the excess of the carrying values of the assets over their recoverable values. The impairment loss is recorded as a separate line item (“Impairment charge”) in the Consolidated Statements of Operations for 2011.

Because litigation is subject to inherent uncertainties including unfavorable rulings or developments, it is possible that the ultimate resolution of our legal proceedings could involve amounts that are different from our currently recorded amount and that such differences could be material.

#### NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

|                                   | December<br>31, 2011 | December<br>31, 2010 |
|-----------------------------------|----------------------|----------------------|
| At cost:                          |                      |                      |
| Leasehold improvement             | \$-                  | \$19,629             |
| Furniture, fixtures and equipment | 15,483               | 15,701               |
| Vehicles                          | -                    | 42,592               |
| Computer software                 | 10,134               | 35,343               |
|                                   | 25,617               | 113,265              |
| Less: accumulated depreciation    | (13,673 )            | (49,837 )            |
| Net book value                    | \$11,944             | \$63,428             |

Depreciation expense was \$4,496 and \$30,739 for the year ended December 31, 2011 and 2010 respectively.

NOTE 7 –PROGRAM RIGHTS AND INTANGIBLE ASSETS, NET

|                                | December<br>31, 2011 | December<br>31, 2010 |
|--------------------------------|----------------------|----------------------|
| Program rights                 | \$20,692             | \$20,692             |
| Less: accumulated amortization | (20,692 )            | (20,692 )            |
|                                | \$-                  | \$-                  |
| Intangible assets              | \$7,120,088          | \$6,774,119          |
| Less: accumulated amortization | (613,119 )           | (583,327 )           |
| Less: impairment charges       | (6,506,969)          | -                    |
|                                | \$-                  | \$6,190,792          |

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Program rights represent (1) programs that were contributed by the PRC TV Stations to the JV Tech Cos as capital, and (2) programs purchased by the JV Tech Cos from the PRC TV Stations in accordance with the joint venture and asset transfer agreements, respectively. Program rights are carried at cost and are amortized over their expected useful life of one year. There was no amortization of program rights in 2011 as the program rights were fully amortized during 2009. The programs included in program rights are those originally produced by the PRC TV Stations and the JV Tech Co's have ownership of the program rights pursuant to the joint venture and asset transfer agreements.

Intangible assets represent the contractual right to operate the advertising business. Intangible assets are evaluated periodically to determine if expected cash flow generate from the advertising business is sufficient to cover the unamortized portion of the intangible assets. To the extent that expected cash flow is insufficient, the intangible assets are written down to their net realizable value.

Intangible assets are expected to be amortized on a systematic basis over the lives of the Exclusive Cooperation Agreements of 20 and 30 years for Kunming JV and Taiyuan JV, respectively. Amortization expense on the intangible assets totaled \$0 for the year ended December 31, 2011 due to the uncertainty of intangible assets under arbitration with YR TV station at beginning of the year. As at December 31 2011, the Company assessed the recoverability of intangible assets and due to the uncertainties on the outcome of litigation with Shanxi TV Station the Company wholly impaired the intangible assets of \$6,506,969 for the year ended December 31, 2011.

#### NOTE 8 – OTHER PAYABLE

Other payable consists of the following:

|                  | December<br>31, 2011 | December<br>31, 2010 |
|------------------|----------------------|----------------------|
| Dividend Payable | \$330,854            | \$574,247            |
|                  | \$330,854            | \$574,247            |

Dividend payable was based on 5% annual rate of issued preferred shares. Dividend payable was valued at \$330,854 and \$574,247 as of December 31, 2011 and 2010 respectively.

#### NOTE 9 – OTHER PAYABLES TO TV STATIONS

|                                      | December<br>31, 2011 | December<br>31, 2010 |
|--------------------------------------|----------------------|----------------------|
| Other payable to Kunming TV Station  | 77,175               | 11,401,862           |
| Other payable to China YR TV Station | 1,269,804            | 581,727              |
|                                      | \$1,346,979          | \$11,983,589         |

As of December 31, 2011, other payable to Kunming Television Station represents payable of \$77,175 to be paid by ANT due to the late payment of capital contribution to Kunming Tech Co.

Other payable to China YR TV Station represents \$16,175 employee payroll that China YR TV Station paid on behalf of Taiyuan Tech Co. and \$1,253,629 reimbursement of YR TV Station's cost of purchase of TV programs and broadcasting and administrative expenses.

As of December 31, 2010, other payable to Kunming Television Station represents payable of \$11,324,687 and penalty of \$77,175 to be paid by ANT due to the late payment of capital contribution to Kunming Tech Co.

Other payable to China YR TV Station represents \$14,256 employee payroll that China YR TV Station paid on behalf of Taiyuan Tech Co. and \$567,471 reimbursement of YR TV Station's cost of purchase of TV programs and broadcasting and administrative expenses. The other payable of \$11,401,862 originally represents the payable for purchase of intangible assets under the Asset Transfer Agreement, the Agreement was terminated due to disposal of subsidiaries, and hence the amount was reclassified as other payable, which was subsequent settled by the Company after year end.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

|                                  | December<br>31, 2011 | December<br>31, 2010 |
|----------------------------------|----------------------|----------------------|
| Business and other taxes payable | \$717                | \$513,653            |
| Income tax payable               | -                    | 172,194              |
| Accrued expenses                 | 78,851               | 297,927              |
| Accrued salary                   | 7,862                | 38,757               |
|                                  | \$87,430             | \$1,022,531          |

## NOTE 11 –DEBT AND EQUITY FINANCING

|                            | December<br>31, 2011 | December<br>31, 2010 |
|----------------------------|----------------------|----------------------|
| Notes payable              | \$-                  | \$11,000,000         |
| Less: Unamortized discount | -                    | (1,957,737 )         |
|                            | \$-                  | \$9,042,263          |

On April 13, 2010, the Company issued six-year convertible debentures in aggregate a face value of \$11,000,000 bearing interest at the rate of 10% per annum and 6,342,110 ordinary shares with a par value of \$0.0001 in exchange for proceeds of \$11,000,000. The Debentures are convertible into ordinary shares of the Company at a per share conversion price of \$1.14. The Debentures are secured by all of the assets of the Company. China Networks will guarantee the Debentures. At any time after the issuance of the Debentures and prior to the maturity date, the Company has the right to redeem all or part of the Debentures under certain conditions.

The Debentures accrues interest at 10% per annum on the aggregate unconverted and then outstanding principal amount. Interest on the Debentures is payable semi-annually in arrears. Accrued interest as of December 31, 2011 and interest expense on the Debentures for the year ended are \$0 and \$193,900, respectively.

Management determined that the fair value of the 6,342,110 ordinary shares on the issuance date was \$0.35 per share, calculated using an average trading value subsequent to the transaction, applying a 30% allowance for marketability discount. Using the relative fair value method, the Company allocated \$8,780,263 of the gross proceeds to the Debentures and \$2,219,737 to the ordinary shares. The face amount of the Debentures of \$11,000,000 was reduced by debt discount of \$2,219,737, resulting in an initial carrying value of \$8,780,263.

With estimated life of the Debentures of approximately 72 months, the Company adopted the straight-line method to amortize the debt discount over the 72-month period. Discount on the Debentures is recorded as interest expense. Note discount was valued at \$2,219,737 with \$262,000 note discount amortized in 2010. The net value of discount was as \$1,957,737 for the year ended December 31, 2010. On March 4, 2011, the Convertible Debentures and net value of discount was repaid at value of \$11,000,000 and \$1,957,737, respectively.

In connection with the Debentures, the Company incurred placement fee of 5% of the gross proceeds and issuance costs of 2% of the proceeds of \$5,802,000 to the placement agent, totaling \$666,040, and issued 750,000 ordinary

shares with a par value of \$0.0001 to the placement agent. Management determined that the fair value of the 750,000 ordinary shares on the issuance date was \$0.35 per share, calculated using an average trading value subsequent to the transaction, applying a 30% allowance for marketability discount. Using the relative fair value method, the Company allocated \$262,500 to the ordinary shares. The Company also incurred other direct issuance costs of which \$407,407 was also paid with proceeds from the Debentures. Of the total issuance costs of \$1,335,947, \$1,073,447 was allocated to debt issuance costs and recorded as deferred financing cost. The remaining \$262,500 was allocated to the ordinary shares and netted with proceeds in additional paid in capital.

On March 4, 2011, the Company redeemed all of the \$11,000,000 outstanding convertible debentures due on April 30, 2016, which were issued to certain investors in a private placement transaction that was consummated on April 13, 2010 as described above. The redeemed debentures represented the entire outstanding principal of the debentures issued in the private placement. In addition, the Company paid all outstanding interest owing on the debentures in 8,195,000 ordinary shares of the Company. As a result of the early redemption, the debt discount of \$1,957,737 and deferred finance cost of \$1,279,879 was written off to statements of operations for the year December 31, 2011.



CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – RELATED PARTY TRANSACTIONS

Due to related parties

Amounts due to related parties consist of advances made to the Company or payments made behalf on the Company to finance development stage activities and other costs. The amounts due to related parties for such advances were non-interest bearing and had no stated repayment terms. Amounts due to related parties for such advances totaled \$59,750 as of December 31, 2011 and 2010.

Loan receivable from related parties

Loan receivable from related parties represent amount extended to the trustees after consolidation elimination of 100% of the registered capital of Hetong, as discussed in Note 1 under Establishment of Trustee Company. The loan receivable is non-interest bearing and due on demand.

NOTE 13 – INCOME TAX

The enterprise income tax is reported on a separate entity basis.

BVI

China Networks Media, Ltd. was incorporated in the British Virgin Islands and is not subject to income taxes under the current laws of the British Virgin Islands.

PRC

The JV Tech Cos, JV Ad Cos, Hetong, Beijing Guangwang are subject to PRC income tax at the statutory tax rate of 25%.

The income tax provision consists of the following:

|              | The year ended       |                      |
|--------------|----------------------|----------------------|
|              | December<br>31, 2011 | December<br>31, 2010 |
| Current tax  | \$(106,956 )         | \$(59,847 )          |
| Deferred tax | -                    | 208,366              |
|              | \$(106,956 )         | \$148,529            |

The Company adopted ASC 740 “Income Taxes”, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in the tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

At December 31, 2011, Company's management considered that the Company had no uncertain tax positions that affected its consolidated financial position and results of operations or cash flow, and will continue to evaluate for the uncertain position in future. There are no estimated interest costs and penalties provided in the Company's financial statements for the year ended December 31, 2011.

In the year ended at December 31, 2011, Company's income tax credit includes \$34,797 of prepaid income tax; \$25,935 of de franchise income tax; \$7,122 of New York City income tax and \$39,102 of New York State income tax.

#### NOTE 14 – SHAREHOLDERS' EQUITY

China Networks was initially organized as a Cayman Islands company under the name of China Networks Limited on March 30, 2007, with 50,000 shares of common stock authorized at \$1 par value.

On June 2, 2008, the China Networks changed its registered office to the British Virgin Islands and continued under the name China Networks Media Ltd. China Networks was authorized to issue 1,900,000 share of common stocks and 1,050,000 shares of Class A Preferred Stock, each with a par value of \$0.0005 per share.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – SHAREHOLDERS’ EQUITY (CONT’D)

On the same day, the China Networks cancelled the 1,000 shares of common stock that were previously issued while it was a Cayman Islands company and issued 1,900,000 shares of common stock.

China Network’s Class A Preferred Share had one voting right, a right to an equal share in any dividend paid by the China Networks, a liquidation preference of \$0.01 per share, and was convertible into common stock without payment of any further consideration. The number of common stock that Class A Preferred Shares may be converted into initially is determined by dividing the original purchase price of Class A Preferred Shares by the conversion price of Class A Preferred Shares; provided that the initial conversion price shall be the original purchase price, subject to adjustment upon occurrence of certain events as stated in the Company’s Memorandum and Articles of Association.

Upon consummation of the business combination among Alyst, CNIH, China Networks and its shareholders on June 29, 2009, CNIH had outstanding 12,927,888 ordinary shares, par value \$0.0001 per share, 9,864,400 warrants, and an IPO Underwriters’ Purchase Option for 300,000 units, each unit containing one ordinary share and one warrant. As the result of consummation of the business combination, China Networks’ 1,900,000 common and 980,000 preferred shares issued and outstanding immediately prior to the business combination were converted automatically into 9,794,400 shares and another 253,488 shares were issued and held by Alyst’s underwriter for a total of 11,027,888 CNIH common shares; therefore China Networks shareholders own approximately 73% of voting equity interests of CNIH. The business combination is considered a reverse acquisition, which China Networks is the accounting acquirer.

Upon the consummation of business combination, each China Networks preferred share issued and outstanding immediately prior to the business combination has the right to receive a cash amount equal to \$7.143. This payment obligation has been accrued as an amount of Due to Related Parties, with an offset to Additional Paid-in Capital and Accumulated Deficit.

In June 2009, Alyst and its shareholders of 5,702,384 common shares entered Stock Purchase Agreement for repurchase of those common shares by an aggregate price of \$44,896,637, approximately \$7.87 per share (the “Purchase Price”), at the closing of the business combination. During period of July 1 and July 2, 2009, payments in total of \$34,607,721 were paid to former Alyst shareholders of 4,396,604 shares.

In July 2009, the shareholders of the rest 1,305,780 shares entered Amendments to Stock Purchase Agreement (the “Amendment”) with CNIH, which stipulates that these shareholders have the right until five years after the date of the Amendment to exercise the right to receive the Purchase Price. As required by the Amendment, CNIH deposited \$10,289,546, representing the aggregate Purchase Price of 1,305,780 shares, in a trust account in July 2009. In September 2009, shareholders of 1,275,780 shares among above mentioned 1,305,780 shares exercised the right to receive Purchase Price.

On April 13, 2010, the Company issued six-year convertible debentures in aggregate a face value of \$11,000,000 bearing interest at the rate of 10% per annum and 6,342,110 ordinary shares with a par value of \$0.0001 in exchange for proceeds of \$11,000,000.

On the same date, CNIH entered into an Exchange and Amendatory Agreement (the “Exchange Agreement”) with China Networks and the holders of senior secured notes of China Networks in the aggregate principal amount of \$25,500,000 (the “Network Notes”). Pursuant to the Exchange Agreement, the holders agreed to cancel all existing Network Notes in exchange for the pro rata issuance by us of an aggregate of 23,000,000 Ordinary Shares and

16,000,000 Class A Preferred Shares.

In connection with the convertible Debentures issued as discussed in note 11 above, Mr. Kerry Propper agreed to cancel 2,000,000 out of his 2,429,635 common shares of China Networks. The Company also issued 750,000 ordinary shares with a par value of \$0.0001 to the placement agent.

On May 12, 2011, the Company redeemed an aggregate of 4,028,690 of the Class A Preferred Shares at a per share price of \$1.00. The redeemed shares were issued to certain investors in a private placement transaction that was consummated on April 13, 2010 as described in note 11 above, and accounted for approximately 25.18% of the total 16,000,000 Class A Preferred Shares outstanding. In connection with the redemption of the Class A Preferred Shares, the Company paid an aggregate of approximately \$4.69 million in June 2011 to pay accrued and outstanding dividend payments owing on the Class A Preferred Shares. The funds used to redeem the Class A Preferred Shares were generated from the sale of interest in the Kunming JV in last year.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – SHAREHOLDERS’ EQUITY (CONT’D)

On November 31, 2011, the Company redeemed an aggregate of 4,706,807 of our Class A Preferred Shares at a per share price of \$1.00. The redeemed shares were issued to certain investors in a private placement transaction that was consummated on April 13, 2010, and accounted for approximately 39.32% of the 11,971,310 Class A Preferred Shares then outstanding. In connection with the redemption, the Company paid an aggregate of approximately \$4.7 million in December 2011 which the funds used to redeem the Class A Preferred Shares were generated from the sale of interest in the Kunming JV in last year. At the same time, the Company issued to the holders of the redeemed Class A Preferred Shares an aggregate of 14,964,100 Ordinary Shares as payment for all accrued and outstanding dividends owing on the Class A Preferred Shares amounting to \$299,282.

On April 26, 2012, the Company redeemed an aggregate of 1,575,000 of our Class A Preferred Shares at a per share price of \$1.00. The redeemed shares were issued to certain investors in a private placement transaction that was consummated on April 13, 2010, and accounted for approximately 21.68% of the 7,264,503 Class A Preferred Shares then outstanding. The fund used in redemption was generated from the sale of interest in the Kunming JV in last year.

Warrants

After the redomestication merger with Alyst and business combination with China Networks, CNIH has had 9,864,400 warrants outstanding. Each warrant entitles the registered holder to purchase one share of ordinary shares at a price of \$5.00 per share, subject to adjustment as discussed below, at any time commencing on the completion of the business combination. The warrants were expired at 5:00 p.m., New York City time on June 28, 2011.

Purchase Option

In connection with Alyst’s IPO, an option to purchase up to a total of 300,000 units was issued to representatives of the underwriters, for \$100. The units issuable upon exercise of the option are identical to the units issued to the public in the IPO, except that the exercise price of the underlying warrants will be \$10.00 per share.

NOTE 15 – CONCENTRATIONS, RISK AND UNCERTAINTIES

Customer concentration – The Company has the following concentrations of business with each customer constituting greater than 10% of the Company’s net sales:

|                                | The year ended       |                      |   |
|--------------------------------|----------------------|----------------------|---|
|                                | December<br>31, 2011 | December<br>31, 2010 |   |
| Beijing MINGHESHIJI Media Ltd. | -                    | 31.10                | % |
| Shanxi China Mobil Ltd.        | -                    | 10.40                | % |

As at December 31, 2011, there is no accounts receivable due from customers. The Company did not have any concentrations of business for both customers and suppliers for the year ended December 31, 2011 due to the minimal operations and termination of contract with YR TV Station.

Credit risk on cash and cash equivalents – The Company maintains its cash and cash equivalents in accounts with major financial institutions in the United States of America and the PRC, in the form of demand deposits and money market accounts. Deposits in banks may exceed the amounts of federal deposit insurance provided on such deposits. As of December 31, 2011 the Federal Deposit Insurance Corporation insured balances in bank accounts up to \$250,000. At December 31, 2011, the uninsured balances amounted to approximately \$1.8 million. The Company has not experienced any losses on its deposits of cash and cash equivalents.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16– OPERATING RISK AND MARKET RISK

Foreign currency risk

Substantially all of the Company's transactions are denominated in Renminbi, but a substantial portion of its cash is kept in U.S. dollars. Although the Company believes that, in general, its exposure to foreign exchange risks should be limited, its cash flows and revenues will be affected by the foreign exchange rate between U.S. dollars and Renminbi. It is possible that the Chinese government may elect to loosen further its current controls over the extent to which the Renminbi is allowed to fluctuate in value in relation to foreign currencies. The Company's business and the price of its ordinary shares could be negatively affected by a revaluation of the Renminbi against the U.S. dollar or by other fluctuations in prevailing Renminbi-U.S. dollar exchange rates.

Company's operations are substantially in foreign countries

Substantially all of the Company's operations are in China. The Company's operations are subject to various political, economic, and other risks and uncertainties inherent in China. Among other risks, the Company's operations are subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Operating Leases

In the normal course of business, the Company leases office space under operating leases agreements. The operating lease agreements generally contain renewal options that may be exercised at the Company's discretion after the completion of the base rental terms.

The Company rents office space from China YR TV Station for approximately \$2,200 per year through June 2012. Rent expense for the year ended December 31, 2011 totaled \$125,840.

The Company is obligated under operating leases requiring minimum rentals as follows:

|            |          |
|------------|----------|
| 2012       | \$ 1,190 |
| Thereafter | -        |
|            | \$ 1,190 |

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18 – PARENT ONLY FINANCIAL STATEMENTS

As of December 31, 2011, the total restricted net assets exceeded 25% percentage of the Company's consolidated net assets. As a result, parent only financial statements are prepared as follows:

## Parent Only Balance Sheets

As of December 31, 2011 and 2010

|  | December<br>31,<br>2011 | December<br>31,<br>2010 |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| <b>CURRENT ASSETS</b>  |                         |                         |
| Cash   | \$ 104                  | \$ 104                  |
| Restricted cash  | 236,400                 | 236,400                 |
| Loan receivable from ANT   | -                       | 10,349,168              |
| Loan receivable from CNM   | 14,923,301              | 24,917,495              |
| Deferred financing costs   |                         | 1,279,879               |
| Total current assets   | 15,159,805              | 36,783,046              |
| Investment in subsidiaries   | (9,566,801 )            | (2,119,025 )            |
| <b>TOTAL ASSETS</b>  | <b>\$ 5,593,004</b>     | <b>34,664,021</b>       |
| <b>LIABILITIES AND EQUITY</b>  |                         |                         |
| <b>CURRENT LIABILITIES</b>   |                         |                         |
| Accrued interest   | -                       | 789,500                 |
| Other payable  | 330,854                 | 574,247                 |
| Accrued liabilities  | -                       | 85,399                  |
| Notes payable, net   | -                       | 9,042,263               |
| Total current liabilities  | 330,854                 | 10,491,409              |
| <b>COMMON STOCK SUBJECT TO REPURCHASE</b>  | <b>236,400</b>          | <b>236,400</b>          |
| <b>TOTAL LIABILITIES</b>   | <b>567,254</b>          | <b>10,727,809</b>       |
| <b>EQUITY</b>  |                         |                         |
| China Networks International Holdings, Ltd. equity:  |                         |                         |
| Class A Preferred Shares, net of issuance costs (\$0.0005 par value; 7,264,503 shares authorized, 7,264,503 shares issued and outstanding at December 31, 2011, liquidation preference of \$7,264,503) | 3,633                   | 8,000                   |
| Common stock at \$0.0001 par value; (64,179,098 shares authorized, issued and outstanding at December 31, 2011)  | 6,418                   | 4,102                   |
| Additional paid-in capital   | 26,419,357              | 33,870,121              |
| Accumulated deficit  | (21,594,006)            | (10,470,373)            |



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|  |             |            |
|--|-------------|------------|
| Accumulated other comprehensive income | 190,348     | 524,362    |
| Total shareholders' equity             | 5,025,750   | 23,936,212 |
| Total equity                           | 5,025,750   | 23,936,212 |
| TOTAL LIABILITIES AND EQUITY           | \$5,593,004 | 34,664,021 |

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18 – PARENT ONLY FINANCIAL STATEMENTS (CONT'D)

## Parent Only Statement of Operations

For the years ended December 31, 2011 and 2010

|   | For the year ended      |                         |
|---|-------------------------|-------------------------|
|   | December<br>31,<br>2011 | December<br>31,<br>2010 |
| NET REVENUE   | \$-                     | -                       |
| COST OF REVENUE   | -                       | -                       |
| Gross profit  | -                       | -                       |
| OPERATING EXPENSES  |                         |                         |
| Selling expense   | -                       | -                       |
| General and administrative expense                          | 3,489,827               | 1,278,000               |
|   | 3,489,827               | 1,278,000               |
| LOSS FROM OPERATIONS  | (3,489,827)             | (1,278,000)             |
| OTHER INCOME  |                         |                         |
| Waiver of accrued liability                                 |                         |                         |
| (including loss on disposal of subsidiaries of \$7,562,491) | -                       | 5,555,910               |
|   | -                       | 5,555,910               |
| (LOSS)/INCOME BEFORE INCOME TAX                             | (3,489,827)             | 4,277,910               |
| INCOME TAX  | (106,956 )              | -                       |
| NET (LOSS)/INCOME   | (3,382,871)             | 4,277,910               |

No parent only statement of cashflows is presented as there is no change in cash and cash equivalent for the year.

## Exhibit Index

| Exhibit<br>Number | Description  |
|-------------------|--|
| 12.1              | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)               |
| 12.2              | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)               |
| 13.1              | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2              | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS*          | XBRL Instance Document   |
| 101.SCH*          | XBRL Taxonomy Extension Schema Document  |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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