

NETWORK CN INC  
Form 10-K  
April 01, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2018**

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

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

Commission file number 000-30264

**NETWORK CN INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **90-0370486**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong**

(Address of principal executive offices)

+ (852) 2833-2186

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 Par Value

(Title of Each Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately \$5,755,500.

The number of shares outstanding of each of the issuer's classes of common stock, as of March 29, 2019 is as follows:

| Class of Securities             | Shares Outstanding |
|---------------------------------|--------------------|
| Common Stock, \$0.001 par value | 8,732,263          |

**NETWORK CN INC.**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Statements contained in this annual report include “forward-looking statements” within the meaning of such term in Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause actual financial or operating results, performances or achievements expressed or implied by such forward-looking statements not to occur or be realized. Forward-looking statements made in this annual report generally are based on our best estimates of future results, performances or achievements, predicated upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “will”, “could”, “should”, “project”, “expect”, “believe”, “estimate”, “anticipate”, “intend”, “contingent”, “opportunity” or similar terms, variations of those terms or the negative of those terms or other variations of those terms or comparable words or expressions. Potential risks and uncertainties include, among other things, such factors as:

- 1 our potential inability to raise additional capital;
- 1 changes in domestic and foreign laws, regulations and taxes;
- 1 uncertainties related to China's legal system and economic, political and social events in China;
- 1 Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks;” and
- 1 changes in economic conditions, including a general economic downturn or a downturn in the securities markets.

Readers are urged to carefully review and consider the various disclosures made by us in this annual report and our other filings with the U.S. Securities and Exchange Commission (the “SEC”). These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this annual report speak only as of the date hereof and we disclaim any obligation to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

**USE OF TERMS**

Except as otherwise indicated by the context, references in this annual report to:

1 “BVI” are references to the British Virgin Islands;

1 “China” and “PRC” are to the People’s Republic of China;

the “Company”, “NCN”, “we”, “us”, or “our”, are references to Network CN Inc., a Delaware corporation and its direct and indirect subsidiaries: NCN Group Limited, or NCN Group, a BVI limited company; NCN Media Services Limited, a BVI limited company; NCN Group Management Limited, or NCN Group Management, a Hong Kong limited company; Crown Winner International Limited, or Crown Winner, a Hong Kong Limited company, and its subsidiary, Business Boom Investments Limited, a BVI Limited company and its variable interest entity, Xingpin Shanghai Advertising Limited; Crown Eagle Investments Limited, a Hong Kong limited company; NCN Group (HK) Limited, a Hong Kong limited company; Cityhorizon Limited, or Cityhorizon Hong Kong, a Hong Kong limited company, and its subsidiary, Huizhong Lianhe Media Technology Co., Ltd., or Lianhe, a PRC limited company; and Chuanghua Shanghai advertising Limited, a PRC limited company; NCN Huamin Management Consultancy (Beijing) Company Limited, or NCN Huamin, a PRC limited company; and the Company’s variable interest entity, Beijing Huizhong Bona Media Advertising Co., Ltd., or Bona, a PRC limited company;

1 “RMB” are to the Renminbi, the legal currency of China;

1 the “Securities Act” are to the Securities Act of 1933, as amended; and the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;

1 “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States.

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**PART I**

**ITEM 1.**

**BUSINESS**

**Overview of Our Business**

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. Our business direction is to not just sell air-time for its media panels but also started working closely with property developers in media planning for the property at the very early stage. As a media planner we share the advertising profits with the property developers without paying significant rights fees, so we expect to achieve a positive return from these projects.

**History**

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

**Recent Developments**

***Completes Additional Private Placement***

On March 15, 2018, Network CN Inc. (the “Company”), sold an aggregate of 216,000 shares of the Company’s common stock (the “Shares”) to 19 foreign investors (the “New Investors”) pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 15, 2018. The purchase price paid by the New Investor for the Shares was \$0.40 per Share for an aggregate sum of Eighty-Six Thousand and Four Hundred U.S. Dollars (US\$86,400). Net proceeds from the financing will be used for general corporate purposes.

On May 4, 2018, the Company sold an aggregate of 292,000 shares of the Company's common stock (the "Shares") to 11 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated May 4, 2018. The purchase price paid by the New Investor for the Shares were \$0.50 or \$0.60 per Share for an aggregate sum of one hundred and seventy thousand, seven hundred and thirty-three U.S. dollars and thirty cents (US\$170,733). Net proceeds from the financing will be used for general corporate purposes.

On December 28, 2018, the Company sold an aggregate of 149,398 shares of the Company's common stock (the "Shares") to 16 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated December 28, 2018. The purchase price paid by the New Investor for the Shares were \$0.77 or \$2.00 per Share for an aggregate sum of one hundred and forty-nine thousand, five hundred and seventy-three U.S. dollars and thirty cents (US\$149,573). Net proceeds from the financing will be used for general corporate purposes.

On March 28, 2019, the Company sold an aggregate of 35,000 shares of the Company's common stock (the "Shares") to 9 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 28, 2019. The purchase price paid by the New Investor for the Shares were \$1.50 or \$1.88 per Share for an aggregate sum of sixty-three thousand, three hundred and seventy-five U.S. dollars and thirty cents (US\$63,375). Net proceeds from the financing will be used for general corporate purposes.

The offering was made pursuant to an exemption from registration with the SEC pursuant to Regulation S. The securities have not been registered under the Securities Act of 1933 or any state securities laws and unless so registered may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Company did not grant any registration rights to the new shareholders with respect to the Shares in the offering.

## **Corporate Structure**

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



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**Available Information**

We file with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports to be filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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Our corporate headquarters are located at 3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, Special Administrative Region of the People's Republic of China. Our telephone number is + (852) 2833-2186. We maintain a website at [www.ncnmedia.com](http://www.ncnmedia.com) that links to our electronic SEC filings and contains information about our subsidiaries which is not a part of this report. All the above documents are available free of charge on our website as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

## **Industry Overview**

The world economy continued to struggle through uncertainty about the European sovereign debt crisis and the strength of the economic recovery in the United States which, in turn, hampered global economic revival since 2013. The unfavorable global and domestic climate created a number of challenges to China's advertising industry as budget conservatism prevailed among advertisers throughout the period. Most advertisers are cost-conscious and prefer to commit to short-term rather than long-term contracts. Current or potential advertisers may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed media costs associated with our operations. Competition in the domestic out-of-home advertising sector is very intense and many local operators offer significant sales discounts to compete for market share.

With the economic slowdown, as expected, China's advertising market also followed in step and realized slow but smooth growth.

In the past, we expended our resources to build an out-of-home media throughout different PRC cities. We believe that in order to increase our market share in out-of-home advertising in China we will have to increase our advertising locations, obtain more exclusive arrangements in desirable and prominent locations and to provide a wider range of media and advertising services through entering business agreements or business combination exercises with third parties.

## **Our Services**

During the fiscal years ended December 31, 2018 and 2017, we did not provide any services.

## **Our Suppliers**

In some of our current and past media projects, we are responsible for installing advertising panels and billboards. We design the shape of our advertising panels and billboards according to the terms approved in the relevant PRC governmental documents. We identify suppliers of component parts used in our advertising panels and contract assembly of our advertising panels to third-party contract assemblers who assemble our advertising panels according to our specification. We select component suppliers based on price and quality. During the fiscal years ended December 31, 2018 and 2017, we did not install any advertising panels and billboards and no rights contracts were signed in 2018 and 2017.

## **Our Customers**

Our customers include large international and domestic brand name customers. Our operations were negatively affected by a variety of factors including slower economic growth in PRC, slower than expected consumer acceptance of the digital form of advertising media and customers continued to be cost-conscious in their advertising budget. To address these unfavorable market conditions, we implement cost-cutting measures with reductions in our workforce in particular the direct sales force. The reduced selling power and strong competition from other media companies resulted in the Company having no customer for 2018 and 2017.

## **Sales and Marketing**

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

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### **Competition**

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

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

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

In addition, our business has been adversely affected by the global financial turmoil which began in late 2008. In order to enhance our competitive power, we will strictly control our operating costs and actively search for other prominent advertising projects in order to expand our advertising network. We believe that expanding our advertising network will enable us to offer more competitive pricing to our advertising clients, thereby increasing our profitability.

### **Our Intellectual Property**

As of March 29, 2019, we do not have any registered trademarks, copyrights, licenses or patent rights.

## **Our Research and Development**

No material costs have been incurred on research and development activities for the fiscal years 2018 and 2017. We do not expect to incur significant research and development costs in the coming future.

## **Employees**

As of December 31, 2018, the Company and its subsidiaries and variable interest entities had approximately 3 employees at our office located at Hong Kong, all of which are full-time employees.

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

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

## **Government Regulation**

### *Advertising Services*

#### *Business Licenses for Advertising Companies*

The principal regulations governing the advertising businesses in China include:

|   |   |   |
|---|---|---|
|   | 1 | The Advertising Law (1994);   |
| 1 | 1 | Regulations on Control of Advertisement (1987); and                           |
| 1 |   | The Implementing Rules for the Advertising Administrative Regulations (2004). |



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These regulations stipulate that companies that engage in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation.

We do not expect to encounter any difficulties in maintaining our business licenses. Our PRC advertising operating companies hold business license from the local branches of the SAIC as required by the existing PRC regulations.

### *Advertising Content*

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest.

Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. It is prohibited to disseminate tobacco advertisements via broadcast or print media. It is also prohibited to display tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, veterinary pharmaceuticals, agrochemicals, foodstuffs, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals advertised through radio, film, television, newspaper, magazine and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute are true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements comply with applicable PRC laws and regulations. In addition, prior to distributing advertisements for certain commodities, which are subject to government censorship and approval, advertising distributors and advertisers are obligated to ensure that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators' licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business. We have implemented procedures to ensure the content of our advertisement are properly reviewed and the advertisement would only be published upon the receipt of content approval from the relevant administrative authorities. However,

we provide no assurance that all the content of the advertisement are true and in full compliance with applicable laws.

*Out-of-home Advertising*

The Advertising Law stipulates that the exhibition and display of out-of-home advertisements must not:

- 1 utilize traffic safety facilities and traffic signs;
- 1 impede the use of public facilities, traffic safety facilities and traffic signs;
- 1 obstruct commercial and public activities or create an eyesore in urban areas;
- 1 be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; and
- 1 be placed in areas prohibited by the local governments from having out-of-home advertisements.

In addition to the Advertising Law, the SAIC promulgated the Out-of-home Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998, and May 22, 2006, which governs the out-of-home advertising industry in China.

Out-of-home advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Out-of-home Advertising Registration Certificate for such advertisement. Many municipal cities of China have respectively promulgated their own local regulations on the administration of out-of-home advertisements. Those municipal regulations set forth specific requirements on the out-of-home advertisements, such as the allowed places of dissemination and size requirements of the out-of-home advertisement facilities.

In addition to the regulations on out-of-home advertisements, the placement and installation of LED billboards are also subject to municipal local zoning requirements and relevant governmental approvals of the city where the LED billboards located. In Shanghai, prior to the placement and installation of LED billboards, installers are required to apply for an out-of-home advertising registration certificate for each LED billboard subject to a term of use approved by local government agency for each LED billboard. If the existing LED billboards placed by our LED location provider or us are required to be removed, the attractiveness of this portion of our advertising network will be diminished.



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***Foreign Currency Exchange***

The principal regulation governing foreign currency exchange in China is the Rules on Foreign Exchange Control (1996), as amended. Under these rules, Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment outside China without the prior approval of the State Administration for Foreign Exchange of the PRC or other relevant authorities is obtained.

Pursuant to the Rules on Foreign Exchange Control, foreign investment enterprises in China may purchase foreign currency without the approval of the State Administration for Foreign Exchange of the PRC for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also exchange Renminbi into foreign currencies (subject to a cap approved by the State Administration for Foreign Exchange of the PRC) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment outside China are still subject to limitations and require approvals from the State Administration for Foreign Exchange of the PRC.

***Dividend Distributions***

The principal regulations governing distribution of dividends of wholly foreign-owned companies include:

- 1 the Foreign Investment Enterprise Law (1986), as amended; and
- 1 Administrative Rules under the Foreign Investment Enterprise Law (2001).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds, until such reserve funds have reached 50% of the enterprise's registered capital. These reserves are restricted and not distributable as cash dividends.

We have not received any dividends or fees from our PRC subsidiaries or affiliated Chinese entities in the past three years. As all our PRC subsidiaries are currently still operating at a net loss, we are unable to estimate the time to receive dividends or other fees.

### ***Enterprise Income Tax Law***

The Enterprise Income Tax Law, or EIT Law, was promulgated by the PRC's National People's Congress on March 16, 2007 to introduce a new uniform taxation regime in the PRC. Both resident and non-resident enterprises deriving income from the PRC were subject to the EIT Law from January 1, 2008. It applies a single income tax rate to all enterprises in the PRC. Under this EIT Law, enterprises that qualify as "new and high technology enterprises" ("high-tech companies") are entitled to a preferential tax rate of 15% and in other very limited situation entities may be subject to a EIT rate of 20%, but the general EIT rate is 25%.

We believe that each of our PRC operating entities were resident enterprises and subject to the enterprise income tax rate of 25% for their global income. We do not believe that any of our off-shore entities are resident enterprises as our off-shore entities didn't provide any services in the PRC and their management and controls are all located outside China; permanent establishment does not exist and hence they would not fall into the resident enterprise category. However, we cannot provide assurance that all our offshore operating entities are not "resident enterprises" as there are substantial uncertainties regarding the interpretation and implementation of current PRC tax rule and regulation.

### **Environmental Matters**

The Company's operations are subject to various environmental regulations. We believe that we are in substantial compliance with applicable laws, rules and regulations relating to the protection of the environment and that our compliance will have no material effect on our capital expenditures, earnings or competitive position.

### **ITEM 1A.**

### **RISK FACTORS**

Smaller reporting companies are not required to provide the information required by this item.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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**ITEM 2. PROPERTIES**

We maintain our head office in Hong Kong at 3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

We believe that all our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our business.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. We are not a party to or otherwise involved in any pending legal proceedings.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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5. AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Our Common Stock**

Since August 1, 2006, our common stock has been quoted on the Over-the-Counter Bulletin Board, or OTCBB, maintained by the Financial Industry Regulatory Authority ("FINRA"), under the symbol "NWCN." From February 2011 to February 2012, our common stock, along with the securities of over 600 other issuers, was transferred from the OTCBB automated quotation system to the OTCQB, which is part of the OTC Market Group's quotation system, due to the quotation inactivity by our market makers. However, in February 2012, our common stock resumed quotation on the OTCBB as well. On March 1, 2017, the last reported sales price of our common stock on the OTCBB was \$0.3 per share.

On September 16, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Delaware Secretary of State to effect a 1-for-5 reverse stock split of our outstanding common stock and a reduction of our authorized shares of common stock from 2,000,000,000 to 400,000,000. The CUSIP number for our common stock has been changed to 64125G209 accordingly. On September 21, 2011, FINRA approved the reverse split of our common stock and it commenced trading on a post-split basis on September 22, 2011.

On August 11, 2015, we filed a Certificate of Amendment to our Certificate of Incorporation with the Delaware Secretary of State to effect a 1-for-15 reverse stock split of our outstanding common stock and a reduction of our authorized shares of common stock from 400,000,000 to 26,666,667. The new CUSIP number for the Company's common stock is 64125G 308 accordingly. On August 10, 2015, the Financial Industry Regulatory Authority (FINRA) approved the reverse split and it commenced trading on a post-split basis on August 11, 2015.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

|                                      | Closing<br>Prices (1) |        |
|--------------------------------------|-----------------------|--------|
|                                      | High                  | Low    |
| FISCAL YEAR ENDED DECEMBER 31, 2018: |                       |        |
| Fourth Quarter                       | \$1.60                | \$1.00 |
| Third Quarter                        | \$1.80                | \$1.60 |
| Second Quarter                       | \$1.60                | \$0.40 |
| First Quarter                        | \$0.52                | \$0.15 |

FISCAL YEAR ENDED DECEMBER 31, 2017:

|                |        |        |
|----------------|--------|--------|
| Fourth Quarter | \$0.13 | \$0.13 |
| Third Quarter  | \$0.15 | \$0.09 |
| Second Quarter | \$0.13 | \$0.10 |
| First Quarter  | \$0.30 | \$0.07 |

(1) The above tables set forth the range of high and low closing prices per share of our common stock as reported by [www.bloomberg.com](http://www.bloomberg.com) for the periods indicated.

**Approximate Number of Holders of Our Common Stock**

As of March 29, 2019, the Company had approximately 187 stockholders of record and 8,732,263 shares of common stock were issued and outstanding. Because some of our common stock is held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

In December 2012, we changed our registrar and transfer agent for our common stock from Globex Transfer, LLC. to Pacific Stock Transfer Company. Their address is 6725 Via Austi Pkwy, Suite 300 Las Vegas, NV, USA and their telephone number and facsimile are +1 (702) 361-3033 and +1 (702) 433-1979, respectively.

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**Dividend Policy**

The Company has not declared any dividends since incorporation and does not anticipate doing so in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our subsidiaries in the PRC may pay dividends to us through our Hong Kong subsidiaries, Cityhorizon Hong Kong and Crown Winner International Limited. Current PRC regulations only allow our subsidiaries to pay dividends to us out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Also in accordance with its articles of association, each of our subsidiaries in the PRC is required to allocate to its enterprise development reserve at least 10% of its respective after-tax profits determined in accordance with the PRC accounting standards and regulations. Each of our subsidiaries in the PRC may stop allocations to its general reserve if such reserve has reached 50% of its registered capital. Allocations to the reserve can only be used for making up losses and other specified purposes and may not be paid to us in forms of loans, advances, or cash dividends. Dividends paid by our PRC subsidiaries to Cityhorizon Hong Kong and Crown Winner International Limited, our Hong Kong subsidiaries, will not be subject to Hong Kong capital gains or other income tax under current Hong Kong laws and regulations because they will not be deemed to be assessable income derived from or arising in Hong Kong.

We have not received any dividends or any other fees, including consulting fees, from our PRC subsidiaries or our affiliated Chinese entities in the past three years as all of our PRC operating companies, including our PRC subsidiaries and variable interest entities, are currently operating at an accumulated deficit and the above dividend restriction prevent us from receiving any dividends in the short term until they turn into accumulated profit. As such, we could only receive funds from them through the repayment of intercompany loans by our PRC subsidiaries or charging them service fees through the provision of management services. If our PRC operating entities continue to operate at a net loss, we will need to raise funds through the issuance of equity and debt securities to satisfy future payment requirements, and there is no assurance that we will be successful in raising such funds.

Our board of directors has discretion on whether to pay dividends unless the distribution would render us unable to repay our debts as they become due. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. For instance, the terms of the outstanding promissory notes issued to affiliated funds of Och-Ziff on April 2, 2014 contain restrictions on the payment of dividends. The dividend restrictions provide that the Company or any of its subsidiaries shall not declare or pay dividends or other distributions in respect of the equity securities of such entity other than dividends or distributions of cash which amounts during any 12-month period that exceed ten percent (10%) of the consolidated net income of the Company based on the Company's most recent audited financial statements disclosed in the Company's annual report on Form 10-K (or equivalent form) filed with the U.S. Securities and Exchange Commission.

## **Securities Authorized for Issuance Under Equity Compensation Plans**

See Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, "*Securities Authorized for Issuance Under Equity Compensation Plans*".

## **Recent Sales of Unregistered Securities**

During the past two years, we did not offer or sell any unregistered securities that were not previously disclosed in a quarterly report on Form 10-Q or in a current report on Form 8-K.

## **Purchases of Our Equity Securities**

No repurchases of our common stock were made during our fiscal year ended December 31, 2018.

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**ITEM 6. SELECTED FINANCIAL DATA**

Smaller reporting companies are not required to provide the information required by this item.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this annual report. In addition to historical information, the following discussion contains certain forward-looking information. See "Special Note Regarding Forward-Looking Statements" above for certain information concerning those forward looking statements. Our consolidated financial statements are prepared in U.S. dollars and in accordance with U.S. GAAP. References in this Report to a particular "fiscal" year are to our fiscal year ended on December 31.*

**Overview of Our Business**

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. Our business direction to not just selling air-time for its media panels but also started working closely with property developers in media planning for the property at the very early stage. As a media planner we share the advertising profits with the property developers without paying significant rights fees, so we expect to achieve a positive return from these projects.

There was no advertising revenue for the years ended December 31, 2018 and 2017. Our net loss was \$818,202 and \$769,960 for the years ended December 31, 2018 and 2017 respectively. The Company will continually explore new media projects in order to provide a wider range of media and advertising services, rather than focusing primarily on LED media.

**Recent Developments**

*Completes Additional Private Placement*



On March 15, 2018, Network CN Inc. (the “Company”), sold an aggregate of 216,000 shares of the Company’s common stock (the “Shares”) to 19 foreign investors (the “New Investors”) pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 15, 2018. The purchase price paid by the New Investor for the Shares was \$0.40 per Share for an aggregate sum of Eighty-Six Thousand and Four Hundred U.S. Dollars (US\$86,400). Net proceeds from the financing will be used for general corporate purposes.

On May 4, 2018, the Company sold an aggregate of 292,000 shares of the Company’s common stock (the “Shares”) to 11 foreign investors (the “New Investors”) pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated May 4, 2018. The purchase price paid by the New Investor for the Shares were \$0.50 or \$0.60 per Share for an aggregate sum of one hundred and seventy thousand, seven hundred and thirty-three U.S. dollars and thirty cents (US\$170,733). Net proceeds from the financing will be used for general corporate purposes.

On December 28, 2018, the Company sold an aggregate of 149,398 shares of the Company’s common stock (the “Shares”) to 16 foreign investors (the “New Investors”) pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated December 28, 2018. The purchase price paid by the New Investor for the Shares were \$0.77 or \$2.00 per Share for an aggregate sum of one hundred and forty-nine thousand, five hundred and seventy-three U.S. dollars and thirty cents (US\$149,573). Net proceeds from the financing will be used for general corporate purposes.

On March 28, 2019, the Company sold an aggregate of 35,000 shares of the Company’s common stock (the “Shares”) to 9 foreign investors (the “New Investors”) pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 28, 2019. The purchase price paid by the New Investor for the Shares were \$1.50 or \$1.88 per Share for an aggregate sum of sixty-three thousand, three hundred and seventy-five U.S. dollars and thirty cents (US\$63,375). Net proceeds from the financing will be used for general corporate purposes.

The offering was made pursuant to an exemption from registration with the SEC pursuant to Regulation S. The securities have not been registered under the Securities Act of 1933 or any state securities laws and unless so registered may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Company did not grant any registration rights to the new shareholders with respect to the Shares in the offering.

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***Identification of Potential Projects***

The Company will continually explore new media projects in order to provide a wider range of media and advertising services, rather than focusing primarily on LED media. The Company has identified several such potential projects which it intends to aggressively pursue in the coming year.

**Results of Operations**

***Comparison of Years Ended December 31, 2018 and 2017.***

*General and Administrative Expenses.* General and administrative expenses primarily consist of compensation related expenses (including salaries paid to executive and employees, stock-based compensation expense for stock granted to directors, executive officers and employees for services rendered, employee bonuses and other staff welfare and benefits), rental expenses, depreciation expenses, fees for professional services, travel expenses and miscellaneous office expenses. General and administrative expenses for the year ended December 31, 2018 increased by 24% to \$338,482, compared to \$272,133 for the year ended December 31, 2017. The increase in general and administrative expenses was mainly due to reversal of over accrued legal fee for the year ended December 31, 2017.

*Gain from write-off of long aged payable* – Gain from write-off of long-aged payables for the years ended December 31, 2018 and 2017 was \$107,500 and \$47,046, respectively. We believe the obligation for future settlement for such long-aged payables is remote and therefore wrote them off.

*Gain from disposal of subsidiaries* – Gain from disposal of subsidiaries was \$25 for the year ended December 31, 2017. the Company's subsidiary, NCN Media Services Limited, disposed of its entire 100% equity interests of NCN Group (HK) Limited and Business Boom Investments Limited which was dormant, to an individual at \$1 consideration. Accordingly, the Company recorded a gain from disposal of subsidiaries of \$25 for the year ended December 31, 2017.

*Stock based compensation for services* – Stock-based compensation for services is stock granted to directors, executive officers and employees for services rendered calculated in accordance with Accounting Standards Codification, or ASC, Topic 718. Stock-based compensation for services was \$20,337 for the year ended December 31, 2018, as compared to \$nil for the corresponding prior year period. The increase in the stock-based compensation was mainly due to stock have been granted for services rendered for private placement for the year ended December 31, 2018.

*Interest and Other Debt-Related Expenses.* Interest and other debt-related expenses for the year ended December 31, 2018 increased to \$566,885 or by 4.0%, compared to \$544,898 for the year ended December 31, 2017. The increase was due to the increased balance of the short-term loans.

*Income Taxes.* The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded for the years ended December 31, 2018 and 2017 as the Company and all of its subsidiaries and variable interest entities operated at a tax loss in fiscal 2018 and 2017.

*Net Loss.* The Company incurred a net loss of \$818,202 for the year ended December 31, 2018, an increase of 6.27% compared to a net loss of \$769,960 for the year ended December 31, 2017. The increase in net loss was primarily due to increase in general and administrative expenses and interest for short term loan for the year ended December 31, 2018.

## Liquidity and Capital Resources

### Cash Flows

As of December 31, 2018, current assets were \$122,938 and current liabilities were \$11,949,684. Cash as of December 31, 2018 was \$22,684 compared to \$6,124 as of December 31, 2017, an increase of \$16,560. The increase was due to proceeds from private placement.

The following table sets forth a summary of our cash flows for the periods indicated:

|   | Years ended  |             |
|---|--------------|-------------|
|   | December 31, |             |
|   | 2018         | 2017        |
| Net cash used in operating activities     | \$(484,127)  | \$(165,629) |
| Net cash used in investing activities     | -            | (2,632 )    |
| Net cash provided by financing activities | 500,871      | 165,584     |
| Effect of exchange rate changes on cash   | (184 )       | 289         |
| Net increase (decrease) in cash           | 16,560       | (2,388 )    |
| Cash at the beginning of year             | 6,124        | 8,512       |
| Cash at the end of year                   | \$22,684     | \$6,124     |



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***Operating Activities***

Net cash used in operating activities for the year ended December 31, 2018 was \$484,127, as compared with \$165,629 for the year ended December 31, 2017, an increase of \$318,498. The increase in net cash used in operating activities was mainly attributable the increase payment to administrative service providers and payment for interest for short term loan.

***Investing Activities***

Net cash used in investing activities for the year ended December 31, 2018 was \$nil, as compared with net cash provided by investing activities of \$2,632 for the year ended December 31, 2017. The decrease in net cash used in investing activities was from purchase of office equipment in 2017.

***Financing Activities***

Net cash provided by financing activities was \$500,871 for the year ended December 31, 2018, as compared with \$165,584 for the year ended December 31, 2017. The increase was mainly due to increase in proceeds from private place and proceeds from short-term loans for financing our operations for the year ended December 31, 2018.

***Short-term Loans***

As of December 31, 2018, the Company recorded an aggregated amount of \$2,916,600 of short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand. Up to the date of this report, those loans have not yet been repaid.

As of December 31, 2017, the Company recorded an aggregated amount of \$2,822,435 of short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand. Up to the date of this report, those loans have not yet been repaid.

***Capital Expenditures***

During the years ended December 31, 2018 and 2017, we acquired assets of \$nil and \$2,632 respectively which were financed through the cash flow provided by financing activities.

***Contractual Obligations and Commercial Commitments***

The following table presents certain payments due under contractual obligations with minimum firm commitments as of December 31, 2018:

|                      | Payments due by period |                         |             |      |            |
|----------------------|------------------------|-------------------------|-------------|------|------------|
|                      |                        | <b>Due</b>              | <b>Due</b>  |      |            |
| Total                | <b>Due in</b>          | <b>in</b>               | <b>in</b>   |      | Thereafter |
|                      | <b>2018</b>            | <b>2019 – 2021-2022</b> | <b>2020</b> |      |            |
| Debt Obligations (a) | \$5,000,000            | \$5,000,000             | \$ -        | \$ - | \$ -       |
| Short Term Loan (b)  | 2,916,600              | 2,916,600               | -           | -    | -          |

**(a) Debt Obligations.** We issued an aggregate of \$5,000,000 in 1% Convertible Promissory Notes in April 2009 to our investors and such 1% Convertible Promissory Notes matured on April 1, 2016. For details, please refer to the Note 10 of the consolidated financial statements.

**(b) Short Term Loan.** We have entered short-term loan agreement with an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand.

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***Going Concern***

Our cash flow projections indicate that our current assets and projected revenues from our existing project will not be sufficient to fund operations over the next twelve months. This raises substantial doubt about our ability to continue as a going concern. We intend to rely on Keywin's exercise of its outstanding option to purchase \$2 million in shares of our common stock or on the issuance of additional equity and debt securities as well as on our notes' holders' exercise of their conversion option to convert our notes to our common stock, in order to fund our operations. However, it may be difficult for us to raise funds in the current economic environment. If adequate capital is not available to us, we may need to sell assets, seek to undertake a restructuring of our obligations with our creditors, or even cease our operations. We cannot give assurance that we will be able to generate sufficient revenue or raise new funds, or that Keywin will exercise its option before their expiration and our notes' holder will exercise their conversion option before the note is due. In any such case, we may not be able to continue as a going concern.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

**Critical Accounting Policies**

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

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

**Use of Estimates** - The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expense during the reporting period. Estimates are used when accounting for certain items such as accounting for income tax valuation allowances. Estimates are based on historical experience, where applicable, and assumptions that management believes are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

**Principles of Consolidation** –The consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities for which it is the primary beneficiary. These variable interest entities are those in which the Company, through contractual arrangements, bears the risks and enjoys the rewards normally associated with ownership of the entities. Upon making this determination, the Company is deemed to be the primary beneficiary of these entities, which are then required to be consolidated for financial reporting purpose. All significant intercompany transactions and balances have been eliminated upon consolidation.

**Equipment, Net** –Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided on a straight-line basis, less estimated residual values over the assets' estimated useful lives. The estimated useful lives are as follows:

|                        |             |
|------------------------|-------------|
| Office equipment       | 3 - 5 years |
| Furniture and fixtures | 3 - 5 years |
| Motor vehicles         | 5 years     |

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

**Impairment of Long-Lived Assets** –Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis. There was no impairment of long-lived assets for the years ended December 31, 2018 and 2017.



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*Convertible Promissory Notes and Warrants*

*1) Debt Restructuring and Issuance of 1% Convertible Promissory Note*

On April 2, 2009, the Company issued 1% unsecured senior convertible promissory notes to the previous 3% convertible promissory note holders who agreed to cancel these 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the 1% unsecured senior convertible promissory notes in the principal amount of \$5,000,000. The 1% convertible promissory notes bore interest at 1% per annum, payable semi-annually in arrears, matured on April 1, 2012, and were convertible at any time into shares of the Company's common stock at a fixed conversion price of \$1.7445 per share, subject to customary anti-dilution adjustments. Pursuant to ASC Topic 470, Debt, the Company determined that the original convertible notes and the 1% convertible notes were with substantially different terms and hence the exchange was recorded as an extinguishment of original notes and issuance of new notes.

The Company determined the 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815, Derivatives and Hedging. Its embedded conversion option qualified for equity classification. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

*2) Extension of 1% Convertible Promissory Note*

The 1% convertible promissory notes matured on April 1, 2012 and on the same date, the Company and the note holders agreed to the following: 1) extension of the maturity date of the 1% convertible promissory notes for a period of two years and 2) modification of the 1% convertible promissory notes to be convertible at any time into shares of the Company's common stock at a conversion price of \$1.3956 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% convertible promissory notes remain the same and are fully enforceable in accordance with their terms. Subsequently, the Company issued to the note holders new 1% convertible promissory notes with a maturity date of April 1, 2014. Pursuant to ASC Topic 470, the Company determined that the modification is substantially different and hence the modification was recorded as an extinguishment of notes and issuance of new notes. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded a gain on extinguishment of debt. The 1% Convertible Promissory Notes were scheduled to mature on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms.

Subsequently, the Company issued to the note holders new 1% convertible promissory notes which mature on April 1, 2016. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded no gain or loss on extinguishment of debt.

The Company determined the modified new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815. Its embedded conversion option qualified for equity classification. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the new 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

On April 29, 2016, the Company received a reservation of rights letter from the note holders to reserves all of its powers, rights and privileges.

**Revenue Recognition** – Effective January 1, 2018, the Company adopted and implemented ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). We adopted ASU 2014-09 and its related amendments (collectively known as "ASC 606") effective on January 1, 2018.

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Under the new standard and its related amendments (collectively known as ASC 606), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that are within the scope of the new standard, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard also includes criteria for the capitalization and amortization of certain contract acquisition and fulfillment costs.

In accordance with ASC 606, we recognize when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration we expect to be entitled to receive in exchange for such services. To achieve this core principle, we apply the following five steps:

1) Identify the contract(s) with a customer - A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to those goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. The contract term for contracts that provide a right to terminate a contract for convenience without significant penalty will reflect the term that each party has enforceable rights under the contract (the period through the earliest termination date). If the termination right is only provided to the customer, the unsatisfied performance obligations will be evaluated as customer options as discussed below.

2) Identify the performance obligations in the contract - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both (i) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from us, and (ii) are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation. Certain of our contracts (under which we deliver multiple promised services) require us to perform integration activities where we bear risk with respect to integration activities. Therefore, we must apply judgment to determine whether as a result of those integration activities and risks, the promised services are distinct on the context of the contract.

We typically do not include options that would result in a material right. If options to purchase additional services or options to renew are included in customer contracts, we evaluate the option in order to determine if our arrangement include promises that may represent a material right and needs to be accounted for as a performance obligation in the contract with the customer.

3) Determine the transaction price - The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer. Our contract prices may include fixed amounts, variable amounts or a combination of both fixed and variable amounts. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. When determining if variable consideration should be constrained, management considers whether there are factors outside our control that could result in a significant reversal of revenue. In making these assessments, we consider the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required.

4) Allocate the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (SSP) basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. For most performance obligations, we determine standalone selling price based on the price at which the performance obligation is sold separately. Although uncommon, if the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) Recognize revenue when (or as) we satisfy a performance obligation: we satisfy performance obligations either over time or at a point-in-time as discussed in further detail below. Revenue is recognized when the related performance obligation is satisfied by transferring control of a promised good or service to a customer.

The Company did not generate any revenue for the years ended December 31, 2018 and 2017.

**Stock-based Compensation** – The Company complies with ASC Topic 718, Compensation – Stock Compensation, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted. It requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized as expense over the requisite services period.

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The Company follows ASC topic 505-50, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods and Services,” for stock issued to consultants and other non-employees. In accordance with ACS Topic 505-50, the stock issued as compensation for services provided to the Company are accounted for based upon the fair value of the services provided or the estimated fair market value of the stock, whichever can be more clearly determined. The fair value of the equity instrument is charged directly to expense over the period during which services are rendered.

***Income Taxes*** – The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its consolidated financial statements. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

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

## **Recent Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the recently issued accounting

standards will not have a material impact on the Company's financial position or results of operations upon adoption.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **Interest Rate Sensitivity**

We have no significant interest-bearing assets and our convertible promissory notes and short-term loans are fixed rate securities. Our current exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits in banks and the fair value of our invested securities. Although we do not believe that interest rate has had a material impact on our financial position or results of operations to date, increase in interest rates in the future could increase interest cost on our new debt and could adversely impact our ability to refinance existing debt and limit our acquisition and development activities.

### **Foreign Currency Exchange Risk**

While our reporting currency is the U.S. dollar, our consolidated revenues and consolidated costs and expenses are substantially denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. If the RMB appreciates against the U.S. dollar, any new RMB-denominated investments or expenditures will be more costly to us. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates while stockholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of stockholders' equity. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk.

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The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

**Inflation Risk**

Inflationary factors such as increases in the costs to acquire advertising rights and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of revenues if the selling prices of our services do not increase with these increased costs.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Consolidated Financial Statements**

The consolidated financial statements required by this item begin on page F-1 hereof.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported during the year and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Earnest Leung, and our Chief Financial Officer, Shirley Cheng, as appropriate to allow timely decisions regarding required disclosure. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and published consolidated financial statements.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as of December 31, 2018, in accordance with Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Based on and as a result of this evaluation, our Chief Executive Officer and our Chief Financial Officer have determined that as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.



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Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with government.

Our management, with the participation and under the supervision of our Chief Executive Officer, Earnest Leung and our Chief Financial Officer, Shirley Cheng, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control- Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, Dr. Leung and Ms. Cheng determined that our internal control over financial reporting was effective as of December 31, 2018.

### **Changes in Internal Control Over Financial Reporting.**

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Not applicable

### **PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors and Executive Officers**

The following table sets forth the names, ages and positions held with respect to each Director and Executive Officer of the Company as of the date of this Annual Report.

| <b>Name</b>    | <b>Age</b> | <b>Position</b>   | <b>Director Since</b> |
|----------------|------------|---|-----------------------|
| Earnest Leung  | 62         | Chief Executive Officer and Chairperson of the Board      | 2009                  |
| Shirley Cheng  | 40         | Chief Financial Officer, Corporate Secretary and Director | 2015                  |
| Wong Wing Kong | 52         | Director  | 2015                  |

Remarks:

On June 30, 2017, Mr. Frederick Wong, Director the Company notified the Company of his intention to resign from his position as a director of the Company for personal reasons. Mr. Wong's resignation became effective on July 1, 2017. Mr. Wong's resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. The Board of Directors of the Company is currently reviewing candidates to fill the vacancy on the Board of Directors caused by Mr. Wong's resignation and will announce the appointment of a suitable candidate as soon as such determination is made.

Except for the resigned director, each Director serves until our 2018 annual stockholders meeting and until their respective successors are duly elected and qualified or earlier resignation or removal.

**Earnest Leung** has served as the Company's director since May 11, 2009, and as Chief Executive Officer and Chairperson of the Board of the Company since July 15, 2009. Dr. Leung also currently served as J.E.M. Capital, Inc.'s Chief Executive Officer and Chairperson of the Board of the Company since January 5, 2017. Dr. Leung has over 20 years' experience in the investment banking industry. Since November 2004, he has worked as a financial advisor and consultant in Hong Kong and currently serves as a director of Keywin Holdings Limited, an investment company, and of Statezone Ltd, a financial consulting company owned and controlled by Dr. Leung. From June 2009 to August 2011, he also served as a director and chief executive officer of China Boon Holdings Limited, which is listed on Hong Kong Main Board engaging in the distribution of consumer electronic products and home appliances as well as trading of scrap metals and leather and extending its business to cemetery business in 2009. Prior to that, Dr. Leung served, from September 1994 to October 2004, as Senior Director and Head of Investment, Asia for American Express

Bank. Dr. Leung also held various senior investment positions with BNP Paribas Bank, New Zealand Insurance and Bank of America Trust. Dr. Leung holds an honorary doctor degree from International American University. Dr. Leung was appointed as a director because of his extensive knowledge of capital markets through his various senior positions in financial institutions and because of his in-depth business management experience.

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**Shirley Cheng** has served as the Company's Interim Chief Financial Officer and Corporate Secretary, since April 1, 2012. She has served as the Finance Manager of NCN Group Management Limited, the Company's subsidiary, since March 2008. Ms. Cheng also currently served as J.E.M. Capital, Inc. Chief Financial Officer, Director and Corporate Secretary since November 14, 2017. Prior to that, Ms. Cheng served from 2004 to 2008 as an auditor with PricewaterhouseCoopers, an international firm of certified public accountants. Ms. Cheng holds a Bachelor's Degree in Business Administration with a major in Accountancy from the Hong Kong Baptist University and is an associate member of the Hong Kong Institute of Certified Public Accountants.

**Wong Wing Kong** has over 20 years' experience in the China Business and he is now the director and shareholder of Wideway Asia Pacific Limited. Since 2006, he has served as private financial advisor and consultant to various China companies. Prior to that, Mr. Wong was the owner of manufacturing company in China. Mr. Wong was appointed as a director because of his extensive knowledge of China markets through his various positions in China companies.

## **Identification of Certain Significant Employees**

We have no employees who are not executive officers, but who are expected to make a significant contribution to our business.

## **Family Relationships**

There are no family relationships between any directors or officers of the Company.

## **Involvement in Certain Legal Proceedings**

To the best of our knowledge, none of our directors or executive officers has, during the past ten years:

1. had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. been convicted in a criminal proceeding or is a named subject to a pending criminal (excluding traffic violations and other minor offenses);

been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of  
3. competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his  
involvement in any type of business, securities, futures, commodities or banking activities; or

been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the  
4. Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the  
judgment has not been reversed, suspended, or vacated.

#### **Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission statements of ownership and changes in ownership. The same persons are required to furnish us with copies of all Section 16(a) forms they file. We believe that, during fiscal 2018, all of our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities complied with the applicable filing requirements.

In making these statements, we have relied upon examination of the copies of all Section 16(a) forms provided to us and the written representations of our executive officers, directors and beneficial owner of more than 10% of a registered class of our equity securities.

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### **Code of Business Conduct and Ethics**

A Code of Business Conduct and Ethics is a written standard designed to deter wrongdoing and to promote (a) honest and ethical conduct, (b) full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements, (c) compliance with applicable laws, rules and regulations, (d) prompt reporting of violations of the code to an appropriate person and (e) accountability for adherence to the Code. We are not currently subject to any law, rule or regulation requiring that we adopt a Code of Business Conduct and Ethics. However, we have adopted a code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Such code of business conduct and ethics is filed herewith as Exhibit 14.1 and is also available on our corporate website at [www.ncnmedia.com](http://www.ncnmedia.com).

### **Board Leadership Structure**

Our Board leadership structure is currently composed of combined Chairperson of the Board of Directors and Chief Executive Officer, Chief Financial Officer and the other members of our Board of Directors are non-executive members. The Board has three outstanding committees: (1) Audit Committee; (2) Remuneration Committee and (3) Nomination Committee. All these committees are composed of non-executive directors only.

Our Board of Directors has also determined a lead independent director is not necessary and has not appointed one at this time. In making these determinations, the Board of Directors considered the relative size of the Company, the size of the Board of Directors and the fact that all the other members of the Board of Directors are non-executive directors. The Board of Directors believes that Dr. Earnest Leung serves as both Chairperson of the board and Chief Executive Officer is in the best interest of the Company and its stockholders. Dr. Leung is the director most familiar with the PRC environment and our business, possess in-depth diverse business management experience, and is most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. The current combined position of Chairperson and Chief Executive Officer promotes a unified direction and leadership for the Board and gives a single, clear focus for the chain of command for our organization, strategy and business plans. The Board of Directors also believes that our overall corporate governance policies and practices adequately address any governance concerns raised by the dual chairperson and chief executive officer role.

### **Corporate Governance**

Our board of directors currently has three standing committees which perform various duties on behalf of and report to the board of directors: (i) audit committee, (ii) remuneration committee and (iii) nominating committee. From time to time, the board of directors may establish other committees. Each of the three standing committees is comprised entirely of independent directors as follows:

| <b>Name of Director</b> | <b>Remuneration</b> |  |  |
|-------------------------|---------------------|--|--|
| <b>Audit Nominating</b> |                     |  |  |

|                |   |   |   |
|----------------|---|---|---|
| Wong Wing Kong | C | C | C |
|----------------|---|---|---|

\_\_\_\_\_

C = Chairperson

M = Member

On June 30, 2017, Mr. Frederick Wong, Director the Company notified the Company of his intention to resign from his position as a director of the Company for personal reasons. Mr. Wong’s resignation became effective on July 1, 2017. Mr. Wong’s resignation was not the result of any disagreement with the Company on any matter relating to the Company’s operations, policies or practices. The Board of Directors of the Company is currently reviewing candidates to fill the vacancy on the Board of Directors caused by Mr. Wong’s resignation and will announce the appointment of a suitable candidate as soon as such determination is made.

The Board of Directors has adopted a written charter for each of these committees, copies of which can be found on our website at [www.ncnmedia.com](http://www.ncnmedia.com).

***Audit Committee***

Our board of directors established an Audit Committee in September 2007. Our Audit Committee currently consists of one member: Mr. Wong Wing Kong. The Company does not have a qualified financial expert at this time because it has not been able to hire a qualified candidate. Further, the Company believes that it has inadequate financial resources at this time to hire such an expert. The Company intends to continue to search for a qualified individual for hire. Mr. Wong Wing Kong serves as the chairperson of the Audit Committee.

The Audit Committee oversees our accounting, financial reporting and audit processes; appoints, determines the compensation of, and oversees, the independent auditors; pre-approves audit and non-audit services provided by the independent auditors; reviews the results and scope of audit and other services provided by the independent auditors; reviews the accounting principles and practices and procedures used in preparing our consolidated financial statements; and reviews our internal controls.

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The Audit Committee works closely with management and our independent auditors. The Audit Committee also meets with our independent auditors without members of management present on regularly basis to review the results of their work. The Audit Committee also meets with our independent auditors to approve the annual scope and fees for the audit services to be performed.

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Company's Board of Directors (the "Audit Committee") consists of one non-employee director, Wong Wing Kong.

Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements and internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In early 2018, the Audit Committee has reviewed and discussed with management and the independent auditors the audited consolidated financial statements in the Company's 2018 Annual Report on Form 10-K. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees".

The Company's independent auditors also provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence. The Audit Committee discussed with the independent auditors their independence.

Based on the Audit Committee's discussions with management and the independent auditors, and the Audit Committee's review of the Company's audited consolidated financial statements, representation of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's 2018 Annual Report on Form 10-K filed with the SEC.

**The Audit Committee**



Wong Wing Kong

***Remuneration Committee***

Our board of directors established a Remuneration Committee in September 2007. Our Remuneration Committee consists of one members: Mr. Wong Wing Kong.

The Remuneration Committee (i) oversees and makes general recommendations to the Board of Directors regarding our compensation and benefits policies; (ii) oversees, evaluates and approves cash and stock compensation plans, policies and programs for our executive officers; and (iii) oversees and sets compensation for the Board of Directors. Our Chief Executive Officer may not be present at any meeting of our compensation committee during which his compensation is deliberated.

All the compensation packages for executive officers and directors including both employee directors and non-employee directors are recommended and proposed by the Remuneration Committee. In determining compensation for executive officers other than the Chief Executive Officer, the Remuneration Committee considers, among other things, the recommendations of the Chief Executive Officer. However, the full Board of Directors determines all such compensation packages.

The Remuneration Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a sub-committee of the Remuneration Committee consisting of one or more members of the Committee. The Remuneration Committee has no current intention to delegate any of its authority to any subcommittee. Also, the Remuneration Committee did not engage any compensation consultants in determining or recommending the amount or form of executive and director compensation in the past.

***Nominating Committee***

Our board of directors established a Nominating Committee in September 2007. Our Nominating Committee currently consists of one members: Mr. Wong Wing Kong.

The Nominating Committee (i) considers and periodically reports on matters relating to the identification, selection and qualification of the Board of Directors and candidates nominated to the Board of Directors and its committees; (ii) develops and recommends governance principles applicable to the Company; and (iii) oversees the evaluation of the Board of Directors and management from a corporate governance perspective.



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Although our bylaws do not contain provisions which specifically address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at our annual meeting of stockholders, the Nominating Committee will consider director candidates recommended by stockholders. In evaluating candidates submitted by stockholders, the Nominating Committee will consider (in addition to the criteria applicable to all director candidates described below) the needs of the Board and the qualifications of the candidate, and may also take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held. In general, to have a candidate considered by the Nominating Committee, a stockholder must submit the recommendation in writing and must include the following information:

1. The name of the stockholder and evidence of the person's ownership of Company stock, including the number of shares owned and the length of time of ownership; and

2. The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company and the person's consent to be named as a director if selected by the Nominating Committee and nominated by the Board.

The stockholder recommendation and information described above must be sent to the Corporate Secretary at Network CN Inc., 3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. For a candidate to be considered for nomination by the Nominating Committee at an annual meeting, a stockholder recommendation must be received not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of stockholders.

The Nominating Committee does not have any formal criteria for director nominees; however, it believes that director nominees should have certain minimum qualifications, including the highest personal and professional integrity and values, an inquiring and independent mind, practical wisdom and mature judgment. In evaluating director nominees, the Nominating Committee also considers an individual's skills, character, leadership experience, business experience and acumen, familiarity with relevant industry issues, national and international experience, and other relevant criteria that may contribute to our success. This evaluation is performed in light of the skill set and other characteristics that would most complement those of the current directors, including the diversity, maturity, skills and experience of the board as a whole, with the objective of recommending a group of persons that can best implement our business plan, develop our business and represent shareholder interests.

As described above, the Nominating Committee will consider candidates recommended by shareholders. It will also receive suggestions of candidates from current Board members, the Company's executive officers or other sources, which may be either unsolicited or in response to requests from the Nominating Committee.

After a person has been identified by the Nominating Committee as a potential candidate, the Nominating Committee may collect and review publicly available information regarding the person to assess whether the person should be

considered further. The Nominating Committee members may contact the person if the person should be considered further. Generally, the Nominating Committee may request information from the candidate, review the person's accomplishments and qualifications and may conduct one or more interviews with the candidate and members of the committee or other Board members. In certain instances, Nominating Committee members or other Board members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have first-hand knowledge of the candidate's accomplishments. The Nominating Committee's evaluation process does not vary based on whether or not a candidate is recommended by a shareholder, although, as stated above, in the case of such a candidate the Board may take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held.

### **Board Oversight of Risk**

Our Board of Directors recognizes that, although risk management is a primary responsibility of the Company's management, the Board plays a critical role in oversight of risk. The Board, in order to more specifically carry out this responsibility, has assigned certain task focusing on reviewing different areas including strategic, operational, financial and reporting, compensation, compliance, corporate governance and other risks to the relevant Board Committees as summarized above. Each Committee then reports to the full Board ensuring the Board's full involvement in carrying out its responsibility for risk management.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Persons Covered**

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As of December 31, 2018, there were only two Executive Officers including Chief Executive Officer and Chief Financial Officer in the Company. The Company's Chief Executive Officer and Chief Financial Officer during fiscal year 2018 and the Company's executive officer as of December 31, 2018, or the Named Executive Officers are set forth below:

| <b>Name</b>   | <b>Position</b>                                      |
|---------------|--|
| Earnest Leung | Chief Executive Officer and Chairperson of the Board |
| Shirley Cheng | Chief Financial Officer and Corporate Secretary      |

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**Compensation Discussion and Analysis**

*Overview*

The Company's executive compensation program is generally designed to align the interests of executives with the interests of shareholders and to reward executives for achieving the Company's objectives. The executive compensation program is also designed to attract and retain the services of qualified executives.

All the compensation packages for executive officers are recommended and proposed by the Remuneration Committee. In determining compensation for executive officers, the Remuneration Committee considers the officers' current compensation, the level of executive compensation packages for similarly situated companies, changes in cost of living, our financial condition, our operating results and individual performance. However, the full Board of Directors determines all such compensation packages.

Executive compensation generally consists of base salary, bonuses and long-term incentive equity compensation such as stock grants or additional options to purchase shares of the Company's common stock as well as various health and welfare benefits. The Board has determined that both the base salary and long-term incentive equity compensation should be the principal component of executive compensation. The Board has not adopted a formal bonus plan, and all bonuses are discretionary.

*Elements of Compensation*

The executive compensation for (i) the Company's Chief Executive Officer and Chief Financial Officer and (ii) the Company's compensated executive officer who were serving as executive officers (collectively "Named Executive Officers") for fiscal 2018 primarily consisted of base salary, long term incentive equity compensation, income tax reimbursement, and other compensation and benefit programs generally available to other employees,

Base Salary. The Board establishes base salaries for the Company's Named Executive Officers based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies in the Company's peer group for similar positions. Generally, the Board believes that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions and with similar responsibilities at comparable companies in line with our compensation philosophy.

Base salaries are reviewed annually, and may be adjusted to realign salaries with market levels after taking into account individual responsibilities, performance and experience.

Bonuses. Bonuses are intended to compensate the Named Executive Officers for achieving the Company's financial performance and other objectives established by the Board each year. The Board currently does not adopt a formal bonus plan and all bonuses are discretionary.

Long-Term Incentive Equity Compensation. The Board believes that stock-based awards promote the long-term growth and profitability of the Company by providing executive officers with incentives to improve shareholder value and contribute to the success of the Company and by enabling the Company to attract, retain and reward the best available persons for executive officer positions. The Named Executive Officers were eligible to receive certain number of shares of common stock of the Company. The Company cannot currently determine the number or type of additional awards that may be granted to eligible participants under the long-term incentive equity compensation plan in the future. Such determination will be made from time to time by the Remuneration Committee (or Board).

Income Tax Reimbursement. Dr. Earnest Leung were fully reimbursed by the Company for their Hong Kong personal income taxes resulting from their employment under the employment agreement dated July 15, 2009.

Change-In-Control and Termination Arrangements. The employment agreements with current Named Executives may be terminated by giving the other party three-month advanced notice, except Ms. Shirley Cheng may be terminated with one-month advance notice. Other than as disclosed above, the Company does not have change-in-control arrangements with any of its current Named Executives, and the Company is not obligated to pay severance or other enhanced benefits to executive officers, unless otherwise stated in Hong Kong Employment Ordinance, upon termination of their employment.

Table of Contents**Summary Compensation Table**

The following table sets forth information concerning all compensation awarded to, earned by or paid during fiscal years 2018 and 2017, to the Named Executive Officers:

| Name and<br>Principal<br>Position   | Year | Salary<br>(\$) | (1)<br>Bonus<br>(\$) | (2) Stock<br>Awards<br>(\$) | Options<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Change in  | (3) All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|---|------|----------------|----------------------|-----------------------------|---------------------------|--|--|---------------------------------------|---------------|
|   |      |                |                      |                             |                           |  | Pension Value<br>and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) |                                       |               |
| Earnest Leung,<br>Chief Executive<br>Officer and<br>Director              | 2018 | -              | -                    | -                           | -                         | -  | -  | -                                     | -             |
|   | 2017 | -              | -                    | -                           | -                         | -  | -  | 2,307                                 | 2,307         |
| Shirley Cheng<br>Chief<br>Financial Officer<br>and Corporate<br>Secretary | 2018 | 12,308         | -                    | -                           | -                         | -  | -  | 615                                   | 12,923        |
|   | 2017 | 29,872         | -                    | -                           | -                         | -  | -  | 1,462                                 | 31,334        |

No bonus was paid to the Named Executive Officers in fiscal 2018 and 2017. The amounts reflected the salary paid to the Executives during each of fiscal years. The Company withheld 12 months' salary payment for Dr. Leung (1) during the fiscal years ended December 31, 2018 and 2017 respectively.

As required by SEC rules, amounts in the column "Stock Awards" present the aggregate grant date fair value of awards made each year computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ 718 *Compensation—Stock Compensation* ("FASB ASC 718"). The grant date fair value of each of the executives' award is measured based on the closing price of our common stock on the date of grant.

(2) These amounts do not reflect whether the recipient has actually realized or will realize a financial benefit from the awards. Under generally accepted accounting principles, compensation expense with respect to stock awards granted to our employees, executives and directors is generally recognized over the requisite services period. The SEC's disclosure rules previously required that we present stock award information based on the amount recognized during the corresponding year for financial statement reporting purposes with respect to these awards. However, the recent changes in the SEC's disclosure rules require that we now present stock award amounts using the grant date fair value of the awards granted during the corresponding year.

The aggregate number of stock awards vested to each of the Named Executive Officers for his/her service rendered in each fiscal period was summarized as follows:

**Named Executive Officer 2018 2017**

|               |   |   |
|---------------|---|---|
| Earnest Leung | - | - |
| Shirley Cheng | - | - |

As of December 31, 2018, all the above stocks were issued to each of Named Executive Officers.



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All other compensation only represents the followings:

- (a) A monthly contribution paid by the Company into a mandatory provident fund for the benefit of each of the Named Executive Officers;
- (b) Monthly cash allowance of HK\$40,000 (approximately \$5,128) paid to Dr. Earnest Leung. The Company withheld 12 months' cash allowance payment for Dr. Leung during the fiscal years ended December 31, 2018 and 2017 respectively; and
- (c) Income tax reimbursement paid to Dr. Earnest Leung during each fiscal year. As of December 31, 2018, the accrued income tax reimbursement to Dr. Leung and Ms. Cheng was \$240,522 and \$nil respectively.

There is no item that is not a perquisite or personal benefit (such as tax reimbursements and contributions to the mandatory provident fund) whose value exceeds \$10,000 for each Named Executives.

**Employment Contracts**

On July 15, 2009, the Company entered into an executive employment agreement with Dr. Earnest Leung in connection with their services to the Company as our Chief Executive Officer. Under the terms of the agreements, each of Dr. Leung will receive a monthly salary of HK\$60,000 (approximately \$7,692) and we have agreed to grant Dr. Leung 6 million shares for their first two years of service to the Company. We will fully reimburse them for their Hong Kong personal income taxes resulting from their employment under the agreements. Each of the executives has also agreed to customary non-competition and confidentiality provisions and the agreements may be terminated by the Company at any time without notice or payment, in the event that any of the executives engage in misconduct or dereliction of duty.

On April 1, 2012, Shirley Cheng was appointed as the Company's Interim Chief Financial Officer. Ms. Cheng is entitled to a monthly salary of HK\$40,950 (approximately \$5,250). On November 1, 2016, the Company entered into a new executive employment agreement with Ms. Cheng in connection with their services to the Company as our Chief Financial Officer. Under the terms of the agreements, Ms. Cheng will receive a monthly salary of HK\$30,000. On July 1, 2017, the Company and Ms. Cheng agreed to reduce the monthly salary to HK\$8,000. The employment may be terminated by the Company at any time without notice or payment, in the event that any of the executives engage in misconduct or dereliction of duty.

## Retirement Benefits

Currently, we do not provide any employees, including our named executive officers any company sponsored retirement benefits other than a state pension scheme in which all of our employees in China participate.

## Grants of Plan-Based Awards

The following table sets forth information regarding grants of awards to the Named Executive Officers during the year ended December 31, 2018:

| Name          | Grant Date | All Other<br>Stock<br>Awards:<br>Number of<br>Shares of<br>Stock<br>or Units (#) | All Other<br>Option<br>Awards:<br>Number<br>of Securities<br>Underlying<br>Options (#) | Exercise or<br>Base Price<br>of<br>Option<br>Awards<br>(\$/share) | Grant Date<br>Fair Value<br>of Stock<br>and<br>Options<br>Awards | Closing<br>Price on<br>Grant<br>Date<br>(\$/share) |
|---------------|------------|--|--|---|--|--|
|               |            |  |  |   |  |  |
| Earnest Leung | -          | -  | -  | -   | -  | -  |
| Shirley Cheng | -          | -  | -  | -   | -  | -  |

No stock awards were granted to the Company's Named Executive Officers during fiscal year 2018.

## Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the equity awards outstanding at December 31, 2018 for each of the named executive officers.

Option Awards

Stock Awards

| Name          | Number of   | Number of     | Option Exercise | Option     | Number of  | Market Value   |
|---------------|-------------|---------------|-----------------|------------|------------|----------------|
|               | Securities  | Securities    |                 |            | Shares or  | of Shares or   |
|               | Underlying  | Underlying    | Price (\$)      | Expiration | Units of   | Units of Stock |
|               | Unexercised | Unexercised   |                 | Date       | Stock That | That Have      |
|               | Options (#) | Options (#)   |                 |            | Have Not   | Not Vested     |
|               | Exercisable | Unexercisable |                 |            | Vested (#) | (\$)           |
| Earnest Leung | -           | -             | -               | -          | -          | -              |
| Shirley Cheng | -           | -             | -               | -          | -          | -              |

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**Potential Payments upon Termination or Change-in Control**

The employment agreements with current Named Executives may be terminated by giving the other party three-month advanced notice, except Ms. Shirley Cheng may be terminated with one-month advance notice. Other than as disclosed above, the Company does not have change-in-control arrangements with any of its current Named Executives, and the Company is not obligated to pay severance or other enhanced benefits to executive officers, unless otherwise stated in Hong Kong Employment Ordinance, upon termination of their employment. Accordingly, there is no potential payments payable to our current Named Executive Officers upon termination or change-in control.

**Director Compensation**

**Overview**

All the compensation packages for each of directors are proposed by the Remuneration Committee and approved by the Board of Directors. Director compensation packages in 2018 generally consist of cash compensation and long-term incentive equity compensation.

Cash compensation On February 2015, the Remuneration Committee proposed the monthly cash compensation for each director decreased to \$1,000 from July 2014 to Jun 30, 2015, which was approved by the Board. On August 28, 2015, the Remuneration Committee proposed the monthly cash compensation for each director remain unchanged, which was approved by the Board.

Long-Term Incentive Equity Compensation. The Board believes that stock-based awards promote the long-term growth and profitability of the Company by providing directors with incentives to improve shareholder value and contribute to the success of the Company. Our Board determined the number of stock to be granted to directors for their service by considering the aggregate fair value as at the grant date of the past stock awards given to non-employee director and the Company's performance. On August 28, 2015, each director was granted an award of 13,333 shares each, at a fair value of \$20,000 at the date of grant and to be vested on June 30, 2015, for their service from July 1, 2015 to June 30, 2016.

For the service periods from January 2017 to December 2017, both the employee directors and non-employee directors were entitled to a monthly cash compensation of \$1,000. The Company withheld 12 monthly cash compensation during the fiscal year ended December 31, 2017.

The following table provides information about the compensation earned by directors who served during fiscal year 2018:

| Name of director(3) | Fees Earned or Paid(1) in Cash (\$) | Stock Awards(2) (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in   | All Other Compensation (\$) | Total (\$) |
|---------------------|-------------------------------------|----------------------|--------------------|---|---|-----------------------------|------------|
|                     |                                     |                      |                    |   | Pension Value and Nonqualified Deferred Compensation Earnings(\$) |                             |            |
| Earnest Leung       | -                                   | -                    | -                  | -   | -   | -                           | -          |
| Shirley Cheng       | -                                   | -                    | -                  | -   | -   | -                           | -          |
| Wong Wing Kong *    | -                                   | -                    | -                  | -   | -   | -                           | -          |

\*Non-employee directors

For the service periods from January 2018 to December 2018, both the employee directors and non-employee (1) directors were entitled to a monthly cash compensation of \$1,000. The Company withheld 12 monthly cash compensation during the fiscal year ended December 31, 2018.

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(2) As required by SEC rules, amounts in the column “Stock Awards” present the aggregate grant date fair value of awards made each year computed in accordance with ASC Topic 718. The grant date fair value of each of the directors’ award is measured based on the closing price of our common stock on the date of grant. These amounts do not reflect whether the recipient has actually realized or will realize a financial benefit from the awards. Under generally accepted accounting principles, compensation expense with respect to stock awards granted to our employees, executives and directors is generally recognized over the requisite services period.

## **Remuneration Committee Interlocks and Insider Participation**

The current member of the Remuneration Committee is non-executive director, and all past members were independent directors at all times during their service on such Committee. None of the past or present members of our Remuneration Committee are present or past employees or officers of ours or any of our subsidiaries. No member of the Remuneration Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934, as amended. None of our executive officers has served on the Board or Remuneration Committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on our Board or Remuneration Committee.

## **Limitation of Liability and Indemnification of Officers and Directors**

Our bylaws provide for the indemnification of our present and prior directors and officers or any person who may have served at our request as a director or officer of another corporation in which we own shares of capital stock or of which we are a creditor, against expenses actually and necessarily incurred by them in connection with the defense of any actions, suits or proceedings in which they, or any of them, are made parties, or a party, by reason of being or having been director(s) or officer(s) of us or of such other corporation, in the absence of negligence or misconduct in the performance of their duties. This indemnification policy could result in substantial expenditure by us, which we may be unable to recoup.

Insofar as indemnification by us for liabilities arising under the Securities Exchange Act of 1934, as amended, may be permitted to our directors, officers and controlling persons pursuant to provisions of the Articles of Incorporation and Bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy and is, therefore, unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person in connection with the securities being offered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2018 with respect to compensation plans, under which securities are authorized for issuance, aggregated as to (i) compensation plans previously approved by security holders, and (ii) compensation plans not previously approved by security holders.

#### Equity Compensation Plan Information

| Plan Category  | Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights (A) | Weighted Average Exercise Price Of Outstanding Options, Warrants And Rights (B) | Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (A)) (C) |
|--|---|---|---|
|  |   |   |   |
| Equity compensation plans approved by security holders | -   | -   | 281,503(1)  |
| Total  | -   | -   | 281,503   |

(1) We reserved 40,000 shares for issuance under our 2004 Stock Incentive Plan, of which 13,333 shares are still available for issuance as of December 31, 2018. We reserved 2,680,000 shares for issuance under our Amended and Restated 2007 Equity Incentive Plan of which 268,170 are still available for issuance as of December 31, 2018. See below subsection - "*Equity Incentive Plans*" for more information about the plan.





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**Option Grants in the Last Fiscal Year**

None.

**Equity Incentive Plan**

In April 2004, our Board of Directors and holders of a majority of our then outstanding common stock authorized and approved the 2004 Stock Incentive Plan, or the 2004 Plan. Under the 2004 Plan, we reserved 40,000 shares of our common stock for issuance upon exercise of incentive and non-qualified stock options, stock bonuses and rights to purchase awarded from time-to-time, to our officers, directors, employees and consultants. As of December 31, 2016, 26,667 shares have been issued under the plan and 13,333 shares remain available for issuance. No options, warrants or other rights to acquire shares of our common stock have been granted or are outstanding under the plan. A registration statement on Form S-8 was filed with the SEC with respect to 26,667 shares of common stock issuable under the plan on April 22, 2004 (SEC File No. 333-114644).

In March 2007, our Board of Directors authorized and approved the 2007 Stock Option/Stock Issuance Plan, or the 2007 Plan. The purpose of the plan is to promote the best interests of the Company and its stockholders by providing a means of non-cash remuneration to selected participants who contribute to the operating progress and earning power of the Company. The plan also provides incentives to employees and directors by offering them an opportunity to acquire a proprietary interest in the Company. Under the 2007 Plan, we reserved 100,000 shares of our common stock for issuance upon exercise of incentive and non-qualified stock options, stock bonuses and rights to purchase awarded from time to time, to our officers, directors, employees and consultants. A registration statement on Form S-8 was filed with the SEC on April 6, 2007 (SEC File No. 333-141943) with respect to 100,000 shares of common stock issuable under the 2007 Plan as well as options to purchase 3,000 shares of common stock issued to the Company's legal counsel in February 2006. Such options were not issued under the 2004 Plan or the 2007 Plan. The Company's stockholders approved the 2007 Plan in November 2007.

In July 2009, the Board of Directors approved the issuance of 493,267 shares in excess of the number of shares of common stock available for issuance under the 2007 Plan, and in accordance with the 2007 Plan, the Company is required to seek stockholder approval within twelve months after the date of such excess grant. The Board of Directors has no immediate plans to issue additional shares under the 2007 Plan, however, the Board of Directors believes that increasing the maximum number of shares of common stock that may be issued under the 2007 Plan will be instrumental for us to continue to attract and retain outstanding employees. Accordingly, on June 2, 2010, the Board of Directors approved the amendment and restatement of the 2007 Equity Incentive Plan (the "First Amendment of 2007 Plan"), with the only change being to increase the maximum number of shares of common stock of the Company, par value \$0.001 per share that may be issued and sold under the 2007 Plan from 100,000 to 1,426,667 and submitted it for stockholder's approval. A registration statement on Form S-8 was filed with the SEC on July 30, 2010 (SEC File No. 333-168417) with respect to the First Amendment of 2007 Plan.

On July 30, 2012, the Board of Directors approved the second amendment and restatement of the 2007 Equity Incentive Plan (the “Second Amendment of 2007 Plan”), with the only change being to increase the maximum number of shares of common stock of the Company, par value \$0.001 per share that may be issued and sold under the 2007 Plan from 1,426,667 to 2,093,333, and submitted it for stockholder’s approval. The Board of Directors believes that such arrangements will be instrumental for the Company to be able to continue to attract and retain outstanding employees. A registration statement on Form S-8 was filed with the SEC on October 12, 2012 (SEC File No. 333-184398) with respect to the Second Amendment of 2007 Plan.

On October 31, 2012, the Board of Directors approved the third amendment and restatement of the 2007 Equity Incentive Plan (the “Third Amendment of 2007 Plan”), with the only change being to increase the maximum number of shares of common stock of the Company, par value \$0.001 per share that may be issued and sold under the 2007 Plan from 2,093,333 to 2,680,000, and submitted it for stockholder’s approval. The Board of Directors believes that such arrangements will be instrumental for us to be able to continue to attract and retain outstanding employees. A registration statement on Form S-8 was filed with the SEC on January 16, 2014 (SEC File No. 333-193381) with respect to the Third Amendment of 2007 Plan.

As of December 31, 2018, 2,411,830 shares have been issued under the plan and 268,170 shares remain available for issuance. No options, warrants or other rights to acquire shares of our common stock have been granted or are outstanding under the plan.

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Both of the Plans are administered by our Board of Directors. Under each plan, the Board determines which of our employees, officers, directors and consultants are granted awards, as well as the material terms of each award, including whether options are to be incentive stock options or non-qualified stock options.

Subject to the provisions of the Plans, and the Internal Revenue Code with respect to incentive stock options, the Board determines who shall receive awards, the number of shares of common stock that may be purchased, the time and manner of exercise of options and exercise prices. At its discretion, the Board also determines the form of consideration to be received upon exercise and may permit the exercise price of options granted under the plans to be paid in whole or in part with previously acquired shares and/or the surrender of options. The term of options granted under the plans may not exceed ten years, or five years for an incentive stock option granted to an optionee owning more than 10% of our voting stock. The exercise price for incentive stock options may not be less than 100% of the fair market value of our common stock at the time the option is granted. However, incentive stock options granted to a 10% holder of our voting stock may not be exercisable at less than 110% of the fair market value of our common stock at the date of the grant. The exercise price for non-qualified options will be determined by the board.

**Security Ownership of Certain Beneficial Owners and Management**

The following tables set forth information as of March 29, 2019, regarding the beneficial ownership of our common stock (a) by each stockholder who is known by the Company to own beneficially in excess of 5% of our outstanding common stock; (b) by each of the Company's officers and directors; (c) and by the Company's officers and directors as a group. Except as otherwise indicated, all persons listed below have (i) sole voting power and investment power with respect to their shares of common stock, except to the extent that authority is shared by spouses under applicable law, and (ii) record and beneficial ownership with respect to their shares of stock. Unless otherwise identified, the address of the directors and officers of the Company listed above is 3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

| Title of Class  | Name and Address of<br>Beneficial Owner   | Office, If Any        | Amount & Nature of          |                         |
|---|---|-----------------------|-----------------------------|-------------------------|
|   |   |                       | Beneficial<br>Ownership (1) | Percent of<br>Class (4) |
| Common Stock  | Earnest Leung   | CEO and Director      | 4,049,170 (2)               | 40.2                    |
| Common Stock  | Shirley Cheng   | CFO and director      | -                           | -                       |
| Common Stock  | Wong Wing Kong  | Director              | -                           | -                       |
| All Officers and<br>Directors as a group (3<br>persons named above) |   |                       | 4,049,170                   |                         |
| Common Stock  | Keywin Holdings Limited (5)<br>3/F., D. J. Securities Building, 171<br>Hoi Bun Road, Kwun Tong, | 5% Security<br>Holder | 3,629,663 (3)               | 36.1                    |

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|  |  |                       |           |      |
|--|--|-----------------------|-----------|------|
| Common Stock                                 | Sino Portfolio International Ltd(6)<br>3104 -7, 31/F, Central Plaza, 18<br>Harbour Road, Hong Kong                     | 5% Security<br>Holder | 1,835,753 | 18.2 |
| Common Stock                                 | Godfrey Hui<br>Room 801A and 807B, 8/F, Tsim<br>Sha Tsui Centre, 66 Mody Road,<br>Tsim Sha Tsui, Kowloon, Hong<br>Kong | 5% Security<br>Holder | 873,674   | 8.7  |
| Total Shares Owned by<br>Persons Named above |  |                       | 6,758,597 |      |

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

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(2) Includes 1,609,461 shares held by Keywin Holdings Limited of which Dr. Earnest Leung is the director and also an option for Keywin Holdings Limited to purchase an aggregate of 2,020,202 shares of the Company's common stock, exercisable for an aggregate purchase price of \$2,000,000 by January 1, 2020.

(3) Includes an option to purchase an aggregate of 2,020,202 shares of the Company's common stock, exercisable for an aggregate purchase price of \$2,000,000 by January 1, 2020.

(4) A total of 8,732,263 shares of our common stock outstanding are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1) as of March 29, 2019. For each beneficial owner above, any options exercisable within 60 days have been included in the denominator. On March 28, 2019, the Company sold an aggregate of 35,000 shares of the Company's common stock (the "Shares") to 9 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 28, 2019.

(5) Dr. Earnest Leung, its sole director, and Ms. Pui Chu Tang, its shareholder and Dr. Leung's spouse, have voting and dispositive control over the shares held by Keywin Holdings Limited.

(6) Ms. Angela Chan, its sole director, and Mrs. Chen Yang Foo Oi, its shareholder, have voting and dispositive control over the shares held by Sino Portfolio International Ltd.

**Changes in Control**

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

**Related Party Transactions**

Except as set forth below, during our last two fiscal years, we have not entered into any material transactions or series of transactions that would be considered material in which any director or executive officer or beneficial owner of 5% or more of any class of our capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest:

In April 2009, in connection with debt restructuring, Statezone Ltd. of which Dr. Earnest Leung, the Company's Chief Executive Officer and a Director (being appointed on July 15, 2009 and May 11, 2009 respectively) is the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000 of which \$250,000 has been recorded as issuance costs for 1% Convertible Promissory Notes and \$100,000 has been recorded as prepaid expenses and other current assets, net since April 2009. Such \$100,000 is refundable unless Keywin Option is exercised and completed.

On July 1, 2009, the Company and Keywin, of which the Company's chief executive officer and director is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 1,637,522 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ended on July 1, 2009, to a six-month period ended October 1, 2009. The exercise period for the Keywin option was subsequently further extended to a nine-month period ended January 1, 2010, pursuant to the Second Amendment. On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to further extend the exercise period to an eighteen-month period ended on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice. On September 30, 2010, the exercise price was extended at various times from September 1, 2010 to December 31, 2017, the latest exercise period for the Keywin Option was further extended to a one hundred and twenty-nine-month period ending on January 1, 2020 and the exercise price changed to \$0.99.

### **Related Party Transaction Policy**

Our Company has adopted a written Related Party Transaction Policy, or the Policy, for the purpose of describing the procedures used to identify, review, approve and disclose, if necessary, any transaction in which (i) the Company is a participant and (ii) a related person has or will have a direct or indirect material interest.

Once a related party transaction in which the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year has been identified, the Audit Committee must review the transaction for approval or ratification. In determining whether to approve or ratify a related party transaction, the Audit Committee shall consider all relevant facts and circumstances, including the following factors:

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|   |   |   |
|---|---|---|
|   | 1 | the benefits to the Company of the transaction;   |
|   | 1 | the nature of the related party's interest in the transaction;  |
| 1 |   | whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company and its stockholders; |
|   | 1 | the potential impact of the transaction on a director's independence; and   |
|   | 1 | any other matters the Audit Committee deems appropriate.  |

No director may participate in any discussion, approval or ratification of a transaction in which he or she is a related person.

**Promoters and Certain Control Persons**

We did not have any promoters at any time during the past five fiscal years.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Union Power Hong Kong Certified Public Accountants is our Principal Independent Registered Public Accountants engaged to audit our financial statements for the fiscal years ended December 31, 2018 and 2017. The following table shows the fees that we paid or accrued for the audit and other services provided by Union Power Hong Kong Certified Public Accountants Limited, for the fiscal years ended December 31, 2018 and 2017.

| Fee Category       | 2018     | 2016     |
|--------------------|----------|----------|
| Audit Fees         | \$34,000 | \$32,500 |
| Audit-Related Fees | \$--     | \$--     |
| Tax Fees           | \$--     | \$--     |
| All Other Fees     | \$--     | \$--     |

**Audit Fees**

This category consists of fees for professional services rendered by our principal independent registered public accountant for the audit of our annual consolidated financial statements, review of consolidated financial statements included in our quarterly reports and services that are normally provided by the independent registered public accounting firms in connection with statutory and regulatory filings or engagements for those fiscal years.

### **Audit-Related Fees**

This category consists of fees for assurance and related services by our principal independent registered public accountant that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported above under “Audit Fees”. The services for the fees disclosed under this category include consultations concerning financial accounting and reporting standards.

### **Tax Fees**

This category consists of fees for professional services rendered by our principal independent registered public accountant for tax compliance, tax advice, and tax planning.

### **All Other Fees**

This category consists of fees for services provided by our principal independent registered public accountant other than the services described above.

### **Policy on Pre-Approval of Audit Services**

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent registered public accounting firm. All audit services (including statutory audit engagements as required under local country laws) must be accepted by the Audit Committee before the audit commences.

Each year, management and the independent registered public accounting firm will jointly submit a pre-approval request, which will list each known and/or anticipated audit and non-audit service for the upcoming calendar year and which will include associated budgeted fees. The Audit Committee will review the requests and approve a list of annual pre-approved non-audit services.



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All services provided by Union Power Hong Kong Certified Public Accountants Limited during the fiscal years ended December 31, 2018 and 2017 were pre-approved by the Audit Committee.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following consolidated financial statements are filed as a part of this Form 10-K:

- (i) Reports of Independent Registered Public Accounting Firms
- (ii) Consolidated Balance Sheets as of December 31, 2018 and 2017
- (iii) Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2018 and 2017
- (iv) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2018 and 2017
- (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017
- (vi) Notes to Consolidated Financial Statements

(b) The following Exhibits are filed as part of this Annual Report on Form 10-K:

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>  |
|--------------------|---|
| 3.1                | <u>Amended And Restated Certificate Of Incorporation</u>  |
| 3.2                | <u>Amended and Restated By-Laws, adopted on January 10, 2006</u>  |
| 3.3                | <u>Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on July 27, 2009</u>  |
| 3.4                | <u>Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on September 16, 2011</u>  |
| 3.5                | <u>Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on September 16, 2011</u>   |
| 4.1                | <u>Form of Registrant's Common Stock Certificate</u>  |
| 4.2                | <u>Form of Registrant's Common Stock Certificate</u>  |
| 4.3                | <u>Form of Warrant, in connection with 3% Convertible Promissory Notes and Warrants</u>   |
| 4.4                | <u>TEDA Travel Group, Inc. 2004 Stock Incentive Plan, effective on April 16, 2004</u>   |
| 4.5                | <u>2007 Stock Option/Stock Issuance Plan, effective on April 6, 2007</u>  |
| 4.6                | <u>Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2009</u>  |
| 4.7                | <u>Registration Rights Agreement, in connection with debt restructuring, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited and Keywin Holdings Limited</u> |

- 4.8 Network CN Inc. Amended and Restated 2007 Equity Incentive Plan
- 4.9 Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2012
- 4.10 Network CN Inc. Second Amended and Restated 2007 Equity Incentive Plan
- 4.11 Network CN Inc. Third Amended and Restated 2007 Equity Incentive Plan
- 10.1 Registration Rights Agreement, dated November 19, 2007, by and among (i) Network CN Inc., Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P.
- 10.2 Note Exchange Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P.
- 10.3 Note Exchange and Option Agreement, dated April 2, 2009, between the Company and Keywin Holdings Limited.
- 10.4 Letter Agreement and Termination of Investor Rights Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Keywin Holdings Limited.
- 10.5 Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung.
- 10.6 Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui.
- 10.7 Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company.
- 10.8 Amendment No. 2 to Note Exchange and Option Agreement dated September 30, 2009, between Keywin Holding Limited and the Company.
- 10.9 Amendment No. 3 to Note Exchange and Option Agreement, dated January 1, 2010, between Keywin Holding Limited and the Company
- 10.10 Amendment No. 4 to Note Exchange and Option Agreement, dated September 30, 2010, between Keywin Holding Limited and the Company

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|       |  |
|-------|--|
| 10.11 | <u>Amendment No. 5 to Note Exchange and Option Agreement, dated June 1, 2011, between Keywin Holding Limited and the Company</u>   |
| 10.12 | <u>Amendment No. 6 to Note Exchange and Option Agreement, dated December 30, 2011, between Keywin Holding Limited and the Company</u>  |
| 10.13 | <u>Amendment No. 7 to Note Exchange and Option Agreement, dated June 28, 2012, between Keywin Holding Limited and the Company</u>  |
| 10.14 | <u>Amendment No.8 to Note Exchange and Option Agreement, dated December 28, 2012, between Keywin Holding Limited and the Company</u>   |
| 10.15 | <u>Amendment No.9 to Note Exchange and Option Agreement, dated December 31, 2013, between Keywin Holding Limited and the Company</u>   |
| 10.16 | <u>Amendment No.10 to Note Exchange and Option Agreement, dated December 12, 2014, between Keywin Holding Limited and the Company</u>  |
| 10.17 | <u>Amendment No.11 to Note Exchange and Option Agreement, dated December 31, 2015, between Keywin Holdings Limited and the Company</u>   |
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| 10.20 | <u>Exclusive Technology Consulting Services Agreement dated January 1, 2008, by and among Lianhe, Bona and Bona’s PRC shareholders, namely Mr. Dayong Hao and Mr. Kaiyin Liu</u>   |
| 10.21 | <u>Equity Pledge Agreement dated January 1, 2008, between Lianhe and Bona’s PRC shareholders, namely Mr. Dayong Hao and Mr. Kaiyin Liu</u>   |
| 10.22 | <u>Option Agreement dated January 1, 2008, between Lianhe and Bona’s PRC shareholders, namely Mr. Dayong Hao and Mr. Kaiyin Liu</u>  |
| 10.23 | <u>Exclusive Management Consulting Services Agreement dated January 1, 2008, by and among Lianhe, Quo Advertising and Quo Advertising’s PRC shareholders, namely Ms. Zhang Lina and Ms. Zhang Qinxiu</u>   |
| 10.24 | <u>Exclusive Technology Consulting Services Agreement dated January 1, 2008, by and among Lianhe, Quo Advertising and Quo Advertising’s PRC shareholders, namely Ms. Zhang Lina and Ms. Zhang Qinxiu</u>   |
| 10.25 | <u>Equity Pledge Agreement dated January 1, 2008, between Lianhe and Quo Advertising’s PRC shareholders, namely Ms. Zhang Lina and Ms. Zhang Qinxiu</u>  |
| 10.26 | <u>Option Agreement dated January 1, 2008, by and among Lianhe, Quo Advertising and Quo Advertising’s PRC shareholders, namely Ms. Zhang Lina and Ms. Zhang Qinxiu</u>   |
| 10.27 | <u>Agreement in connection with the transfer of operation from Quo Advertising to Yi Gao dated January 1, 2010, by and among Quo Advertising, Linkrich Enterprise, Mr. Hao Da Yong, Ms. Shen Xiao Zhou, Ms. Kang Qian and Ms. Ying Zhen Zhen</u> |
| 10.28 | <u>Declaration of Trust in connection with Quo Advertising holding 30% equity interest of Yi Gao on behalf of Linkrich Enterprise dated January 1, 2010</u>  |
| 10.29 | <u>Consultancy Agreement in connection with debt restructuring dated December 1, 2008, between NCN Group Ltd and Statezone Limited</u>   |
| 10.30 | <u>Sino-Foreign Cooperative Joint Venture Agreement for Yi Gao Shanghai Advertising Limited dated January 1, 2009, between Quo Advertising and Linkrich Enterprise</u>   |
| 14.1  | <u>Code of Business Conduct and Ethics for Network CN Inc. as approved and amended by the Board of Directors as of September 1, 2007 and September 29, 2008 respectively</u>   |
| 21.1  | <u>Subsidiaries of the registrant.*</u>  |
| 31.1  | <u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>   |
| 31.2  | <u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>   |

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

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 Labels Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith.

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**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NETWORK CN  
INC**

By: /s/ Earnest Leung  
Earnest Leung  
Chief Executive  
Officer  
*(Principal Executive  
Officer)*

Date: April 1, 2019

By: /s/ Shirley Cheng  
Shirley Cheng  
Chief Financial  
Officer  
*(Principal Financial  
and Accounting  
Officer)*

Date: April 1, 2019

**Power of Attorney**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Earnest Leung and Jennifer Fu, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or substitute or substitutes may do or cause to be done by virtue

hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <b>Name</b>                          | <b>Title</b>  | <b>Date</b>   |
|--------------------------------------|---|---------------|
| /s/ Earnest Leung<br>Earnest Leung   | Chief Executive Officer and Director<br><i>(Principal Executive Officer)</i>                | April 1, 2019 |
| /s/ Shirley Cheng<br>Shirley Cheng   | Chief Financial Officer and Director<br><i>(Principal Financial and Accounting Officer)</i> | April 1, 2019 |
| /s/ Wong Wing Kong<br>Wong Wing Kong | Director  | April 1, 2019 |

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| <b>Exhibit No.</b> | <b>Exhibit Description</b>  |
|--------------------|---|
| 3.1                | <u>Amended And Restated Certificate Of Incorporation</u>  |
| 3.2                | <u>Amended and Restated By-Laws, adopted on January 10, 2006</u>  |
| 3.3                | <u>Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on July 27, 2009</u>  |
| 3.4                | <u>Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on September 16, 2011</u>  |
| 3.5                | <u>Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on September 16, 2011</u>   |
| 4.1                | <u>Form of Registrant's Common Stock Certificate</u>  |
| 4.2                | <u>Form of Registrant's Common Stock Certificate</u>  |
| 4.3                | <u>Form of Warrant, in connection with 3% Convertible Promissory Notes and Warrants</u>   |
| 4.4                | <u>TEDA Travel Group, Inc. 2004 Stock Incentive Plan, effective on April 16, 2004</u>   |
| 4.5                | <u>2007 Stock Option/Stock Issuance Plan, effective on April 6, 2007</u>  |
| 4.6                | <u>Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2009</u>  |
| 4.7                | <u>Registration Rights Agreement, in connection with debt restructuring, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited and Keywin Holdings Limited</u>   |
| 4.8                | <u>Network CN Inc. Amended and Restated 2007 Equity Incentive Plan</u>  |
| 4.9                | <u>Form of Note 1% Senior Unsecured Convertible Promissory Note, dated April 2, 2012</u>  |
| 4.10               | <u>Network CN Inc. Second Amended and Restated 2007 Equity Incentive Plan</u>   |
| 4.11               | <u>Network CN Inc. Third Amended and Restated 2007 Equity Incentive Plan</u>  |
| 10.1               | <u>Registration Rights Agreement, dated November 19, 2007, by and among (i) Network CN Inc., Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P.</u>  |
| 10.2               | <u>Note Exchange Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd. and OZ Global Special Investments Master Fund, L.P.</u>   |
| 10.3               | <u>Note Exchange and Option Agreement, dated April 2, 2009, between the Company and Keywin Holdings Limited.</u>  |
| 10.4               | <u>Letter Agreement and Termination of Investor Rights Agreement, dated April 2, 2009, by and among the Company, Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Keywin Holdings Limited.</u> |
| 10.5               | <u>Employment Agreement, dated July 15, 2009, between the Company and Earnest Leung.</u>  |
| 10.6               | <u>Employment Agreement, dated July 15, 2009, between the Company and Godfrey Hui.</u>  |
| 10.7               | <u>Amendment No. 1 to Note Exchange and Option Agreement, dated July 1, 2009, between Keywin Holdings Limited and the Company.</u>  |
| 10.8               | <u>Amendment No. 2 to Note Exchange and Option Agreement dated September 30, 2009, between Keywin Holding Limited and the Company.</u>  |
| 10.9               | <u>Amendment No. 3 to Note Exchange and Option Agreement, dated January 1, 2010, between Keywin Holding Limited and the Company</u>   |



- 10.10 Amendment No. 4 to Note Exchange and Option Agreement, dated September 30, 2010, between Keywin Holding Limited and the Company
- 10.11 Amendment No. 5 to Note Exchange and Option Agreement, dated June 1, 2011, between Keywin Holding Limited and the Company
- 10.12 Amendment No. 6 to Note Exchange and Option Agreement, dated December 30, 2011, between Keywin Holding Limited and the Company
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\* Filed herewith.

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**NETWORK CN INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

| <b>Contents</b>  | <b>Page</b> |
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| <u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>  | F-3         |
| <u>Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2018 and 2017</u> | F-4         |
| <u>Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2018 and 2017</u>             | F-5         |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017</u>                        | F-6         |
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**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of:**

**Network CN Inc. and subsidiaries**

Opinion

We have audited the accompanying consolidated balance sheets of Network CN Inc. and subsidiaries (collectively referred to as the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ deficit and cash flows for the years then ended, and related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of operations and its cash flows for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by

management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide reasonable basis for our opinion.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred net losses of \$818,202 and \$769,960 for the years ended December 31, 2018 and 2017, respectively. Additionally, the Company used net cash in operating activities of \$484,127 and \$165,629 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Company recorded stockholders' deficit of \$11,825,430 and \$11,434,087, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

UNION POWER HK CPA LIMITED

Certified Public Accountants

We have served as the Company's auditor since 2013.

Hong Kong SAR

1 April 2019

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Table of Contents**NETWORK CN INC.****CONSOLIDATED BALANCE SHEETS**

|   | <u>As of December 31,</u> |                      |
|---|---------------------------|----------------------|
|   | 2018                      | 2017                 |
|   | Note                      |                      |
| <b><u>ASSETS</u></b>  |                           |                      |
| <b>Current Assets</b>   |                           |                      |
| Cash  | \$22,684                  | \$6,124              |
| Prepaid expenses and other current assets, net  | 4 100,254                 | 101,047              |
| Total Current Assets  | 122,938                   | 107,171              |
| Equipment, Net  | 5 1,316                   | 2,577                |
| <b>TOTAL ASSETS</b>   | <b>\$124,254</b>          | <b>\$109,748</b>     |
| <b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>   |                           |                      |
| <b>Current Liabilities</b>  |                           |                      |
| Accounts payable, accrued expenses and other payables   | 6 \$4,033,084             | \$3,721,400          |
| Short-term loans  | 7 2,916,600               | 2,822,435            |
| 1% convertible promissory notes due 2016, net   | 8 5,000,000               | 5,000,000            |
| Total Current Liabilities   | 11,949,684                | 11,543,835           |
| <b>TOTAL LIABILITIES</b>  | <b>11,949,684</b>         | <b>11,543,835</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>  | 9 -                       | -                    |
| <b>STOCKHOLDERS' DEFICIT</b>  | 10                        |                      |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized<br>None issued and outstanding                                | -                         | -                    |
| Common stock, \$0.001 par value, 26,666,667 shares authorized<br>Shares issued and outstanding: 8,732,263 and 8,041,995 as of | 8,731                     | 8,042                |
| December 31, 2018 and 2017, respectively  |                           |                      |
| Additional paid-in capital  | 124,133,095               | 123,706,741          |
| Accumulated deficit   | (137,671,203)             | (136,853,001)        |
| Accumulated other comprehensive income  | 1,703,947                 | 1,704,131            |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>  | <b>(11,825,430 )</b>      | <b>(11,434,087 )</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$124,254</b>          | <b>\$109,748</b>     |

The accompanying notes are an integral part of the consolidated financial statements.

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Table of Contents**NETWORK CN INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

|  |         | <u>For the Years Ended</u> |              |
|--|---------|----------------------------|--------------|
|  |         | <u>December 31,</u>        |              |
|  | Note(s) | 2018                       | 2017         |
| <b>REVENUES</b>                                      |         |                            |              |
| Advertising services                                 |         | \$-                        | \$-          |
| <b>COST OF REVENUES</b>                              |         |                            |              |
| Cost of advertising services                         |         | -                          | -            |
| <b>GROSS LOSS</b>                                    |         |                            |              |
| <b>OPERATING EXPENSES</b>                            |         |                            |              |
| General and administrative                           |         | (338,482 )                 | (272,133 )   |
| Stock based compensation for services                |         | (20,337 )                  | -            |
| Total Operating Expenses                             |         | (358,819 )                 | (272,133 )   |
| <b>LOSS FROM OPERATIONS</b>                          |         |                            |              |
|  |         | (358,819 )                 | (272,133 )   |
| <b>OTHER INCOME</b>                                  |         |                            |              |
| Gain from write-off of long-aged payables            |         | 107,500                    | 47,046       |
| Gain from disposal of subsidiaries                   | 13      | -                          | 25           |
| Interest income                                      | 2       | -                          | -            |
| Total Other Income                                   |         | 107,502                    | 47,071       |
| <b>INTEREST AND OTHER DEBT-RELATED</b>               |         |                            |              |
| <b>EXPENSES</b>                                      |         |                            |              |
| Interest expense                                     | 7 & 8   | (566,885 )                 | (544,898 )   |
| Total Interest and Other Debt-Related Expenses       |         | (566,885 )                 | (544,898 )   |
| <b>NET LOSS BEFORE INCOME TAXES</b>                  |         |                            |              |
| Income taxes   | 15      | -                          | -            |
| <b>NET LOSS</b>                                      |         |                            |              |
|  |         | (818,202 )                 | (769,960 )   |
| <b>OTHER COMPREHENSIVE (LOSS)/GAIN</b>               |         |                            |              |
| Foreign currency translation (loss)/gain             |         | (184 )                     | 289          |
| Total other comprehensive (loss)/gain                |         | (184 )                     | 289          |
| <b>COMPREHENSIVE LOSS</b>                            |         |                            |              |
|  |         | \$(818,386 )               | \$(769,671 ) |
| <b>NET LOSS PER COMMON SHARE – BASIC AND DILUTED</b> |         |                            |              |
|  | 12      | \$(0.097 )                 | \$(0.095 )   |

WEIGHTED AVERAGE NUMBER OF SHARES

12      8,442,113      8,041,995

OUTSTANDING – BASIC AND DILUTED \*

The accompanying notes are an integral part of the consolidated financial statements.

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Table of Contents**NETWORK CN INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|                   | Common Stock |          | Additional<br>Paid-In | Accumulated     | Accumulated<br>Other<br>Comprehensive | Total          |
|-------------------|--------------|----------|-----------------------|-----------------|---------------------------------------|----------------|
|                   | Share        | Amount   | Capital               | Deficit         | Income                                |                |
| Balance as of     |              |          |                       |                 |                                       |                |
| January 1, 2017   | 8,041,995    | \$ 8,042 | \$ 123,706,741        | \$(136,083,041) | \$ 1,703,842                          | \$(10,664,416) |
| Translation       | -            | -        | -                     | -               | 289                                   | 289            |
| adjustment        |              |          |                       |                 |                                       |                |
| Net loss for the  | -            | -        | -                     | (769,960 )      | -                                     | (769,960 )     |
| year              |              |          |                       |                 |                                       |                |
| Balance as of     |              |          |                       |                 |                                       |                |
| December 31,      | 8,041,995    | \$ 8,042 | \$ 123,706,741        | \$(136,853,001) | \$ 1,704,131                          | \$(11,434,087) |
| 2017              |              |          |                       |                 |                                       |                |
| Stock-based       |              |          |                       |                 |                                       |                |
| compensation for  |              |          |                       |                 |                                       |                |
| stock granted to  | 32,870       | 32       | 20,305                | -               | -                                     | 20,337         |
| consultant for    |              |          |                       |                 |                                       |                |
| services          |              |          |                       |                 |                                       |                |
| Shares issued for | 657,398      | 657      | 406,049               | -               | -                                     | 406,706        |
| private placement |              |          |                       |                 |                                       |                |
| Translation       | -            | -        | -                     | -               | (184 )                                | (184 )         |
| adjustment        |              |          |                       |                 |                                       |                |
| Net loss for the  | -            | -        | -                     | (818,202 )      | -                                     | (818,202 )     |
| year              |              |          |                       |                 |                                       |                |
| Balance as of     | 8,732,263    | \$ 8,731 | \$ 124,133,095        | \$(137,671,203) | \$ 1,703,947                          | \$(11,825,430) |
| December 31,      |              |          |                       |                 |                                       |                |

2018

The accompanying notes are an integral part of the consolidated financial statements.

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Table of Contents**NETWORK CN INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <u>For the Years Ended</u> |             |
|--|----------------------------|-------------|
|  | <u>December 31,</u>        |             |
|  | 2018                       | 2017        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                               |                            |             |
| Net loss   | \$(818,202)                | \$(769,960) |
| Adjustments to reconcile net loss to net cash used in operating activities |                            |             |
| Depreciation and amortization:   |                            |             |
| Equipment and intangible assets  | 1,261                      | 951         |
| Stock-based compensation for service                                       | 20,337                     | -           |
| Gain from disposal of subsidiaries   | -                          | (25 )       |
| Gain from write-off of long-aged payables                                  | (107,500)                  | (47,046 )   |
| Changes in operating assets and liabilities:                               |                            |             |
| Prepaid expenses and other current assets, net                             | 793                        | 782         |
| Accounts payable, accrued expenses and other payables                      | 419,184                    | 649,669     |
| Net cash used in operating activities                                      | (484,127)                  | (165,629)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                               |                            |             |
| Purchase of equipment  | -                          | (2,632 )    |
| Net cash used in investing activities                                      | -                          | (2,632 )    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                               |                            |             |
| Proceeds from short-term loans   | 94,165                     | 165,583     |
| Proceeds from private placement  | 406,706                    | -           |
| Proceeds from disposal of subsidiaries                                     | -                          | 1           |
| Net cash provided by financing activities                                  | 500,871                    | 165,584     |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH                                    | (184 )                     | 289         |
| NET INCREASE (DECREASE) IN CASH  | 16,560                     | (2,388 )    |
| CASH, BEGINNING OF YEAR  | 6,124                      | 8,512       |
| CASH, END OF YEAR  | \$22,684                   | \$6,124     |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the year for:

|              |           |     |
|--------------|-----------|-----|
| Income taxes | \$-       | \$- |
| Interest     | \$283,105 | \$- |

The accompanying notes are an integral part of the consolidated financial statements.

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**NETWORK CN INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND PRINCIPAL ACTIVITIES**

Network CN Inc. was originally incorporated on September 10, 1993 in Delaware with headquarters in the Hong Kong Special Administrative Region of the People's Republic of China ("PRC" or "China"). Since August 2006, Network CN Inc., its subsidiaries and variable interest entities for which it is the primary beneficiary (collectively "NCN" or the "Company" "we", "our" or "us") has been principally engaged in the provision of out-of-home advertising in China through the operation of a network of roadside light emitting diode ("LED") digital video panels, mega-size LED digital video billboards and light boxes in major cities.

Details of the Company's principal subsidiaries and variable interest entities as of December 31, 2018 are described in Note 3 – Subsidiaries and Variable Interest Entities.

**Private Placement**

On March 15, 2018, Network CN Inc. (the "Company"), sold an aggregate of 216,000 shares of the Company's common stock (the "Shares") to 19 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 15, 2018. The purchase price paid by the New Investor for the Shares was \$0.40 per Share for an aggregate sum of Eighty-Six Thousand and Four Hundred U.S. Dollars (US\$86,400). Net proceeds from the financing will be used for general corporate purposes.

On May 4, 2018, the Company sold an aggregate of 292,000 shares of the Company's common stock (the "Shares") to 11 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated May 4, 2018. The purchase price paid by the New Investor for the Shares were \$0.50 or \$0.60 per Share for an aggregate sum of one hundred and seventy thousand, seven hundred and thirty-three U.S. dollars and thirty cents (US\$170,733). Net proceeds from the financing will be used for general corporate purposes.

On December 28, 2018, the Company sold an aggregate of 149,398 shares of the Company's common stock (the "Shares") to 16 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated December 28, 2018. The purchase price paid by the New Investor for the Shares were \$0.77 or \$2.00 per Share for an aggregate sum of one hundred and forty-nine thousand, five hundred and seventy-three U.S. dollars and thirty cents (US\$149,573). Net proceeds from the financing will be used for general corporate purposes.

On March 28, 2019, the Company sold an aggregate of 35,000 shares of the Company's common stock (the "Shares") to 9 foreign investors (the "New Investors") pursuant to the terms of a Common Stock Purchase Agreement between the Company and the New Investors, dated March 28, 2019. The purchase price paid by the New Investor for the Shares were \$1.50 or \$1.88 per Share for an aggregate sum of sixty-three thousand, three hundred and seventy-five U.S. dollars and thirty cents (US\$63,375). Net proceeds from the financing will be used for general corporate purposes.

### **Going Concern**

The Company has experienced recurring net losses of \$818,202 and \$769,960 for the years ended December 31, 2018 and 2017 respectively. Additionally, the Company has net cash used in operating activities of \$484,127 and \$165,629 for the years ended December 31, 2018 and 2017 respectively. As of December 31, 2018 and 2017, the Company has stockholders' deficit of \$11,825,430 and \$11,434,087, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's plans regarding those concerns are addressed in the following paragraph. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In response to current financial conditions, the Company has actively explored new prominent media projects in order to provide a wider range of media and advertising services and improve our financial performance. If the project can start to operate, the Company expects that the project will improve the Company's future financial performance. The Company expects that the new project can generate positive cashflow.

The existing cash and cash equivalents together with highly liquid current assets are insufficient to fund the Company's operations for the next twelve months. The Company will need to rely upon some combination of cash generated from the Company's operations, the proceeds from the potential exercise of the outstanding option held by Keywin Holdings Limited ("Keywin") to purchase \$2 million in shares of the Company's common stock, or proceeds from the issuance of the Company's equity and debt securities as well as the exercise of the conversion option by the Company's note holders to convert the notes to the Company's common stock, in order to maintain the Company's operations. Based on the Company's best estimates, the Company believes that there are sufficient financial resources to meet the cash requirements for the coming twelve months and the consolidated financial statements have been prepared on a going concern basis. However, there can be no assurance the Company will be able to continue as a going concern. These uncertainties may result in adverse effects on continuation of the Company as a going concern. The accompany consolidated financial statements do not reflect any adjustments that might result from the outcome of these



uncertainties.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***(A) Basis of Presentation and Preparation***

These consolidated financial statements of the Company have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”).

***(B) Use of Estimates***

The Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expense during the reporting period. Estimates are used when accounting for certain items such as accounting for income tax valuation allowances. Estimates are based on historical experience, where applicable, and assumptions that management believes are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

***(C) Principles of Consolidation***

The consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and variable interest entities for which it is the primary beneficiary. These variable interest entities are those in which the Company, through contractual arrangements, bears the risks and enjoys the rewards normally associated with ownership of the entities. Upon making this determination, the Company is deemed to be the primary beneficiary of these entities, which are then required to be consolidated for financial reporting purpose. All significant intercompany transactions and balances have been eliminated upon consolidation.

***(D) Cash***

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the statements of cash flow, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. There were no cash equivalents balance as of December 31, 2018 and December 31, 2017.

***(E) Equipment, Net***

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided on a straight-line basis, less estimated residual values over the assets' estimated useful lives. The estimated useful lives are as follows:

|                        |             |
|------------------------|-------------|
| Office equipment       | 3 - 5 years |
| Furniture and fixtures | 3 - 5 years |
| Motor vehicles         | 5 years     |

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

***(F) Impairment of Long-Lived Assets***

Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a undiscounted cash flow analysis. There was no impairment of long-lived assets for the years ended December 31, 2018 and 2017.

***(G) Convertible Promissory Notes and Warrants***

*1) Debt Restructuring and Issuance of 1% Convertible Promissory Note*

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On April 2, 2009, the Company issued 1% unsecured senior convertible promissory notes to the previous 3% convertible promissory note holders who agreed to cancel these 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the 1% unsecured senior convertible promissory notes in the principal amount of \$5,000,000. The 1% convertible promissory notes bore interest at 1% per annum, payable semi-annually in arrears, matured on April 1, 2012, and were convertible at any time into shares of the Company's common stock at a fixed conversion price of \$1.7445 per share, subject to customary anti-dilution adjustments. Pursuant to ASC Topic 470, Debt, the Company determined that the original convertible notes and the 1% convertible notes were with substantially different terms and hence the exchange was recorded as an extinguishment of original notes and issuance of new notes.

The Company determined the 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815, Derivatives and Hedging. Its embedded conversion option qualified for equity classification. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

*2) Extension of 1% Convertible Promissory Note*

The 1% convertible promissory notes matured on April 1, 2012 and on the same date, the Company and the note holders agreed to the following: 1) extension of the maturity date of the 1% convertible promissory notes for a period of two years and 2) modification of the 1% convertible promissory notes to be convertible at any time into shares of the Company's common stock at a conversion price of \$1.3956 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% convertible promissory notes remain the same and are fully enforceable in accordance with their terms. Subsequently, the Company issued to the note holders new 1% convertible promissory notes with a maturity date of April 1, 2014. Pursuant to ASC Topic 470, the Company determined that the modification is substantially different and hence the modification was recorded as an extinguishment of notes and issuance of new notes. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded a gain on extinguishment of debt. The 1% Convertible Promissory Notes were scheduled to mature on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued to the note holders new 1% convertible promissory notes which was matured on April 1, 2016. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded no gain or loss on extinguishment of debt.

The Company determined the modified new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815. Its embedded conversion option qualified for equity classification. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the new 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

On April 29, 2016, the Company received a reservation of rights letter from the note holders to reserves all of its powers, rights and privileges.

### ***(H) Revenue Recognition***

Effective January 1, 2018, the Company adopted and implemented ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). We adopted ASU 2014-09 and its related amendments (collectively known as "ASC 606") effective on January 1, 2018.

Under the new standard and its related amendments (collectively known as ASC 606), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that are within the scope of the new standard, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard also includes criteria for the capitalization and amortization of certain contract acquisition and fulfillment costs.

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In accordance with ASC 606, we recognize when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration we expect to be entitled to receive in exchange for such services. To achieve this core principle, we apply the following five steps:

1) Identify the contract(s) with a customer - A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to those goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. The contract term for contracts that provide a right to terminate a contract for convenience without significant penalty will reflect the term that each party has enforceable rights under the contract (the period through the earliest termination date). If the termination right is only provided to the customer, the unsatisfied performance obligations will be evaluated as customer options as discussed below.

2) Identify the performance obligations in the contract - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both (i) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from us, and (ii) are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation. Certain of our contracts (under which we deliver multiple promised services) require us to perform integration activities where we bear risk with respect to integration activities. Therefore, we must apply judgment to determine whether as a result of those integration activities and risks, the promised services are distinct on the context of the contract.

We typically do not include options that would result in a material right. If options to purchase additional services or options to renew are included in customer contracts, we evaluate the option in order to determine if our arrangement include promises that may represent a material right and needs to be accounted for as a performance obligation in the contract with the customer.

3) Determine the transaction price - The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer. Our contract prices may include fixed amounts, variable amounts or a combination of both fixed and variable amounts. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. When determining if variable consideration should be constrained, management considers whether there are factors outside our control that could result in a significant reversal of revenue. In making these assessments, we consider the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required.

4) Allocate the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (SSP) basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. For most performance obligations, we determine standalone selling price based on the price at which the performance obligation is sold separately. Although uncommon, if the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) Recognize revenue when (or as) we satisfy a performance obligation: we satisfy performance obligations either over time or at a point-in-time as discussed in further detail below. Revenue is recognized when the related performance obligation is satisfied by transferring control of a promised good or service to a customer.

The Company has yet to generate revenue from operations for the years ended December 31, 2018 and 2017.

### ***(I) Stock-based Compensation***

The Company complies with ASC Topic 718, Compensation – Stock Compensation, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted. It requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized as expense over the requisite services period.

The Company follows ASC topic 505-50, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods and Services,” for stock issued to consultants and other non-employees. In accordance with ACS Topic 505-50, the stock issued as compensation for services provided to the Company are accounted for based upon the fair value of the services provided or the estimated fair market value of the stock, whichever can be more clearly determined. The fair value of the equity instrument is charged directly to expense over the period during which services are rendered.

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***(J) Income Taxes***

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its consolidated financial statements. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

***(K) Comprehensive Income (Loss)***

The Company follows ASC Topic 220, Comprehensive Income, for the reporting and display of its comprehensive income (loss) and related components in the consolidated financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in both the consolidated statements of operations and comprehensive loss and the consolidated statement of stockholders' deficit.

Accumulated other comprehensive income as presented on the consolidated balance sheets consisted of the accumulative foreign currency translation adjustment at period end.

***(L) Earnings (Loss) Per Common Share***

Basic earnings (loss) per common share are computed in accordance with ASC Topic 260, Earning per Share, by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of



common stock outstanding during the period. Diluted earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

The diluted net loss per common share is the same as the basic net loss per share for the years ended December 31, 2018 and 2017 as all potential common shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

***(M) Foreign Currency Translation***

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

***(N) Fair Value of Financial Instruments***

ASC Topic 820, Fair Value Measurements and Disclosure, defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

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It establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It establishes three levels of inputs that may be used to measure fair value:

*Level 1* - Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2* - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

*Level 3* - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying value of the Company's financial instruments, which consist of cash, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, and convertible promissory notes approximates fair value due to the short-term maturities.

The carrying value of the Company's financial instruments related to warrants associated with convertible promissory notes is stated at a value being equal to the allocated proceeds of convertible promissory notes based on the relative fair value of notes and warrants. In the measurement of the fair value of these instruments, the Black-Scholes option pricing model is utilized, which is consistent with the Company's historical valuation techniques. These derived fair value estimates are significantly affected by the assumptions used. As the allocated value of the financial instruments related to warrants associated with convertible promissory notes is recorded in additional paid-in capital, the financial instruments related to warrants were not required to mark to market as of each subsequent reporting period.

### ***(O) Recent Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), to make leasing activities more transparent and comparable, requiring most leases to be recognized by lessees on their balance sheets as right-of-use assets, along with corresponding lease liabilities. ASU 2016-02 is effective for annual periods beginning after

December 31, 2018 and interim periods within that year, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements as the Company does not have any lease commitments at the reporting date.

In July 2017, the FASB issued ASU 2017-11 "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception", to simplify the accounting for certain financial instruments with down round features. The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity. The amendments also address navigational concerns within the FASB Accounting Standards Codification® related to an indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests, one that created significant "pending content" in the Codification. The FASB decided to reclassify the indefinite deferral as a scope exception, which does not have an accounting effect. The amendments are effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact of ASU 2017-11 on its consolidated financial position, results of operations and cash flows.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the consolidated financial statements unless otherwise disclosed, and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

Table of Contents**NOTE 3 SUBSIDIARIES AND VARIABLE INTEREST ENTITIES**

Details of the Company's principal consolidated subsidiaries and variable interest entities as of December 31, 2018 were as follows:

| Name  | Place of<br>Incorporation | Ownership/Control |                                | Principal activities                                |
|---|---------------------------|-------------------|--------------------------------|---|
|   |                           | interest          | attributable to<br>the Company |   |
| NCN Group Limited   | BVI                       | 100%              |                                | Investment holding                                  |
| NCN Media Services Limited                                    | BVI                       | 100%              |                                | Investment holding                                  |
| Cityhorizon Limited   | Hong Kong                 | 100%              |                                | Investment holding                                  |
| NCN Group Management Limited                                  | Hong Kong                 | 100%              |                                | Provision of administrative and management services |
| Crown Eagle Investment Limited                                | Hong Kong                 | 100%              |                                | Dormant   |
| Crown Winner International Limited                            | Hong Kong                 | 100%              |                                | Investment holding                                  |
| NCN Huamin Management Consultancy (Beijing) Company Limited * | PRC                       | 100%              |                                | Dormant   |
| Huizhong Lianhe Media Technology Co., Ltd. *                  | PRC                       | 100%              |                                | Dormant   |
| Beijing Huizhong Bona Media Advertising Co., Ltd.             | PRC                       | 100% (1)          |                                | Dormant   |
| Xingpin Shanghai Advertising Limited                          | PRC                       | 100% (1)          |                                | Dormant   |
| Chuanghua Shanghai Advertising Limited                        | PRC                       | 100%              |                                | Dormant   |
| Jiahe Shanghai Advertising Limited                            | PRC                       | 100%              |                                | Dormant   |

\* *The subsidiary's registration license has been revoked.*

*Remarks:*

*1) Variable interest entity which the Company exerted 100% control through a set of commercial arrangements.*

**NOTE 4      PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET**

Prepaid expenses and other current assets, net as of December 31, 2018 and 2017 were as follows:

|                                    | 2018       | 2017       |
|------------------------------------|------------|------------|
| Prepaid expenses                   | \$ 100,000 | \$ 100,794 |
| Rental and other deposits          | 254        | 253        |
| Sub-total                          | 100,254    | 101,047    |
| Less: allowance for doubtful debts | -          | -          |
| Total                              | \$ 100,254 | \$ 101,047 |

For the years ended December 31, 2018 and 2017, the Company recorded no allowance for doubtful debt for prepaid expenses and other current assets.

**NOTE 5      EQUIPMENT, NET**

Equipment, net as of December 31, 2018 and 2017 consisted of the following:

|                                | 2018     | 2017     |
|--------------------------------|----------|----------|
| Office equipment               | \$6,873  | \$6,873  |
| Less: accumulated depreciation | (5,557)  | (4,296)  |
| Total                          | \$ 1,316 | \$ 2,577 |

Depreciation expenses for the years ended December 31, 2018 and 2017 amounted to \$1,261 and \$951 respectively. During the year ended December 31, 2017, the Company wrote off office equipment with cost at \$9,808 with no gain or loss on the written off.

***Pledge of Equipment***

No equipment has been pledged by the Company.

**NOTE 6      ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES**

Accounts payable, accrued expenses and other payables as of December 31, 2018 and 2017 consisted of the following:

|   | 2018        | 2017        |
|---|-------------|-------------|
| Accrued staff benefits and related fees | \$1,737,179 | \$1,650,355 |
| Accrued professional fees               | 61,839      | 44,394      |
| Accrued interest expenses               | 2,220,786   | 1,937,010   |
| Other accrued expenses                  | 13,280      | 89,641      |
| Total                                   | \$4,033,084 | \$3,721,400 |

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**NOTE 7      SHORT-TERM LOANS**

As of December 31, 2018, the Company recorded an aggregated amount of \$2,916,600 of short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand. However, according to the agreement, the Company shall have the option to shorten or extend the life of those short-term loans if the need arises and the Company has agreed with the lender to extend the short-term loans on due date. As of the date of this report, those loans have not yet been repaid.

The interest expenses of the short-term loans for the years ended December 31, 2018 and 2017 amounted to \$517,022 and \$494,898, respectively.

**NOTE 8      CONVERTIBLE PROMISSORY NOTES AND WARRANTS**

*(1) Debt Restructuring and Issuance of 1% Convertible Promissory Notes*

On November 19, 2007, the Company entered into a Note and Warrant Purchase Agreement, as amended (the "Purchase Agreement") with Shanghai Quo Advertising Co. Ltd and affiliated investment funds of Och-Ziff Capital Management Group (the "Investors") pursuant to which it agreed to issue in three tranches, 3% Senior Secured Convertible Promissory Notes due June 30, 2011, in the aggregate principal amount of up to \$50,000,000 (the "3% Convertible Promissory Notes") and warrants to acquire an aggregate amount of 457,143 shares of the Company's Common Stock (the "Warrants"). Between November 19 - 28, 2007, the Company issued 3% Convertible Promissory Notes in the aggregate principal amount of \$15,000,000, Warrants to purchase shares of the Company's common stock at \$187.5 per share and Warrants to purchase shares of the Company's common stock at \$262.5 per share. On January 31, 2008, the Company amended and restated the previously issued 3% Convertible Promissory Notes and issued to the Investors 3% Convertible Promissory Notes in the aggregate principal amount of \$50,000,000 (the "Amended and Restated Notes"), Warrants to purchase shares of the Company's common stock at \$187.5 per share and Warrants to purchase shares of the Company's common stock at \$262.5 per share. In connection with the Amended and Restated Notes, the Company entered into a Security Agreement, dated as of January 31, 2008 (the "Security Agreement"), pursuant to which the Company granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of the Company's assets, and 66% of the equity interest in the Company.

On April 2, 2009, the Company entered into a new financing arrangement with the previous holders of the Amended and Restated Notes (the "Note Holders"), and Keywin.

Pursuant to a note exchange and option agreement, dated April 2, 2009 (the “Note Exchange and Option Agreement”), between the Company and Keywin, Keywin exchanged its Amended and Restated Note in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 4,093,806 shares of the Company’s common stock and an option to purchase an aggregate of 1,637,522 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000 (the “Keywin Option”). The Keywin Option was originally exercisable for a three-month period which commenced on April 2, 2009, but pursuant to several subsequent amendments, the exercise period has been extended to one hundred and twenty-nine-month period ending on January 1, 2020, subject to the Company’s right to unilaterally terminate the exercise period upon 30 days’ written notice. As of December 31, 2017, the Keywin Option has not been exercised.

Pursuant to a note exchange agreement, dated April 2, 2009, among the Company and the Note Holders, the parties agreed to cancel their Amended and Restated Notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company’s issuance of the 1% unsecured senior convertible promissory notes due 2012 in the principal amount of \$5,000,000 (the “1% Convertible Promissory Notes”). The 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time by the holder into shares of the Company’s common stock at an initial conversion price of \$1.7445 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the holders will have the right to redeem the 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest. The parties also agreed to terminate the Security Agreement and release all security interests arising out of the Purchase Agreement and the Amended and Restated Notes.

*2) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes in 2012*

The 1% Convertible Promissory Notes matured on April 1, 2012 and on the same date, the Company and the Note Holders agreed to the following: (1) extension of the maturity date of the 1% Convertible Promissory Notes for a period of two years and (2) modification of the 1% Convertible Promissory Notes to be convertible at any time into shares of the Company’s common stock at a conversion price of \$1.3956 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued new 1% convertible promissory notes (the “New 1% Convertible Promissory Notes”) to the Note Holders. The New 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, mature on April 1, 2014, and are convertible at any time by the Note Holders into shares of the Company’s common stock at an initial conversion price of \$1.3956 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the Note Holders will have the right to redeem the New 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest.



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*Gain on extinguishment of debt*

Pursuant to ASC Topic 470-20-40-3, the Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recognized a gain on extinguishment of debt of \$1,877,594 at the date of extinguishment and included in the statements of operations for the year ended December 31, 2012.

*3) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes in 2014*

The 1% Convertible Promissory Notes matured on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years until April 1, 2016. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms.

Pursuant to ASC Topic 470-50 and ASC Topic 470-50-40, the Company determined that the original convertible notes and the modified convertible notes had substantially different terms and hence the fair value of the embedded beneficial conversion feature of the modified convertible notes, which would be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital and any debt discount will be amortized over the term of the modified convertible notes from the effective date of the new agreement using the effective interest method. As of April 1, 2014, the Company determined the fair value of the embedded beneficial conversion feature of the modified convertible notes is \$nil.

*4) No extension of 1% Convertible Promissory Notes at the maturity date on April 1, 2016*

On April 29, 2016, the Company received a reservation of rights letter from the note holders to reserves all of its powers, rights and privileges.

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

| New 1%<br>Convertible | New 1%<br>Convertible | Total |
|-----------------------|-----------------------|-------|
|-----------------------|-----------------------|-------|

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|  | Promissory<br>Notes, due<br>in 2014 | Promissory<br>Notes, due<br>in 2016 |             |
|--|-------------------------------------|-------------------------------------|-------------|
| Proceeds of new 1% convertible promissory notes  | \$5,000,000                         | \$-                                 | \$5,000,000 |
| Allocated intrinsic value of beneficial conversion feature   | (3,598,452)                         | -                                   | (3,598,452) |
| Amortization of debt discount for the year ended December 31, 2012                                       | 800,249                             | -                                   | 800,249     |
| Net carrying value of convertible promissory notes as of December<br>31, 2012                            | 2,201,797                           | -                                   | 2,201,797   |
| Amortization of debt discount for the year ended December 31, 2013                                       | 1,862,615                           | -                                   | 1,862,615   |
| Net carrying value of convertible promissory notes as of December<br>31, 2013                            | 4,064,412                           | -                                   | 4,064,412   |
| Amortization of debt discount for the year ended December 31, 2014                                       | 935,588                             | -                                   | 935,588     |
| Repayment of 1% convertible promissory note  | (5,000,000)                         | -                                   | (5,000,000) |
| Proceeds of new 1% convertible promissory notes  | -                                   | 5,000,000                           | 5,000,000   |
| Allocated intrinsic value of beneficial conversion feature   | -                                   | -                                   | -           |
| Net carrying value of convertible promissory notes as of December<br>31, 2014, 2015, 2016, 2017 and 2018 | \$-                                 | \$5,000,000                         | \$5,000,000 |

***Interest Expense***

The following table details the interest expenses:

|  | Years Ended<br>December 31, |          |
|--|-----------------------------|----------|
|  | 2018                        | 2017     |
| New 1% convertible promissory notes, due in 2016 | \$50,000                    | \$50,000 |
| New 1% convertible promissory notes, due in 2014 | -                           | -        |
| Total  | \$50,000                    | \$50,000 |

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**NOTE 9 COMMITMENTS AND CONTINGENCIES**

*Contingencies*

The Company accounts for loss contingencies in accordance with ASC Topic 450 and other related guidelines. As of December 31, 2018 and 2017, the Company's management is of the opinion that there are no commitments and contingencies to account for.

**NOTE 10 STOCKHOLDERS' DEFICIT**

*(A) Stock, Options and Warrants Issued for Services*

In March 2018, the Company entered into an escrow agent services agreement with an escrow agent. Pursuant to the agreement, the escrow agent was granted 32,870 shares for his services rendered and the Company issued 32,870 shares of par value of \$0.4 to \$2.00 per share to the consultant. In connection with this stock grants and in accordance with ASC Topic 718, the Company recognized \$20,337 of non-cash stock-based compensation included in general and administrative expenses on the consolidated statements of operation for the year ended December 31, 2018.

On March 15, 2018, the Company completed private placement of 216,000 shares of restricted common stock at \$0.4 per share. The transaction took place with 19 investors and generated gross proceeds of \$86,400 for the year ended December 31, 2018.

On May 4, 2018, the Company completed private placement of 292,000 shares of restricted common stock at \$0.5 or \$0.6 per share. The transaction took place with 11 investors and generated gross proceeds of \$170,733 for the year ended December 31, 2018.

On December 28, 2018, the Company completed private placement of 149,398 shares of restricted common stock at \$0.77 or \$2.00 per share. The transaction took place with 16 investors and generated gross proceeds of \$149,573 for the year ended December 31, 2018.

*(B) Restriction on payment of dividends*

The Company has not declared any dividends since incorporation. For instance, the terms of the outstanding promissory notes issued to affiliated funds of Och-Ziff on April 2, 2014 contain restrictions on the payment of dividends. The dividend restrictions provide that the Company or any of its subsidiaries shall not declare or pay dividends or other distributions in respect of the equity securities of such entity other than dividends or distributions of cash which amounts during any 12-month period that exceed ten percent (10%) of the consolidated net income of the Company based on the Company's most recent audited consolidated financial statements disclosed in the Company's annual report on Form 10-K (or equivalent form) filed with the U.S. Securities and Exchange Commission.

#### **NOTE 11 RELATED PARTY TRANSACTIONS**

Except as set forth below, during the years ended December 31, 2018 and 2017, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

In April 2009, in connection with debt restructuring, Statezone Ltd. of which Dr. Earnest Leung, the Company's Chief Executive Officer and a Director (being appointed on July 15, 2009 and May 11, 2009, respectively) was the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000, of which \$250,000 has been recorded as issuance costs for 1% Convertible Promissory Notes and \$100,000 has been recorded as prepaid expenses and other current assets, net since April 2009. Such \$100,000 is refundable unless the Keywin Option is exercised and completed. As of December 31, 2018, \$100,000 was recorded as prepaid expenses and other current assets.

On July 1, 2009, the Company and Keywin, of which the Company's chief executive officer and director is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 1,637,522 shares of our common stock for an aggregate purchase price of \$2,000,000, from a three-month period ended on July 1, 2009, to a six-month period ended October 1, 2009. The exercise period for the Keywin option was subsequently further extended to a nine-month period ended January 1, 2010, pursuant to the Second Amendment. On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to further extend the exercise period to an eighteen-month period ended on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice. On September 30, 2010, the exercise price was extended at various times from September 1, 2010 to December 31, 2017, the latest exercise period for the Keywin Option was further extended to a hundred and twenty-nine-month period ending on January 1, 2020 and the exercise price changed to \$0.99.

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Net loss per share information for the years ended December 31, 2018 and 2017 was as follows:

|  | 2018         | 2017         |
|--|--------------|--------------|
| Numerator:   |              |              |
| Net loss attributable to NCN common stockholders       | \$(818,202 ) | \$(769,960 ) |
| Denominator:   |              |              |
| Weighted average number of shares outstanding, basic   | 8,442,113    | 8,041,995    |
| Effect of dilutive securities                          |              |              |
| Options and warrants                                   | -            | -            |
| Weighted average number of shares outstanding, diluted | 8,442,113    | 8,041,995    |
| Net loss per common share – basic and diluted          | \$(0.097 )   | \$(0.095 )   |

The diluted net loss per common share is the same as the basic net loss per common share for the years ended December 31, 2018 and 2017 as the ordinary shares issuable under stock options and warrants outstanding are anti-dilutive and are therefore excluded from the computation of diluted net loss per common share.

**NOTE 13 GAIN FROM DISPOSAL OF SUBSIDIARIES**

As a part of the cost-cutting measures implemented, the Company disposed its dormant company. The Company's subsidiary, Crown Winner International Limited, disposed of its entire 100% equity interests of Business Boom Investments Limited, a Hong Kong investment holding company and NCN Group (HK) Limited, a Hong Kong company which has dormant, to an unrelated individual at \$1 consideration. Accordingly, the Company recorded a gain from disposal of subsidiaries of \$25 arising from disposal of subsidiaries with negative equity for the year ended December 31, 2017.

**NOTE 14 GAIN FROM WRITE-OFF OF LONG-AGED DIRECTORS' FEE PAYABLE**

The Company's directors considered the payment of the outstanding long-aged directors' fees have not been claimed due to loss of contact and it is in the best interests of Company to write off the directors' fee of the resigned directors. The Company's directors have resolved that they are of the opinion that the obligation for future settlement of accrued long-aged directors' fee payable are remote, therefore the related accruals have been written off.

**NOTE 15 INCOME TAXES**

Income is subject to taxation in various countries in which the Company and its subsidiaries operate or are incorporated. The loss before income taxes by geographical locations for the years ended December 31, 2018 and 2017 were summarized as follows:

|               | 2018      | 2017      |
|---------------|-----------|-----------|
| United States | \$89,465  | \$55,111  |
| Foreign       | 728,737   | 714,849   |
|               | \$818,202 | \$769,960 |

Other than the United States, the Company is subject to taxation in Hong Kong and PRC. Under Hong Kong tax laws, deferred tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. These tax losses do not expire under current Hong Kong tax legislation. Under PRC tax laws, tax losses may be carried forward for 5 years and no carry-back is allowed. At December 31, 2018, the Company does not have available tax losses in the Hong Kong and PRC to utilize for future taxable profits.

At December 31, 2018, the Company had an unused net operating loss carryforward of approximately \$21,458,262 for income tax purposes, which expires between 2024 and 2038. This net operating loss carryforward may result in future income tax benefits of approximately \$4,506,235 however, because realization is uncertain at this time, a valuation allowance in the same amount has been established. Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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Significant components of the Company's deferred tax liabilities and assets of December 31, 2018 and 2017 are as follows:

|  | 2018        | 2017        |
|--|-------------|-------------|
| Deferred tax liabilities                     | \$-         | \$-         |
| Deferred tax assets:                         |             |             |
| Effect of net operating loss carried forward | 4,506,235   | 4,495,007   |
| Less: valuation allowance                    | (4,506,235) | (4,495,007) |
| Net deferred tax assets                      | \$-         | \$-         |

Movement of valuation allowance:

|                                   | 2018        | 2017        |
|-----------------------------------|-------------|-------------|
| At the beginning of the year      | \$4,495,007 | \$8,577,316 |
| Current year addition/(deduction) | 11,228      | (4,082,309) |
| At the end of the year            | \$4,506,235 | \$4,495,007 |

As a result of the reduction of the corporate income tax rate from 35% to 21% due to the Tax Cuts and Jobs Act which was enacted on December 22, 2017, U.S. GAAP requires companies to remeasure their deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the period of enactment. (the change in deferred tax balances would have a corresponding change to valuation allowance thereby resulting in no income tax expense for the year).