

NETWORK CN INC  
Form 10-Q  
May 15, 2018

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended: March 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)

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

3/F., D. J. Securities Building, 171 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong  
(Address of principal executive offices, Zip Code)

(852) 2833-2186  
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or, an emerging growth company. See the definitions of "large accelerated filer," "accelerated

Edgar Filing: NETWORK CN INC - Form 10-Q

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

(Do not check if 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 in Rule 12b-2 of the Exchange Act). Yes  
No

The number of shares outstanding of each of the issuer’s classes of common stock, as of May 14,2018 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	8,575,395

TABLE OF CONTENTS

PART I  
FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22

PART II  
OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	23
Item 1A. <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3. <u>Defaults Upon Senior Securities</u>	23
Item 4. <u>Mine Safety Disclosures</u>	23
Item 5. <u>Other Information</u>	23
Item 6. <u>Exhibits</u>	23

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NETWORK CN INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Condensed Consolidated Balance Sheets as of March 31, 2018 (Unaudited) and as of December 31, 2017</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7

Table of ContentsNETWORK CN INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	As of March 31, 2018 (Unaudited)	As of December 31, 2017
<b><u>ASSETS</u></b>			
Current Assets			
Cash		\$ 16,099	\$ 6,124
Prepaid expenses and other current assets, net	5	100,580	101,047
Total Current Assets		116,679	107,171
Equipment, Net		2,230	2,577
<b>TOTAL ASSETS</b>		<b>\$ 118,909</b>	<b>\$ 109,748</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>			
Current Liabilities			
Accounts payable, accrued expenses and other payables	6	\$ 3,849,957	\$ 3,721,400
Short term loan	7	2,855,241	2,822,435
1% convertible promissory note due 2016, net	8	5,000,000	5,000,000
Total Current Liabilities		11,705,198	11,543,835
<b>TOTAL LIABILITIES</b>		<b>11,705,198</b>	<b>11,543,835</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	9	-	-
<b>STOCKHOLDERS' DEFICIT</b>			
Preferred stock, \$0.001 par value, 5,000,000 shares authorized None issued and outstanding			
		-	-
Common stock, \$0.001 par value, 26,666,667 shares authorized Shares issued and outstanding: 8,268,795 and 8,041,995 as of March 31, 2018 and December 31, 2017, respectively			
		8,269	8,042
Additional paid-in capital		123,797,234	123,706,741
Accumulated deficit		(137,096,078 )	(136,853,001 )
Accumulated other comprehensive income		1,704,286	1,704,131
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	10	<b>(11,586,289 )</b>	<b>(11,434,087 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		<b>\$ 118,909</b>	<b>\$ 109,748</b>

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

Table of Contents

NETWORK CN INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017  
 (UNAUDITED)

	Note	Three Months Ended March 31,	
		2018	March 31, 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		(98,311 )	(77,363 )
Stock based compensation for services		(4,320 )	-
Total Operating Expenses		(102,631 )	(77,363 )
<b>LOSS FROM OPERATIONS</b>			
		(102,631 )	(77,363 )
<b>OTHER INCOME</b>			
Interest income		-	-
Total Other Income		-	-
<b>INTEREST AND OTHER DEBT-RELATED EXPENSES</b>			
	7		
Interest expense	&8	(140,446 )	(133,250 )
Total Interest and Other Debt-Related Expenses		(140,446 )	(133,250 )
<b>NET LOSS BEFORE INCOME TAXES</b>			
		(243,077 )	(210,613 )
Income taxes		-	-
<b>NET LOSS</b>		<b>\$(243,077 )</b>	<b>\$(210,613 )</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation gain		155	81
Total Other Comprehensive Income gain		155	81
<b>COMPREHENSIVE LOSS</b>			
		\$(242,922 )	\$(210,532 )
<b>NET LOSS PER COMMON SHARE – BASIC AND DILUTED</b>			
	12	\$(0.03 )	\$(0.0262 )
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>			
<b>OUTSTANDING – BASIC AND DILUTED</b>	12	8,091,195	8,041,995

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

5

---

Table of Contents

NETWORK CN INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017  
 (UNAUDITED)

	Three Months Ended March 31,	
	2018	March 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(243,077)	\$ (210,613 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment	347	128
Stock-based compensation for service	4,320	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets, net	467	(645 )
Accounts payable, accrued expenses and other payables	128,557	167,527
Net cash used in operating activities	(109,386)	(43,603 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from private placement	86,400	-
Proceeds from short-term loan	32,806	64,808
Net cash provided by financing activities	119,206	64,808
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>155</b>	<b>81</b>
<b>NET INCREASE IN CASH</b>	<b>9,975</b>	<b>21,286</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>6,124</b>	<b>8,512</b>
<b>CASH, END OF PERIOD</b>	<b>\$16,099</b>	<b>\$ 29,798</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Income taxes	\$-	\$ -
Interest paid	\$-	\$ -

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



Table of Contents

NETWORK CN INC.  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Network CN Inc., its subsidiaries and variable interest entities (collectively “NCN” or the “Company” “we”, “our” or “us”) have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of our financial position and results of operations.

The unaudited condensed consolidated financial statements for the three months ended March 31, 2018 and 2017 were not audited. It is management’s opinion, however, that all material adjustments (consisting of normal recurring adjustments or a description of the nature and amount of any adjustments other than normal recurring adjustments) have been made which are necessary for a fair presentation of financial statements. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, previously filed with the Securities and Exchange Commission on April 16, 2018. The disclosures made in the unaudited interim condensed consolidated financial statements generally do not repeat those in the annual statements.

NOTE 2. 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, the Company has been principally engaged in the provision of out-of-home advertising in China through the operation of a network of roadside 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 March 31, 2018, are described in Note 4 – 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\$86,400.00). Net proceeds from the financing will be used for general corporate purposes.

On May 4, 2018, Network CN Inc. (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\$170,733.30). Net proceeds from the financing will be used for general corporate purposes.

7

---

## Table of Contents

### Going Concern

The Company has experienced recurring net losses of \$243,077 and \$210,613 for the three months ended March 31, 2018 and 2017, respectively. Additionally, the Company has net cash used in operating activities of \$109,386 and \$43,603 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, and December 31, 2017, the Company has stockholders' deficit of \$11,586,289 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 unaudited condensed 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 undergone a drastic cost-cutting exercise, including reduction of the Company's workforce, office rentals and other general and administrative expenses. 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.

### NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### (B) Principles of Consolidation

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

#### (C) Use of Estimates

In preparing unaudited condensed consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Differences from those estimates

are reported in the period they become known and are disclosed to the extent they are material to the unaudited condensed consolidated financial statements taken as a whole.

(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 flows, 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 March 31, 2018 and December 31, 2017.

Table of Contents

(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 unaudited condensed 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 discounted cash flow analysis. There was no impairment of long-lived assets during the period.

(G) Convertible Promissory Notes

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 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.

## Table of Contents

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). See (O) Recent accounting pronouncements, for further information.

### (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.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value. In accordance with ASC Topic 505, Equity, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached (“performance commitment date”) or the date at which performance is complete (“performance completion date”). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

### (J) Income Taxes

The Company accounts for income taxes under ASC Topic 740, Income Tax. Deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. The expense or benefit related to adjusting deferred tax assets and liabilities as a result of a change in tax rates is recognized in income or loss in the period that includes the enactment date.

## Table of Contents

The Company recognizes and measures uncertain tax positions and records tax benefits when 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. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The company recognizes interest and penalties as a component of income tax expense if applicable.

### (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 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 condensed 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 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 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 share is the same as the basic net loss per share for the three months ended March 31, 2018 and 2017, as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

### (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 condensed 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 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 condensed consolidated statements of operations.

### (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.



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.

## Table of Contents

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 and cash equivalents, 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 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.

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.

12

---

Table of Contents

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 does not expect to generated any revenue for the period.

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.

## NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

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

Name	Place of Incorporation	Ownership/Control interest attributable to the Company	Principal activities
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.

13

---

Table of Contents

## NOTE 5. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

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

	As of March 31, 2018	As of December 31, 2017
Prepaid expenses	\$ 100,327	\$ 100,794
Other deposits	253	253
Sub-total	100,580	101,047
Less: allowance for doubtful debts	-	-
Total	\$ 100,580	\$ 101,047

The Company recorded no allowance for doubtful debts for prepaid expenses and other current assets for the three months ended March 31, 2018 and 2017.

## NOTE 6. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of March 31, 2018 and December 31, 2017 were as follows:

	As of March 31, 2018	As of December 31, 2017
Accrued staff benefit and related fees	\$ 1,700,255	\$ 1,650,355
Accrued professional fees	53,877	44,394
Accrued interest expenses	2,055,497	1,937,010
Other accrued expenses	6,591	89,641
Other payables	33,737	-
Total	\$ 3,849,957	\$ 3,721,400

## NOTE 7. SHORT-TERM LOANS

As of March 31, 2018, and December 31, 2017, the Company recorded an aggregated amount of \$2,855,241 and \$2,822,435 of short-term loans, respectively. 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 three months ended March 31, 2018 and 2017 were \$127,981 and \$120,922, respectively.

Table of Contents

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 a one hundred and five-months period ending on January 1, 2018 and the exercise price changed to \$0.99, subject to the Company’s right to unilaterally terminate the exercise period upon 30 days’ written notice. As of March 31, 2016, 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.



Table of Contents

## 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.

## No gain or loss 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 no gain or loss on extinguishment of debt at the date of extinguishment for the year ended December 31, 2014.

## 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.

Convertible promissory notes, net as of March 31, 2018 and December 31, 2017 were as follows:

	As of March 31, 2018	As of December 31, 2017
Gross carrying value	\$ 5,000,000	\$ 5,000,000
Less: Allocated intrinsic value of beneficial conversion feature	-	-
Add: Accumulated amortization of debt discount	-	-
	5,000,000	5,000,000
Less: Current portion	-	-
Non-current portion	\$ 5,000,000	\$ 5,000,000

## Interest Expense

The interest expenses of the 1% Convertible Promissory Notes for the three months ended March 31, 2018 and 2017 were \$12,466 and \$12,329, respectively.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Contingencies

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

Table of Contents

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 10,800 shares for his services rendered and the Company issued 10,800 shares of par value of \$0.4 per share to the consultant. In connection with this stock grants and in accordance with ASC Topic 718, the Company recognized \$4,320 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended March 31, 2018.

On March 15, 2018, the Company completed three private placements 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 period ended March 31, 2018.

NOTE 11. RELATED PARTY TRANSACTIONS

Except as set forth below, during the three months ended March 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 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 hundred and twenty-nine-month period ending on January 1, 2020 and the exercise price changed to \$0.99.

NOTE 12. NET LOSS PER COMMON SHARE

Net loss per common share information for the three months ended March 31, 2018 and 2017 was as follows:

Three Months Ended

Edgar Filing: NETWORK CN INC - Form 10-Q

	March 31, 2018	March 31, 2017
Numerator:		
Net loss attributable to NCN common stockholders	\$(243,077 )	\$(210,613 )
Denominator:		
Weighted average number of shares outstanding, basic +	8,091,195	8,041,995
Effect of dilutive securities	-	-
Options and warrants	-	-
Weighted average number of shares outstanding, diluted	8,091,195	8,041,995
Net loss per common share – basic and diluted	\$(0.03 )	\$(0.0262 )

Table of Contents

The diluted net loss per common share is the same as the basic net loss per common share for the three months ended March 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 common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of March 31, 2018 and 2017 were summarized as follows:

	Three Months Ended	
	March	March 31,
	31,	2017
	2018	
Potential common equivalent shares:		
Stock warrants for services*	-	-
Conversion feature associated with convertible promissory notes to common stock	-	-
Stock options granted to Keywin	-	-
Total	-	-

Table of Contents

ITEM MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS.

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, including the following “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words “believe”, “expect”, “anticipate”, “project”, “targets”, “optimistic”, “i”, “aim”, “will” or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to our potential inability to raise additional capital; changes in domestic and foreign laws, regulations and taxes; uncertainties related to China’s legal system and economic, political and social events in China; Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks”; changes in economic conditions, including a general economic downturn or a downturn in the securities markets; and any of the factors and risks mentioned in the “Risk Factors” sections of our Annual Report on Form 10-K for fiscal year ended December 31, 2016 and subsequent SEC filings. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

Use of Terms

Except as otherwise indicated by the context, references in this 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, and its variable interest entity, Xingpin Shanghai Advertising Limited; Crown Eagle Investments 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; 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“NCN Management Services” are references to NCN Management Services Limited, a BVI 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; and

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

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.

## Table of Contents

To address these unfavorable market conditions, we continue to implement cost-cutting measures, including reductions in our workforce, office rentals, selling and marketing related expenses and other general and administrative expenses. We have also re-assessed the commercial viability of each of our concession rights contracts and have terminated those of our concession rights that we determined were no longer commercially viable due to high annual fees. Management has also successfully negotiated some reductions in advertising operating rights fees under remaining contracts.

For more information relating to our business, please refer to Part I, “Item 1 - Business” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

### Recent Development

#### 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\$86,400.00). Net proceeds from the financing will be used for general corporate purposes.

On May 4, 2018, Network CN Inc. (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\$170,733.30). 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.

#### 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

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

#### Comparison of Three Months Ended March 31, 2018 and March 31, 2017

General and Administrative Expenses – General and administrative expenses primarily consist of compensation related expenses (including salaries paid to executive and employees, 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 three months ended March 31, 2018 increased by 27% to \$98,311, as compared to \$77,363 for the corresponding prior year period. The increase in general and administrative expenses was mainly due to the increase in legal fee of the Company.

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 \$4,320 for the three months ended March 31, 2018. The increase in the stock-based compensation was mainly due stock had been granted for services rendered during the three months ended March 31, 2018.

Table of Contents

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended March 31, 2018 increased to \$140,446, or by 6%, as compared to \$133,250 for the corresponding prior year period. The increase was mainly due to the increased in short term loans balance.

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 during the three months ended March 31, 2018 and 2017, because the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net Loss – The Company incurred a net loss of \$243,077 for the three months ended March 31, 2018, an increase of 16%, as compared to a net loss of \$210,613 for the corresponding prior year period. The increase in net loss was driven by several factors, including the increase in general and administrative expenses and interest expense and other debt-related expenses.

## Liquidity and Capital Resources

As of March 31, 2018, we had cash of \$16,099, as compared to \$6,124 as of December 31, 2017, an increase of \$9,975 with the increase of proceeds from private placement.

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

	Three Months Ended March 31,	
	2018	March 31, 2017
Net cash used in operating activities	\$(109,386)	\$ (43,603 )
Net cash provided by financing activities	119,206	64,808
Effect of exchange rate changes on cash	155	81
Net increase in cash	9,975	21,286
Cash, beginning of period	6,124	8,512
Cash, end of period	\$16,099	\$ 29,798

## Operating Activities

Net cash used in operating activities for the three months ended March 31, 2018 was \$109,386, as compared to net cash used in operating activities amounting to \$43,603 for the corresponding prior year period. This was mainly attributable to increase in payment to suppliers during the three months ended March 31, 2018.

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 note 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. 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 its expiration and our note holders 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.

## Investing Activities

Net cash used in investing activities for the three months ended March 31, 2018 and 2017 was \$nil.

Financing Activities

Net cash provided by financing activities was \$119,206 for the three months ended March 31, 2018, as compared to \$64,808 for the corresponding prior year period. The increase was mainly due to increase in proceeds from private place and proceeds from short-term loans for financing our operations during the three months ended March 31, 2018.

21

---

Table of Contents

## Short-term Loan

As of March 31, 2018, the Company recorded an aggregated amount of \$2,855,241 short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and shall be repayable in one month. 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 the due date. Up to the date of this report, those loans have not yet been repaid.

## Capital Expenditures

During the three months ended March 31, 2018 and 2017, we did not acquire equipment.

## Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of March 31, 2017:

	Payments due by period				
	Total	Due in 2017	Due in 2018 – 2019	Due in 2019-2020	Thereafter
Debt Obligations (a)	\$5,000,000	\$5,000,000	\$ -	\$ -	\$ -
Short Term Loan (b)	2,855,241	2,855,241	-	-	-

(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 8 of the consolidated financial statements.

(b) Short Term Loan. We have entered into short-term loan agreement with an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand or have due date in a month. 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 the due date. Up to the date of this report, those loans have not yet been repaid.

## Recent Accounting Pronouncements

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.

## 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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

22

---

Table of Contents

As required by Rule 13a-15 under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2018, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective to satisfy the objectives for which they are intended.

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 to our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II  
OTHER INFORMATION

ITEM 1. 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.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

We have not sold any equity securities during the quarter ended March 31, 2018 which sale was not previously disclosed in a current report on Form 8-K filed during that period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.



Table of Contents

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit No.	Description
31.1	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101 *	Financial statements and footnotes of Network CN Inc. for the fiscal quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T (furnished herewith)

\* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.



Table of Contents

SIGNATURES

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

Date: May 15, 2018 NETWORK CN INC.

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

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