ChinaNet Online Holdings, Inc.
Form 10-K
June 16, 2014

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NO. 001-34647

CHINANET ONLINE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

NEVADA	20-4672080
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

No. 3 Min Zhuang Road, Building 6,
Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC
(Address of principal executive offices)

+86-10-5160-0828
(Issuer's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange On which Registered
$0.001 Common Stock	Nasdaq Capital Market

Securities Registered Pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes [ ] No [X]

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 [X]

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 [X]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. Yes [ ] No [X]

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [X]

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

The aggregate market value of the 14,344,588 shares of common equity stock held by non-affiliates of the Registrant was approximately $8,463,307 on the last business day of the Registrant's most recently completed second fiscal quarter, based on the last sale price of the registrant's common stock on such date of $0.59 per share, as reported on the Nasdaq Global Market.

The number of shares outstanding of the Registrant's common stock, $0.001 par value as of June 16, 2014 was 22,376,540.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including “anticipates”, “believes”, “expects”, “can”, “continue”, “could”, “estimates”, “expects”, “intends”, “may”, “plans”, “potential”, “predict”, “should??or “will” or the negative of these terms or other comparable terminology. These state are only predictions. Uncertainties and other factors, including the risks outlined under Risk Factors contained in Item 1A of this Form 10-K, may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Our expectations are as of the date this Form 10-K is filed, and we do not intend to update any of the forward-looking statements after the filing date to conform these statements to actual results, unless required by law.

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. You may read and copy these materials at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding us and other companies that file materials with the SEC electronically. You may also obtain copies of reports filed with the SEC, free of charge, via a link included on our website at www.chinanet-online.com.

PART I

ITEM 1 BUSINESS

We are a holding company that conducts our primary businesses through our PRC subsidiary and PRC operating entities (the "VIEs"). We are one of China's leading business-to-businesses ("B2B"), fully integrated internet service providers for expanding small and medium enterprises' ("SMEs") sales networks in China. Our services were founded on proprietary internet and advertising technologies that include (i) preparing and publishing rich media enabled advertising and marketing campaigns for clients on the Internet, mobile phone, television and other valued added communication channels, (ii) hosting mini-sites with online messaging and consulting functionalities, (iii) generating effective sales leads, (iv) providing online management tools to help SMEs manage the expansion of their sales networks and (v) providing social networking and information sharing services to SMEs and entrepreneurs through interactive integrated social networking portal. Our goal is to strengthen our position as the leading diversified one-stop internet service provider to SMEs for their sales network expansion in China. In February 2013, we received the awards of "The Most Leading Enterprise of Chinese Entrepreneurial Merchandising and Franchising Marketing Industry" and "The Most Trustworthy E-Commerce Platform in Entrepreneurial Merchandising and Franchising Industry" in China by the China Electronic Commerce Association (CECA). These awards are only awarded to one enterprise in each industry.

ChinaNet primarily operates an one-stop services for our clients on four major service platforms, including social networking service information platform, multi-channel advertising and promotion platform, brand management and sales channel building platform and management tools platform. Our social networking service information platform primarily consists of www. chuangye.com, an information and service portal for entrepreneurs or any individual who plans to start their own business. Our multi-channel advertising and promotion platform primarily consists of internet advertising and marketing portals, including www.28.com ("28.com"), www.liansuo.com ("liansuo.com") and www.sooe.cn ("sooe.cn"), ChinaNet TV as our TV production and advertising unit and the bank kiosk advertising unit. We provide varieties of marketing campaigns through this platform by the combination of the Internet, mobile, television, bank kiosks and printed-medias to maximize market exposure and effectiveness for our clients. Our band management and sales channel building platform consists of our brand consulting and management service and offline sales channel expansion service, which is to physically help small businesses to recruit dealers, wholesalers, partners or franchisees based on their business needs. Management tools platform consists of a mobile-based sales and administrative management tools specifically designed for small business in China to match their simplicity.

chuangye.com, operated through Beijing Chuang Fu Tian Xia Network Technology Co., Ltd., our majority-owned VIE, is built to serve the community of entrepreneurs to assist them with developing their business, as well as sharing their resources in a web2.0 and SNS2.0 driven interaction in combination with popular web/mobile tools and portals, such as Weibo, WeChat, Tianya, Baidu and so forth. 28.com, operated through Business Opportunity Online (Beijing) Network Technology Co., Ltd., is our key internet advertising web portal. Through this high traffic internet portal, SMEs advertise their business information, brands, products and services, as well as other related business opportunities through their mini-sites hosted by 28.com. The portal also offers campaign management tools for our clients, including lead generation and management, advanced tracking, search engine marketing, search engine optimization, resource scheduling and content management. It also functions as a one-stop destination for the general public seeking new business opportunities or other business ventures. Liansuo.com, operated through Beijing Chuang Fu Tian Xia Network Technology Co., Ltd., our majority-owned VIE, is built to serve larger SMEs than those served by 28.com. With additions of other internet related services, Liansuo.com is also intended to serve large international and overseas clients. In fiscal 2013, Liansuo.com signed several new branded customers to help expand their franchise in China and internationally. These new branded customers include: Super 8 International Limited and GreenTree Inn, two of the top leaders in economy hotel business in China; Mendale Textile Limited and Veken Textile Limited, two of the famous branded bedding and upholstered furniture companies in China; and Beijing Origus Food Co., Ltd, a pioneer of the pizza buffet concept in China. In December 2011, we acquired another established online advertising and marketing portal, sooe.cn, which focuses on emerging SMEs. Through the two-year integration of these internet advertising and marketing portals, we achieved the expected operational synergies through cross-selling and secured and increased our target client base to cover all tiers of SMEs in China. The ChinaNet TV division, operated through Beijing CNET Online Advertising Co., Ltd., has in-house television productions and distribution capabilities. We produce and distribute television shows that are typically 10 or 20 minutes in length and are broadcasted on local television stations. The television shows are comprised of advertisements, similar to infomercials, and also include promotions for several clients. The bank kiosk division, operated through Shanghai Borongdongsi Computer Technology Co., Ltd., provides interactive LCD advertisement displays and targets banking customers. Each kiosk has an LCD advertising display panel, which provides advertising aimed at bank customers. Each kiosk also provides Internet access on a separate screen so that customers can perform basic non-cash banking functions such as transferring money, purchasing annuities and/or insurance, and paying bills. We also provide brand consulting and management service and offline sales channel building and expansion services to our SME clients, including brand investigation, brand modulization, brand application, brand promotion, as well as sales channel expansion modeling, implementation and management. We also have invested in the cloud-computing based software technologies, which were intended to help our SME clients manage their sales channels more effectively in China. The technology has been partially implemented into our existing online advertising and marketing platforms in the past two years, and other features of the technology are still under integration and are expected to be incorporated into our another web portal, www.feitengyun.com.

We derive our revenue principally by:

- selling of internet advertising space on our website portals;
- selling of value-added technical services to our clients through the internet advertising management systems and platforms developed and managed by us;
- selling of advertising time slots on our television shows and on our installed bank kiosks; and
- providing brand management and sales channel building services to a certain group of clients.

The five largest industries in terms of revenue in which our advertising and marketing clients operate are (1) food and beverage, (2) footwear, apparel and garments, (3) cosmetics and health care, (4) home goods and construction materials and (5) environmental protection equipment. Advertising revenue from these industries together accounted for approximately 76% of our revenue in 2013.

For the year ended December 31, 2013, we generated total revenues of US$30.3 million, compared to US$46.6 million in 2012, and incurred a net loss (after allocation to the noncontrolling interest shareholders) of US$0.2 million, compared to a net income (after allocation to the noncontrolling interest shareholders) of US$3.0 million in 2012.

Our Corporate History, Background, Subsidiaries, Variable Interest Entities (VIEs) and Equity Investment Affiliates

As of December 31, 2013, our Corporate Structure is set forth below:

We were incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. From the date of our incorporation until June 26, 2009, when we consummated the Share Exchange (as defined below), our business development activities were primarily concentrated in web server access and company branding in hosting web based e-games.

Our wholly owned subsidiary, China Net Online Media Group Limited, was incorporated in the British Virgin Islands on August 13, 2007 ("China Net BVI"). On April 11, 2008, China Net BVI became the parent holding company of a group of companies comprised of CNET Online Technology Limited, a Hong Kong company ("China Net HK"), which established, and is the parent company of, Rise King Century Technology Development (Beijing) Co., Ltd., a wholly foreign-owned enterprise ("WFOE") established in the People's Republic of China ("Rise King WFOE"). We refer to the transactions that resulted in China Net BVI becoming an indirect parent company of Rise King WFOE as the "Offshore Restructuring."

Restructuring

In October 2008, a restructuring plan was developed (the "Restructuring"). The Restructuring was accomplished in two steps. The first step was for Rise King WFOE to acquire control over Business Opportunity Online (Beijing) Network Technology Co., Ltd. ("Business Opportunity Online") and Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online") (collectively the "PRC Operating Entities" or the "VIEs") by entering into a series of contracts (the "Contractual Agreements" or the "VIE Agreements"), which enabled Rise King WFOE to operate the business and manage the affairs of the PRC Operating Entities. At the time of the restructuring, Beijing CNET Online owned a 51% equity interest in Shanghai Borongdingsi Computer Technology Co., Ltd. ("Shanghai Borongdingsi"). Both of the PRC Operating Entities at that time were, and currently are, owned by Messrs. Handong Cheng, Xuanfu Liu and Ms. Li Sun (the "PRC Shareholders" or the "Control Group"). Mr. Cheng is now our Chief Executive Officer. After the PRC Restructuring was consummated, the second step was for China Net BVI to enter into and complete a transaction with a U.S. public reporting company, whereby that company would acquire China Net BVI, China Net HK and Rise King WFOE, and control the PRC Operating Entities (the "China Net BVI Companies").

Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi, were incorporated on December 8, 2004, January 27, 2003 and August 3, 2005, respectively. Shanghai Borongdingsi is 51% owned by Beijing CNET Online. Beijing CNET Online and Shanghai Borongdingsi entered into a cooperation agreement in June 2008, followed up with a supplementary agreement in December 2008, to conduct e-banking advertisement business. The business is based on an e-banking cooperation agreement between Shanghai Borongdingsi and Henan provincial branch of China Construction Bank which allows Shanghai Borongdingsi, or its designated party, to conduct in-door advertising business within the business outlets throughout Henan Province. The e-banking cooperation agreement has a term of eight years, which began in August 2008. However, Shanghai Borongdingsi was not able to conduct the advertising business as a stand-alone business due to the lack of an advertising business license and supporting financial resources. Pursuant to the aforementioned cooperation agreements, Beijing CNET Online committed to purchase equipment, and to provide working capital, technical and other related support to Shanghai Borongdingsi. Beijing CNET Online owns the equipment used in the kiosk business, is entitled to sign contracts in Shanghai Borongdingsi's name on behalf of the business, and holds the right to collect the advertising revenue generated from the kiosk business exclusively until it recovers of the cost of purchasing the equipment. Thereafter, Beijing CNET Online has agreed to distribute 49% of the net profit generated from the e-banking advertising business, if any, to the minority shareholders of Shanghai Borongdingsi.

Legal Structure of the PRC Restructuring

The PRC Restructuring was consummated in a manner so as not to violate PRC laws relating to restrictions on foreign ownership of businesses in certain industries in the PRC and the PRC M&A regulations.

The Foreign Investment Industrial Guidance Catalogue jointly issued by the Ministry of Commerce ("MOFCOM") and the National Development and Reform Commission in 2007 classified various industries/business into three different categories: (i) encouraged for foreign investment, (ii) restricted to foreign investment and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed to be industries/business permitted to have foreign investment. Except for those expressly provided restrictions, encouraged and permitted industries/businesses are usually open to foreign investment and ownership. With regard to those industries/businesses restricted to or prohibited from foreign investment, there is always a limitation on foreign investment and ownership.

The business of the PRC Operating Entities falls under the class of a business that provides Internet content or information services, a type of value added telecommunication services, for which restrictions upon foreign ownership apply. As a result, Rise King WFOE is not allowed to do the business the PRC Operating Entities companies are currently pursuing. Advertising business is open to foreign investment but one of the requirements is that the foreign investors of a WFOE shall have been carrying out advertising business for over three years pursuant to the Foreign Investment Advertising Measures as amended by MOFCOM and the State Administration of Industry and Commerce ("SAIC") on August 22, 2008. Rise King WFOE is not allowed to engage in the advertising business because its shareholder, China Net HK, does not meet such requirements. In order to control the business and operations of the PRC Operating Entities, and consolidate the financial results of the two companies in a manner that does not violate current PRC laws, Rise King WFOE executed the Contractual Agreements with the PRC Shareholders and each of the PRC Operating Entities. The Contractual Agreements allow us, through Rise King WFOE, to, among other things,

secure significant rights to influence the two companies' business operations, policies and management, approve all matters requiring shareholder approval, and receive 100% of the income earned by the PRC Operating Entities. In return, Rise King WFOE provides consulting services to the PRC Operating Entities. In addition, to ensure that the PRC Operating Entities and the PRC Shareholders perform their obligations under the Contractual Arrangements, the PRC Shareholders have pledged all of their equity interests in the PRC Operating Entities to Rise King WFOE. They have also entered into an option agreement with Rise King WFOE which provides that at such time as when the current restrictions under PRC law on foreign ownership of Chinese companies engaging in the Internet content or information services in China are lifted, Rise King WFOE may exercise its option to purchase the equity interests in the PRC Operating Entities, directly.

Each of the PRC Shareholders entered into a share transfer agreement (the "Share Transfer Agreement") with Mr. Yang Li, the sole shareholder of Rise King Investment Limited, a British Virgin Islands company ("Rise King BVI"), which is a 55% shareholder of China Net BVI. In entering into the Share Transfer Agreement, Ms. Li Sun was acting as the nominee of Mr. Zhige Zhang, our chief financial officer. Mr. Zhang did not report his indirect ownership of ChinaNet BVI's common stock by virtue of Ms. Li acting as his nominee on his original Form 3 filed with the SEC. The PRC Shareholders were granted the incentive options for the contributions that they made and continue to make to Rise King BVI. Under the Share Transfer Agreements Mr. Li granted each of the PRC Shareholders an option to acquire, in the aggregate 10,000 shares of Rise King BVI, representing 100% of the issued and outstanding shares of Rise King BVI, provided that certain financial performance thresholds were met by the China Net BVI Companies. The Share Transfer Agreement was formalized and entered into on April 28, 2009. There is no prohibition under PRC laws for the PRC Shareholders to earn an interest in Rise King BVI after the PRC Restructuring is consummated in compliance with PRC law.

Pursuant to the Share Transfer Agreement, the Option Shares vest and become exercisable in one-third increments upon the China Net BVI Companies attaining consolidated gross revenue performance targets for fiscal 2009, the six month period ended June 30, 2010 and the six month period ended December 31, 2010 of RMB100 million, RMB60 million and RMB60 million, respectively. If China Net BVI Companies achieve the performance targets the exercise price will be $1.00 per share. If the targets are not met, the exercise price will be $2.00 per share. As of February 14, 2011, 100% of the Option Shares were exercisable. On March 30, 2011, Ms. Li Sun transferred the Option Shares held by her to Mr. Zhang. On March 30, 2011, pursuant to the terms of the Share Transfer Agreement, each of Mr. Cheng, Mr. Liu and Mr. Zhang exercised their rights to acquire the Option Shares. Due to the fact that the China Net BVI Companies had achieved the performance targets set forth in the Share Transfer Agreement, each of Mr. Cheng, Mr. Liu and Mr. Zhang paid an exercise price of $1.00 per share to Mr. Yang Li. As a result of this exercise, Mr. Cheng, Mr. Liu and Mr. Zhang became the shareholders of Rise King BVI. As of June 16, 2014, through Rise King BVI, Mr. Cheng, Mr. Liu and Mr. Zhang collectively hold 34% of issued and outstanding shares of our common stock.

Summary of the material terms of the VIE Agreements:

Exclusive Business Cooperation Agreements:

Pursuant to the Exclusive Business Cooperation Agreements entered into by and between Rise King WFOE and each of the PRC Operating Entities, Rise King WFOE has the exclusive right provide to the PRC Operating Entities complete technical support, business support and related consulting services during the term of these agreements, which includes but is not limited to technical services, business consultations, equipment or property leasing, marketing consultancy, system integration, product research and development, and system maintenance. In exchange for such services, each PRC Operating Entity has agreed to pay a service fee to Rise King WFOE equal to 100% of the net income of each PRC Operating Entity. Adjustments may be made upon approval by Rise King WFOE based on services rendered by Rise King WFOE and operational needs of the PRC Operating Entities. The payment shall be made on a monthly basis, if at year end, after an audit of the financial statements of any PRC Operating Entities, there is determined to be any shortfall in the payment of 100% of the annual net income, such PRC Operating Entity shall pay such shortfall to Rise King WFOE. Each agreement has a ten-year term. The term of these agreements may be extended if confirmed in writing by Rise King WFOE, prior to the expiration of the term. The extended term shall be determined by Rise King WFOE, and the PRC Operating Entities shall accept such extended term unconditionally.

Exclusive Option Agreements:

Under the Exclusive Option Agreements entered into by and among Rise King WFOE, each of the PRC Shareholders irrevocably granted to Rise King WFOE, or its designated person, an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of their respective equity interest in any PRC Operating Entities for a purchase price of RMB10, or a purchase price to be adjusted to be in compliance with applicable PRC laws and regulations. Rise King WFOE, or its designated person, has the sole discretion to decide when to exercise the option, whether in part or in full. Each of these agreements has a ten-year term, subject to renewal at the election of Rise King WFOE.

Equity Pledge Agreements:

Under the Equity Pledge Agreements entered into by and among Rise King WFOE, the PRC Operating Entities and each of the PRC Shareholders, the PRC Shareholders pledged all of their equity interests in the PRC Operating Entities to guarantee the PRC Operating Entities' performance of its obligations under the Exclusive Business Cooperation Agreements. If the PRC Operating Entities or any of the PRC Shareholders breaches its/his/her respective contractual obligations under these agreements, or upon the occurrence of one of the events regarded as an event of default under each such agreement, Rise King WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests. The PRC Shareholders of the PRC Operating Entities agreed not to dispose of the pledged equity interests or take any actions that would prejudice Rise King WFOE's interest, and to notify Rise King WFOE of any events or upon receipt of any notices which may affect Rise King WFOE's interest in the pledge. Each of the equity pledge agreements will be valid until all the payments related to the services provided by Rise King WFOE to the PRC Operating Entities due under the Exclusive Business Cooperation Agreements have been fulfilled. Therefore, the equity pledge agreements shall only be terminated when the payments related to the ten-year Exclusive Business Cooperation Agreement are paid in full and the WFOE does not intend to extend the term of the Exclusive Business Cooperation Agreement.

Irrevocable Powers of Attorney:

The PRC Shareholders have each executed an irrevocable power of attorney to appoint Rise King WFOE as their exclusive attorneys-in-fact to vote on their behalf on all PRC Operating Entities matters requiring shareholder approval. The term of each power of attorney is valid so long as such shareholder is a shareholder of the respective PRC Operating Entity.

As a result of these VIE Agreements, we through our wholly-owned subsidiary, Rise King WFOE, was granted with unconstrained decision making rights and power over key strategic and operational functions that would significantly impact the PRC Operating Entities or the VIEs' economic performance, which includes, but is not limited to, the development and execution of the overall business strategy; important and material decision making; decision making for merger and acquisition targets and execution of merger and acquisition plans; business partnership strategy development and execution; government liaison; operation management and review; and human resources recruitment and compensation and incentive strategy development and execution. Rise King WFOE also provides comprehensive services to the VIEs for their daily operations, such as operational technical support, OA technical support, accounting support, general administration support and technical support for products and services. As a result of the Exclusive Business Cooperation Agreements, the Equity Pledge Agreements and the Exclusive Option Agreements, we will bear all of the VIEs' operating costs in exchange for 100% of the net income of the VIEs. Under these agreements, we have the absolute and exclusive right to enjoy economic benefits similar to equity ownership through the VIE Agreements with our PRC Operating Entities and their shareholders.

Accounting Treatment of the Restructuring:

The Restructuring is accounted for as a transaction between entities under common control in a manner similar to pooling of interests, with no adjustment to the historical basis of the assets and liabilities of the PRC Operating Entities. The operations of the PRC Operating Entities are consolidated as if the current corporate structure had been in existence throughout the period presented in the audited financial statements. The Restructuring is accounted for in this manner because, pursuant to an Entrustment Agreement dated June 5, 2009 (the "Entrustment Agreement") between Rise King BVI and the PRC Shareholders, Rise King BVI granted to the PRC Shareholders, on a collective basis, managerial control over each of the China Net BVI Companies by delegating the PRC Shareholders its shareholder rights, including the right to vote, and its rights to designate management of China Net BVI. The Entrustment Agreement, together with the Contractual Arrangements demonstrates the ability of the PRC Shareholders to continue to control Business Opportunity Online and Beijing CNET Online, which are under our common control. On March 30, 2011, in connection with the exercise of the options pursuant to the Share Transfer Agreement, the Entrustment Agreement was terminated.

Share Exchange

On June 26, 2009, we entered into a Share Exchange Agreement (the "Exchange Agreement"), with (i) ChinaNet BVI, (ii) ChinaNet BVI's shareholders, Allglad Limited, a British Virgin Islands company ("Allglad"), Growgain Limited, a British Virgin Islands company ("Growgain"), Rise King Investments Limited, a British Virgin Islands company ("Rise King BVI"), Star (China) Holdings Limited, a British Virgin Islands company ("Star"), Surplus Elegant Investment Limited, a British Virgin Islands company ("Surplus"), Clear Jolly Holdings Limited, a British Virgin Islands company ("Clear" and together with Allglad, Growgain, Rise King BVI, Star and Surplus, the "ChinaNet BVI Shareholders"), who together own shares constituting 100% of the issued and outstanding ordinary shares of ChinaNet BVI (the "ChinaNet BVI Shares"), and (iii) G. Edward Hancock, the former principal stockholder of the Company. Pursuant to the terms of the Exchange Agreement, the ChinaNet BVI Shareholders transferred to the Company all of the ChinaNet BVI Shares in exchange for the issuance of 13,790,800 (the "Exchange Shares") shares of Common Stock (the "Share Exchange"). As a result of the Share Exchange, ChinaNet BVI became a wholly owned subsidiary of our company and we are now a holding company, which, through certain contractual arrangements with operating companies in the PRC, is engaged in providing advertising, marketing and communication services to small and medium companies in China.

Name Change

Prior to July 14, 2009, our company name was Emazing Interactive, Inc. On July 14, 2009, our company formed a corporation under the laws of the State of Nevada called ChinaNet Online Holdings, Inc. (the "Merger Sub") and acquired one hundred shares of its common stock for cash. As such, Merger Sub was merged with and into our company. As a result of the merger, the separate corporate existence of the Merger Sub ceased. As a further result of the merger, our corporate name was changed to "ChinaNet Online Holdings, Inc." We are the surviving corporation in the merger and, except for the name change provided for in the Agreement and Plan of Merger, there was no change in our directors, officers, capital structure or business.

2009 Financing

On August 21, 2009 (the "Closing Date"), we entered into a securities purchase agreement (the "Purchase Agreement"), with several investors, including institutional, accredited and non-US persons and entities (the "Investors"), pursuant to which we sold units, comprised of 10% Series A Convertible Preferred Stock, par value $.001 per share (the "Series A Preferred Stock"), and two series of warrants, for a purchase price of $2.50 per unit and gross proceeds of approximately $10.3 million (the "Financing"). Net proceeds from the Financing were approximately $9.2 million. We sold 4,121,600 units in the aggregate, which included (i) 4,121,600 shares of our Series A Preferred Stock, (ii) Series A-1 Warrants to purchase 2,060,800 shares of Common Stock at an exercise price of $3.00 per share with a three-year term, and (iii) Series A-2 Warrants to purchase 2,060,800 shares of Common Stock at an exercise price of $3.75 with a five-year term. In connection with the Financing, we issued to TriPoint Global Equities, LLC warrants to purchase 329,728 shares of our Common Stock at an exercise price of $2.50 per share, 164,864 at an exercise price of $3.00 and 164,864 at an exercise price of $3.75. The warrants expire on August 20, 2014.

On August 21, 2011, pursuant to the Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock, all outstanding shares of the Series A Convertible Preferred Stock were converted into shares of our common stock.

On December 1, 2011, we launched a tender offer pursuant to which we offered all holders of our outstanding Series A-1 Warrants and Series A-2 Warrants the opportunity to exchange their warrants in accordance with the following exchange ratios: (A) with respect to any Series A-1 Warrant, one share of our common stock in exchange for every twenty shares for which such Series A-1 Warrant was exercisable, and (B) with respect to any Series A-2 Warrant, one share of our common stock in exchange for every ten shares for which such Series A-2 Warrant was exercisable. The tender offer expired on December 30, 2011 and 1,418,800 Series A-1 Warrants were tendered in exchange for approximately 70,940 shares of our common stock and 356,800 Series A-2 Warrants were tendered in exchange for approximately 35,680 shares of our common stock.

On August 20, 2012, the remaining Series A-1 warrants to purchase up to 642,000 share of our common stock issued on August 21, 2009 expired. The remaining Series A-2 warrants to purchase up to 1,704,000 shares of our common stock and placement agent warrants to purchase up to 659,456 shares of our common stock will expire on August 20, 2014.

Our VIEs, VIEs' subsidiaries and equity investment affiliates

As discussed above, we beneficially own two VIEs: Business Opportunities Online and Beijing CNET Online. Beijing CNET Online owns a 51% equity interest in Shanghai Borongdingsi.

On June 24, 2010, one of our VIEs, Business Opportunity Online, together with three other individuals, who were not affiliated with us, formed a new company, Shenzhen City Mingshan Network Technology Co., Ltd. ("Shenzhen Mingshan"). Shenzhen Mingshan is 51% owned by Business Opportunity Online and 49% owned collectively by the other three individuals. Shenzhen Mingshan is primarily engaged in developing and designing internet based software, online games and the related operating websites and providing related internet and information technology services necessary to operate such games and websites. On January 6, 2011, as approved by the shareholders of Shenzhen Mingshan, an independent third party investor, who was not affiliated with us or any of our affiliates, invested RMB15,000,000 (approximately US$2,453,386) into Shenzhen Mingshan in exchange for a 60% equity interest in Shenzhen Mingshan. As a result of this transaction, our share of the equity interests in Shenzhen Mingshan decreased from 51% to 20.4% and we ceased to have a controlling financial interest in Shenzhen Mingshan, but still retained an investment in, and significant influence over, Shenzhen Mingshan. On December 19, 2012, as approved by the shareholders of Shenzhen Mingshan, Shenzhen Mingshan reduced its registered and paid-in capital from RMB25,000,000 (approximately US$4,088,976) to RMB22,000,000 (approximately US$3,598,299), resulted from a decrease of paid-in capital from three other noncontrolling shareholders, except Business Opportunity Online. As a result, our share of the equity interest in Shenzhen Mingshan increased from 20.4% to 23.18% and we continued to retain significant influence over Shenzhen Mingshan. Therefore, as of December 31, 2013, Shenzhen Mingshan was an equity investment affiliate of ours.

On December 6, 2010, through our wholly-owned subsidiary, Rise King WFOE, we entered into a series of exclusive contractual arrangements, which were similar to the Contractual Agreements discussed above, with Rise King (Shanghai) Advertisement Media Co., Ltd. ("Shanghai Jing Yang"), a company incorporated under PRC laws in December 2009. The contractual arrangements that we entered into with Shanghai Jing Yang allow us, through Rise King WFOE, to, among other things, secure significant rights to influence Shanghai Jing Yang's business operations, policies and management, approve all matters requiring shareholder approval, and receive 100% of the income earned by Shanghai Jing Yang. From the date of incorporation until December 6, 2010, Shanghai Jing Yang did not conduct any business activities.

We, through one of our VIEs, Beijing CNET Online, acquired a 100% equity interest in Quanzhou Zhi Yuan Marketing Planning Co., Ltd. ("Quanzhou Zhi Yuan") and a 51% equity interest in Quanzhou Tian Xi Shun He Advertisement Co., Ltd. ("Quanzhou Tian Xi Shun He"), on January 4, 2011 and February 23, 2011, respectively. In June 2011, Beijing CNET Online acquired the remaining 49% equity interest of Quanzhou Tian Xi Shun He. Quanzhou Tian Xi Shun He became a wholly owned subsidiary of Beijing CNET Online. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were both independent advertising companies based in Quanzhou City, Fujian province of the PRC, which provide comprehensive branding and marketing services to SMEs focused primarily in the sportswear and clothing industry. In April 2013, we formed a new wholly-owned company, Quanzhou City Zhi Lang Network Technology Co., Ltd. ("Quanzhou Zhi Lang"). All business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were integrated and merged into Quanzhou Zhi Lang. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were subsequently disposed by us in November 2013.

On January 28, 2011, one of our VIEs, Business Opportunity Online, formed a new wholly owned subsidiary, Business Opportunity Online (Hubei) Network Technology Co., Ltd. ("Business Opportunity Online Hubei"). Business Opportunity Online Hubei is primarily engaged in internet advertisement design, production and promulgation.

On March 1, 2011, one of our VIEs, Business Opportunity Online, together with an individual, who was not affiliated with us, formed a new company, Beijing Chuang Fu Tian Xia Network Technology Co., Ltd. ("Beijing Chuang Fu Tian Xia"). Business Opportunity Online and the co-founding individual owned 51% and 49% of the equity interests in Beijing Chuang Fu Tian Xia, respectively. Beijing Chuang Fu Tian Xia is primarily engaged in providing and operating internet advertising, marketing and communication services to SMEs.

On April 18, 2011, Business Opportunity Online Hubei formed a new wholly owned company, Hubei CNET Advertising Media Co., Ltd. ("Hubei CNET"). Hubei CNET is primarily engaged in advertisement design, production, promulgation and providing the related advertising and marketing consultancy services.

On April 18, 2011, Business Opportunity Online Hubei, together with an individual, who was not affiliated with us, formed a new company, Zhao Shang Ke Network Technology (Hubei) Co., Ltd. ("Zhao Shang Ke Hubei"). Business Opportunity Online Hubei and the co-founding individual owned 51% and 49% of the equity interests of Zhao Shang Ke Hubei, respectively. Zhao Shang Ke Hubei is primarily engaged in providing advertisement design, production, promulgation and brand management and sales channels building services. On December 29, 2011, as approved by the shareholders of Zhao Shang Ke Hubei, two unaffiliated third party investors, invested RMB10,000,000 (approximately US$1,635,590) into Zhao Shang Ke Hubei in exchange for an aggregate 50% equity interest in Zhao Shang Ke Hubei. As a result of this transaction, our share of the equity interests in Zhao Shang Ke Hubei decreased from 51% to 25.5% and we ceased to have a controlling financial interest in Zhao Shang Ke Hubei but still retained an investment in, and significant influence over, Zhao Shang Ke Hubei. Therefore, as of December 31, 2013, Zhao Shang Ke Hubei was an equity investment affiliate of ours.

On July 1, 2011, Quanzhou Zhi Yuan formed a new wholly owned company, Xin Qi Yuan Advertisement Planning (Hubei) Co., Ltd. ("Xin Qi Yuan Hubei") and Quanzhou Tian Xi Shun He formed a new wholly owned company, Mu Lin Sen Advertisement (Hubei) Co., Ltd. ("Mu Lin Sen Hubei"). These companies were primarily engaged in advertisement design, production, promulgation and provided the related advertising and marketing consultancy services. In October 2013, we unregistered these two companies as their business activities were dormant since incorporation.

On July 1, 2011, Business Opportunity Online Hubei, together with an individual who is not affiliated with us, formed a new company, Sheng Tian Network Technology (Hubei) Co., Ltd. ("Sheng Tian Hubei"). Sheng Tian Hubei was 51% owned by Business Opportunity Online Hubei and 49% owned by the co-founding individual until September 3, 2013 when Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sheng Tian Hubei. As a result of the acquisition, Sheng Tian Hubei became a wholly owned subsidiary of Business Opportunity Online Hubei. Sheng Tian Hubei is primarily engaged in computer system design, development and promotion, software development and promotion, and providing the related technical consultancy services.

On December 20, 2011, Business Opportunity Online Hubei acquired a 51% equity interest in Sou Yi Lian Mei Network Technology (Beijing) Co. Ltd., ("Sou Yi Lian Mei"). In September 2012, Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sou Yi Lian Mei. Sou Yi Lian Mei became a wholly owned subsidiary of Business Opportunity Online Hubei. Sou Yi Lian Mei has a wholly-owned subsidiary, which is Jin Du Ya He (Beijing) Network Technology Co., Ltd ("Jin Du Ya He"). Sou Yi Lian Mei and its subsidiary are primary engaged in providing online advertising and marketing services.

As of December 31, 2013, we operated our business primarily in China through our PRC subsidiary and operating entities, or VIEs, as summarized above.

Industry and Market Overview

Overview of the Advertising Market in China

China has the largest advertising market in Asia, excluding Japan. According to ZenithOptimedia in 2013, China's advertising market was the third-largest in the world by media expenditure, which was estimated to be approximately US$40.95 billion, accounting for 25.7% of the total advertising spending in the Asia-Pacific region. ZenithOptimedia also projected that the advertising market in China will be one of the fastest growing advertising markets in the world, at a compound annual growth rate of 10.5% from 2013 to 2016. By 2016, China is projected to account for 28.0% of the total advertising spending in the Asia-Pacific region. The growth of China's advertising market is driven by a number of factors, including the rapid and sustained economic growth and increases in disposable income and consumption in China. China was the second largest economy in the world in 2013 in terms of gross domestic product, which amounted to US$9.3 trillion.

According to the National Bureau of Statistics of China, the annual disposable income per capita in urban households increased from RMB24,565 in 2012 to RMB26,955 in 2013, representing an increase of 9.7%. Adjusted by the price factors, the actual increase was 7.0%.

According to ZenithOptimedia (December, 2013), China became the third largest advertising market in the world, and by 2016, China will contribute approximately US$55.36 billion to global advertising spending, following the United States and Japan, which contributes approximately US$190.27 billion and US$56.25 billion to global advertising spending, respectively. Japan, the largest advertising spender in the Asia-Pacific region, is only expected to grow its advertising spending by 6.5% from 2013 through 2016, and the growth rate will remain at approximately 2% a year through to 2016, whereas an emerging market, like China, will grow its advertising spending by 35% in the same period. Overall, the Asia-Pacific region, excluding Japan, is estimated to have one of the highest growth rates on a year-over-year basis from 2013 to 2016, with an average growth rate of 7.4%. China is expected to lead the growth in the region.

Overview of the Internet Advertising Industry

According to ZenithOptimedia (December, 2013), the internet is still the fastest growing medium by some distance. It will have grown 15.8% by the end of 2013, and expected to have an average of 15% annual growth for 2014 to 2016. Within China, the internet advertising market was particularly strong and grew to approximately US$16.4 billion in 2013, according to Enfodesk (January 2014). This growth is expected to stem primarily from a higher internet penetration rate of just 45.8% by the end of 2013 (The Ministry of Industry and Information Technology of China, January 2014), the use of search engine, rich media and video and game embedded advertisements. According to iResearch Consulting Group (January 2014), revenues of China online advertising market amounted to RMB110 billion Yuan (approximately US$18.0 billion) in 2013, up 46.0% versus 2012. The diagram below depicts the Market Scale of China Internet Advertising from 2010 to 2017:

High Demand for the Internet Advertising from the Franchise and Chain Store Business in China

We believe that the Internet advertising market in China also has significant potential for future growth due to high demand from the rapid development of franchise and chain store businesses and SMEs. According to the 2011 China Franchise Annual Development Report by China Chain Store & Franchise Association, by the end of 2010, there were approximately 4,500 franchise enterprises and 400,000 chain stores in China, which covered approximately 70 industries and offered over 5 million direct employment opportunities.

The development of the SME market is still in its early stages in China and since their sales channels and distribution networks are still underdeveloped, they are driven to search for new participants by utilizing Internet advertising and marketing. The SMEs tend to be smaller, less-developed brands primarily focused on restaurants, garments, building materials, home appliances, and entertainment with low start-up costs, ranging between US$1,000 to US$15,000. The Chinese government has promulgated a series of laws and regulations to protect and promote the development of SMEs which appeals to entrepreneurs looking to benefit from the central government’s support of increased domestic demand. SMEs are now responsible for about 60% of China’s industrial output and employment of approximately 80% of the urban Chinese workforce. SMEs are creating new urban jobs, and they are the main destination for new graduates entering the workforce and workers laid-off from state-owned enterprises (SOEs) that re-enter the workforce.

Our Principal Products and Services

Our products and services include:

Internet Advertising

Founded in 2003, 28.com is a leading Internet portal for information about small business opportunities in China. It was one of the earliest entrants in this sector, allowing it to currently hold a market share of over 33% in China. In 2011, we also developed two new advertising web portals, which are liansuo.com and chuangye.com. Liansuo.com is built to serve larger SMEs than 28.com with additions of other internet related services. Liansuo.com is also intended to serve large international clients. Chuangye.com is built to serve the community of entrepreneurs to assist them developing their business, as well as sharing their resources in a web2.0 and SNS2.0 driven interaction in combination with popular web social tools. In 2013 and 2012, we further developed and upgraded the system and tools of these website portals, including customer user interface, additional integrated mobile function and cloud-based search engine marketing and optimization in preparation for mobile search marketing and mobile search optimization. Upon acquiring Sou Yi Lian Mei Network Technology (Beijing) Co., Ltd., we obtained another established online advertising and marketing portal, sooe.cn, which focuses on the smaller sized and emerging SMEs.

Our internet advertising services provide advertisers with tools to build sales channels directly in the form of franchisees, sales agents, distributors, and/or resellers, and have the following features which enable them to be attractive to the advertisers:

- Allowing potential entrepreneurs interested in inexpensive franchise and other business ventures to find in-depth details about these businesses in various industries and business categories, with real-time and online assistance through an instant messenger;

- Providing one-stop integrated internet marketing and advertising services for SMEs by offering customized services such as design, website and mini-site setup, and advertisement placement on various communication channels through intelligent based promotion systems; and

- Bundling with advanced traffic generation techniques, search-engine optimization and marketing and other internet advertising management tools to assist our clients with monitoring, analyzing and managing their advertising on our web portals.

We charge our clients a fixed monthly or annual membership fee for the internet advertising services and the related value-added technical services that we provide. As of December 31, 2013, we have approximately 1,500 clients as compared to approximately 1,300 clients as of December 31, 2012. We achieved approximately US$20.67 million and US$20.55 million internet advertising and the related technical service net revenue (excluding the US$0.83 million of the business tax expenses included in revenue for fiscal 2012) for the years ended December 31, 2013 and 2012, respectively. This segment accounted for 68% of our revenue in 2013 and 46% of our revenue in 2012.

Television Advertising

As part of our advertising and marketing services, we produce and distribute television shows that are comprised of advertisements similar to infomercials, but include promotions for several clients during the allotted time. Our clients pay us for advertising spots, production and editorial coverage. The shows produced by our TV unit are distributed during airtime purchased on several provincial satellite television stations including Henan TV and Jiangxi TV. Our total show time reached approximately 5,100 minutes in 2013, as compared to approximately 18,510 minutes in 2012. This segment accounted for 23% of our revenue in 2013 and 44% of our revenue in 2012. For the year ended 2012, we had significantly higher quantity of time slots purchased and sold from TV stations as compared with previous years and year 2013 with the purpose to strategically bind the cooperation with the TV stations for the launching of our entrepreneurial reality show, and consecutively to facilitate more general public visits to our entrepreneurial website, Chuanye.com, create additional traffic on our advertising portals, 28.com, Liansuo.com and sooe.cn, and monetize more branded larger size small and medium enterprises for our services and secure our competitive advantage and resources in the TV business segment against our competitors in concordance. In October 2013, the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (the "SARFT") issued a notice to enhance the management of TV shopping infomercials broadcasted in provincial satellite television stations, which further restricts the contents, air time and duration of these infomercials. These restrictions to certain extent affected the overall demands of our TV advertising services. In response to these restrictions, management plans to cooperate with the television stations to develop and produce new form of TV program which will replace TV shopping infomercials to help our client to raise their brand and product awareness, and to develop of Non-TV shopping advertising customers. We will continue to monitor our customers' needs of the TV advertising services and improve the profitability of this business segment in future periods.

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Bank Kiosks

We operate our bank kiosk advertising network, through Shanghai Borongdingsi. We place our kiosk machines, which include a large LCD advertising display, in bank branches to target banking patrons. We market our LCD display network to advertisers in the financial services and insurance industries. The kiosks are useful to the banks because, in addition to the LCD advertising display, they provide bank customers with free Internet access to on-line banking services, thereby potentially making wait times in branches for teller services more enjoyable for the bank customer. For the year ended December 31, 2013, we generated US$0.25 million net revenue from this segment as compared to US$0.26 million net revenue for the year ended December 31, 2012. The bank kiosk advertising business is still in the early stages and many details still need to be further analyzed and finalized before we allocate more capital into this business unit. It was not a significant contributor to revenue for either the year ended December 31, 2013 and 2012. Management currently believes that this business is unlikely to expand in the near future and that some of the technology used in this business unit will be fully integrated into the overall advertising and marketing platform.

Brand management and sales channel building

Brand management and sales channel building services, primarily include brand “iMAP” management services (investigation, modulizaiton, application and promotion) and sales channel building and expansion services. We started this business in 2011 and primarily conduct this offline advertising and marketing service through our operating VIE in Quanzhou City, Fujian province, the PRC, where is considered as a base of SMEs in private economic sector. We are gradually moving our business of this segment reach into the entire southern part of China, where many developed SMEs are located. Currently, this business unit has approximately 40 clients and generated approximately US$2.57 million revenue in 2013.

Our Competitive Strengths

Over our ten year operating history, we believe that we have built a strong track record of significant competitive strengths. We believe that these competitive strengths include:

Innovative Operations

- Client-based innovation. Our advertising and marketing services are intended to be a one-stop shop for advertising and marketing solutions to our clients. These services are based on the needs of our existing clients. All of our value added services, including lead generation and capture, online messaging and consulting, search engine marketing and optimization, mini-site hosting and, content management, simplify the business process for our clients by allowing them to effectively allocate their resources and budget for various advertising and marketing tools and channels.

- Target market innovation and expansion of audience base. We believe that by offering a multichannel communication platform, we enable SMEs to reach a wide range of consumers with complementary and mutually reinforcing advertising and marketing campaigns. We are better able to attract business owners who want to reach targeted consumer groups through a number of different advertising channels in different venues and regions, and at different times of the day.

Strong Technological Advantages

- Advanced campaign tracking & monitoring tools. We have deployed advanced tracking, search engine optimization, resource scheduling and content management and ad campaign management tools to achieve effective and efficient advertising effects.

- Valuable intellectual property. We have twenty-one copyright certificates and property rights for twenty-one software products in connection with the advertising business, most of which were developed by our research and development team.

- Experienced management team. We have an experienced management team. In particular, Handong Cheng, our founder, chairman and chief executive officer has over ten years' experience in management. He demonstrated his entrepreneurship and business leadership by starting our business and he has successfully grown our business to become a leader in online media marketing and advertising services. George Chu, our Chief Operating Officer, has diversified and international industry experience that will help us to scale to the next level. Zhige Zhang, our Chief Financial Officer has over eight years' experience in software development and Internet ad technology. In June 2012, we appointed Mr. Zhenghong Yang as our Chief Technology Officer, who will oversee our information technology infrastructure and development roadmap. With in-depth knowledge of software and cloud computing technology, Mr. Yang will help us to deepen our strategic relationships with search engine partners in China and to strengthen our brand in the SME space and accelerate the penetration of our target market in China.

First Mover Advantages

We have over seven years of operations as a vertically integrated ad portal and ad agency. We have ten years of experience as an Internet advertising agency. We commenced our Internet advertising services business in 2003 and were among the first companies in China to create a site and a business focused on Internet advertising. We rapidly established a sizeable national network, secured a significant market share and enhanced awareness of our brand. Our early entry into the market has also enabled us to accumulate a significant amount of knowledge and experience in this nascent segment of the advertising industry and to be able to maintain a strong market share position. We are also the first company that is providing O2O (online-to-offline) sales channel expansion services in China to small business.

Growth Strategy

Our objectives are to strengthen our position as the leading B2B Internet service provider on advertising, marketing, brand and sales channel management solutions for sales channel expansion of SMEs in China and to continue to achieve sustainable and healthy growth on a consistent basis. We intend to achieve these objectives by implementing the following strategies:

Continue expanding the size of our potential client base with advertising solution provided by Liansuo.com and brand and sales channel expansion management and expansion solutions provided by our Brand management and sales channel building segment

We have been expanding our target client group to the non-franchised SMEs in recent years with focusing on enterprises which have been in the manufacturing and exporting business and turned to domestic market in China. These businesses all experienced sharp decline in sales account of slow economic recovery and lower consumption demand in Europe and United States. We estimate that there are 4 million businesses that fall into the category of non-franchised SMEs, and we aim to assist them in expanding their business nationally in China. We are continuing to expanding the size of our potential client base with advertising solution provided by Liansuo.com and brand and sales channel expansion management and expansion solutions by brand IMAP (investigation, modulizaiton, application and promotion) management service and the offline sales channel expansion service, provided by our operating VIE in Quanzhou and Zhao Shang Ke Hubei, our equity investment affiliate. Since 2011, we have increased our engaged client base from 2000 enterprises in 2010 to more than 10,000 enterprises in 2013.

Monetizing the existing customer base through the addition of cloud-computing based mobile services and management tools

We intend to launch integrated cloud-computing based management tools and/or solutions to our existing clients in the near future. These tools include, among other things, elite point of sales (POS), inventory supply chain management, office automation (OA) and customer relationship management (CRM). This service is intended to increase our recurring revenues and enhance the loyalty and service satisfaction of our clients. We will continue to cross-sale the services that were launched in the past two years, including clever cloud optimizer and quick connect. Throughout the next few years, we intend to increase the depth of this type of service through partnerships and/or through mergers and acquisitions.

Increasing our business opportunity through mergers and acquisitions to boost operational and cross-selling synergies

We plan to maximize opportunities for our business with a broader client base to increase recurring revenue with lower cost by merging with, or acquiring, small regional advertising firms. We plan to accomplish cross-selling after expanding our client base through these regional advertising firms to materialize the synergies obtained through mergers and acquisitions. As a result, we will be able to provide additional, flexible and bundled advertising and marketing packages that will allow SMEs to reach consumers through various communication channels. In addition, all other value added services previously discussed will be provided to them, including management tools platform in the future.

Building up a competitive barrier by means of technology and strategic partnerships with key internet and mobile players in China or globally

Technology and strategic partnerships will allow us to solidify our industry's leading position and broaden our client base by higher customer satisfaction and growing market awareness of our services. It will also enhance our ability to target discrete consumer groups. These technologies include technology area of mobile advertising with location based functionality, advertising tracking and conversion, database mining and management. Strategic partnerships include partnerships with key mobile search engine in China, key social media as well as other internet directing portals.

Sales and Marketing

For the year ended December 31, 2013, we derived 68% our revenues from our Internet advertising and provision of the related technical services and 23% from our TV advertising, compared to 46% and 44%, respectively, for the year ended December 31, 2012.

The following table sets forth a breakdown of our revenue from Internet advertising and the related technical services, by industry, for the year ended December 31, 2013:

Industry	Percentage of total revenue	
Food and beverage	27	%
Women Accessories	8	%
Footwear, apparel and garments	13	%
Home Goods and Construction Materials	12	%
Environmental Protection Equipment	10	%
Cosmetic and Health Care	7	%
Education Network	5	%
E-Commerce Platform	10	%
Others	8	%
Total	100	%

For the year ended December 31, 2013, our TV advertising revenues were primarily achieved from cosmetics and health care and food and beverage industries.

We employ experienced advertising sales people. We provide in-house education and training to our sales people to ensure that they provide our current and prospective clients with comprehensive information about our services, the benefits of using our advertising and marketing services and relevant information regarding the advertising industry. We also market our advertising services from time to time by placing advertisements on television and other well-known portals of China, participating in domestic and international franchise exhibitions in China and other countries and acting as a sponsor to third-party programming, as well as to our own shows.

We believe our advertising clients derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Market research is an important part of evaluating the effectiveness and value of our business to our customers. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to evaluate new and existing advertising and marketing channels. We also purchase or commission studies containing relevant market data from reputable third-party market research firms when necessary. We typically consult such studies to assist us in evaluating the effectiveness of our network to our advertisers. A number of these studies contain research on the numbers and socio-economic and demographic profiles of the people who visit our network.

Suppliers

Our suppliers are major search engines, other internet gateways and regional television stations. Among these suppliers, for the year ended December 31, 2013, Baidu counted for approximately 68% of our internet resource cost. For television, we have two regional television stations which supply us with television airtime in 2013.

Research and Development

We intend to continue to optimize our Standard Operating Environment (the “SOE”) technology in order to reduce costs and the time to deploy, configure, maintain, support and manage computer servers and systems. Whether to further deploy newer technology will depend upon cost and network security. We also continue to develop proprietary software and systems in connection with the operation of and provision of services through 28.com, Liansuo.com and Sooe.cn to enhance ease of use by both operators and customers. We focus on enhancing related software systems enabling us to track and monitor advertiser demands. With the introduction of cloud-computing based technology, we will continue to integrate this technology into our online management tools services through self-development and also by entering into alliances, partnerships, and/or mergers and acquisitions. In the next few years, we intend to move our research and development efforts to mobile-based application system and tools more aggressively.

Intellectual Property

As of December 31, 2013, we had twenty-one software copyright certificates issued by the State Copyright Office of the PRC (“SCO”) as set forth below:

Name of Software		Registration Number
OA	V1.0	2010SR039308
Software V1.0 of General Operation Technology Platform on Advertisement Management and OA System		
发	V1.0	2010SR039551
Software V1.0 of General Management Platform on Group Mailing and Group SMS		

Name of Software

日志分析 访问热区 浏览轨&#36857
Software V1.0 of Analysis System on Log-Based Visit Hotspot and Browsing Trail

桌面客 端 效果 V1.0
Software V1.0 of Management Platform on Client/Service-Based Advertisement Effect

互联网 留言 分析及
Software V2.0 of General Analysis and Management Platform on Internet Based Advertising Message

互联网 息内容 V2.0
Software V2.0 of General Management Platform on Internet information contents

互联网 效果投放 监测&#214
Software V2.0 of General Analysis and Management Platform on Internet Advertising Effect

留言效果 搜索引擎服务
Software V2.0 of Effect-based Search Engine Service Platform

电视媒体 效果投放效果 监&
Software V2.0 of General Analysis and Management Platform on Television Advertisement Effect

互联网 监测及网民 分析&#35780
Software V3.0 of Internet User Monitor and General Analysis System

SOOE 互联网效果 销工具 V1.
Software V1.0 of SOOE Internet Effect Marketing Tools Platform

SOOE流量 计及网民行为分析
Software V1.0 of SOOE Internet Traffic Statistic and Internet User Behavior Analysis System

SOOE搜索引擎效果分析 V1.0
Software V1.0 of SOOE Search Engine Effect Analysis System

搜易 互联网效果 销 服&#2115
Software V1.0 of Sou Yi General Service Platform on Internet Effect Marketing

BMtoBM业务 服务 V1.0
Software V1.0 of General Service Platform on BMtoBM Business

Name of Software		Registration Number
连锁加盟店面 Software V1.0 of Franchise Chain Store Management System	V1.0	2010SRBJ2386
连锁加盟企业 Software V1.0 of General Management Platform on Franchise Chain Enterprise	V1.0	2010SRBJ2388
小企业渠道 Software V1.0 of Small to Medium Enterprise Sales Channel Management System	V1.0	2010SRBJ2365
效果监测数据分析 Software V1.0 of Advertising Effect Monitor Data Analysis System	V1.0	2010SRBJ7041
网络 销效果 分析及投放 Software V1.0 of Management Platform on Internet Marketing Effect and Placement	V1.0	2010SRBJ7043
商机在线新长安云计算 Software V1.0 of Business Opportunity Online Xin Chang'an Cloud-Computing Platform System	V1.0	2012SR0217

With this intellectual property, we can continue providing value-added services that are in demand by our customers and can track end users to help our customers to assess and adjust their marketing strategies and enhance the effectiveness and efficiency of their advertisements placed through our multi-channel advertising and marketing service platform.

We increased, and plan to continue increasing, expenditures to enhance the safety of our hardware and server on which we dependent to support our network and manage and monitor programs on the network. We also increased, and plan to continue increasing, investment in research and development as we continue to expand, optimize and enhance the technologies of our portal websites, upgrade our advertising and internet management software and develop our cloud-computing based management tools.

Competition

We compete with other internet advertising companies in China, including companies that operate Internet advertising portals, such as u88.cn, 3158.com and 78.cn. We compete for clients primarily on the basis of network size and coverage, location, price, the range of services that we offer and our brand name. We also compete for overall advertising spending with other alternative advertising media companies, such as wireless telecommunications, street furniture, billboards, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, magazines and radio.

Government Regulation

The PRC government imposes extensive controls and regulations over the media industry, including on television, radio, newspapers, magazines, advertising, media content production, and the market research industry. This section summarizes the principal PRC regulations that are relevant to our lines of business.

Regulations on the Advertising Industry in China

Foreign Investments in Advertising

Under the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by the SAIC and MOFCOM on March 2, 2004, or the 2004 Provision, foreign investors can invest in PRC advertising companies either through wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% equity interest in PRC advertising companies. However, the foreign investor must have at least three years of direct operations outside China in the advertising industry as its core business. This requirement is reduced to two years if foreign investment in the advertising company is in the form of a joint venture. Such requirement is also included in the newly promulgated regulation that replaced the 2004 Provision as of October 1, 2008, except that according to the new regulation, the establishment of wholly foreign-owned advertising companies must be approved by the SAIC or its authorized provincial counterparts and provincial MOFCOM, instead of the SAIC and MOFCOM only. Foreign-invested advertising companies can engage in advertising design, production, publishing and agency, provided that certain conditions are met and necessary approvals are obtained.

We have not engaged in direct operations outside China in the advertising industry as our core business. Therefore, our subsidiary in China, Rise King WFOE, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated by Business Opportunity Online and Beijing CNET Online in China. We have been, and are expected to continue to be, dependent on these companies to operate our advertising business. We do not have any equity interest in our PRC Operating Entities, but Rise King WFOE, receives the economic benefits of the same through the Contractual Arrangements.

We have been advised by our PRC counsel, that each of the Contractual Agreements complies, and immediately after the completion of the transactions contemplated herein, will comply with all applicable PRC laws and regulations and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations. However, there exist substantial uncertainties regarding the application, interpretation and enforcement of current and future PRC laws and regulations and their potential effect on corporate structure and contractual arrangements. The interpretation of these laws and regulations are subject to the discretion of competent PRC authorities. There can be no assurance that the PRC regulatory authorities will not take a view different from the opinions of our PRC counsel and determine that its corporate structure and contractual arrangements violate PRC laws, rules and regulations. In the event that the PRC regulatory authorities determine in their discretion that our corporate structure and contractual arrangements violate applicable PRC laws, rules and regulations, including restrictions on foreign investment in the advertising industry in the future, we may be subject to severe penalties, including an order to cease its business operations.

Business License for Advertising Companies

On October 27, 1994, the Tenth Session of the Standing Committee of the Eighth National People’s Congress adopted the Advertising Law which became effective on February 1, 1995. According to the currently effective Advertising Law and its various implementing rules, companies engaging in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes within its scope the operation of an advertising business. 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 have obtained such a business license from the local branches of the SAIC as required by existing PRC regulations. We do not expect to encounter any difficulties in maintaining the business license. However, if we seriously violate the relevant advertising laws and regulations, the SAIC or its local branches may revoke our business licenses.

Outdoors

The Advertising Law in China stipulates that the exhibition and display of outdoor advertisements must comply with certain requirements. It provides that the exhibition and display of outdoors advertisements must not:

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

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998 and May 22, 2006, which also governs the outdoor advertising industry in China. Under these regulations, outdoor 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 Outdoor Advertising Registration Certificate for such advertisement. The content, quantity, format, specifications, periods, distributors' name, and locations of dissemination of the outdoor advertisement must be submitted for registration with the local SAIC. A change of registration with local SAICs must be effected in the event of a change in the distributor, the location of dissemination, the periods, the content, the format, or the specifications of the advertisements. It is unclear whether the SAIC, or any of its local branches in the municipalities and provinces covered by our network, will deem our business as an outdoor advertising business, and thus require us to obtain the Outdoor Advertising Registration Certificate. If the PRC government determines that we are obligated to complete outdoor advertisement registration as an outdoor advertising network operator, we may be subject to administrative sanctions, including discontinuation of its business for failure to complete such registration."

In addition, on December 6, 2007, the State Administration of Radio, Film and Television ("SARFT") promulgated the December 2007 Notice pursuant to which the broadcasting of audio and visual programs, including news, drama series, sports, technology, entertainment and other programs, through radio and television networks, the Internet and other information systems affixed to vehicles and buildings and in airports, bus and railway stations, shopping malls, banks, hospitals and other outdoor public media would be subject to approval by the SARFT. The December 2007 Notice required the local branches of SARFT to investigate and record any organization or company engaging in the activities described in the December 2007 Notice without permission, to send written notices to such organizations or companies demanding their compliance with the December 2007 Notice, and to report the results of such investigations to SARFT by January 15, 2008. We have not yet received any notice from the SARFT or any of its local branches demanding compliance with the December 2007 Notice. We may, however, be required to obtain an approval from SARFT under the December 2007 Notice, or may be required to remove entertainment programs from its advertising network.

Advertising Content

PRC advertising laws, rules and regulations set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or 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. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceutical products, medical procedures, alcohol, tobacco, and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws or regulations, must be submitted to relevant authorities for content approval prior to dissemination.

Advertisers, advertising operators, including advertising agencies, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws, rules and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify 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 their 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.

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In October 2013, the SARFT issued a notice to enhance the management of TV shopping infomercials broadcasted in provincial satellite television stations, which further restricts the contents, air time and duration of these infomercials. These restrictions have had and may continue to have a negative impact on our TV advertising business.

We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements displayed on our media network. However, there can be no assurance that each advertisement displayed on our network complies with relevant PRC advertising laws and regulations. Failure to comply with PRC laws and regulations relating to advertisement content restrictions governing the advertising industry in China may result in severe penalties.

Regulation on Intellectual Property

Regulation on Trademark

The Trademark Law of the PRC was adopted at the 24th meeting of the Standing Committee of the Fifth National People's Congress on August 23, 1982 and amended on February 22, 1993 and October 27, 2001. The Trademark Law sets out the guidelines on administration of trademarks and protection of the exclusive rights of trademark owners. In order to enjoy an exclusive right to use a trademark, one must register the trademark with the Trademark Bureau of the SAIC and obtain a registration certificate.

Regulation on Patents

The Patent Law of the PRC was adopted at the 4th Meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984 and subsequently amended in 1992 and 2000. The Patent Law extends protection to three kinds of patents: invention patents, utility patents and design patents. According to the Implementing Regulations of the Patent Law, promulgated by the State Council of the PRC on December 28, 2002 and effective on February 1, 2003, an invention patent refers to a new technical solution relating to a product, a process or improvement. When compared to existing technology, an invention patent has prominent substantive features and represents notable progress. A utility patent refers to any new technical solution relating to the shape, the structure, or their combination, of a product. Utility patents are granted for products only, not processes. A design patent (or industrial design) refers to any new design of the shape, pattern or color of a product or their combinations, which creates an aesthetic feeling and are suitable for industrial application. Inventors or designers must register with the State Intellectual Property Office to obtain patent protection. The term of protection is twenty years for invention patents and ten years for utility patents and design patents. Unauthorized use of patent constitutes an infringement and the patent holders are entitled to claims of damages, including royalties, to the extent reasonable, and lost profits.

Regulation on Copyright

The Copyright Law of the PRC was adopted at the 15th Meeting of the Standing Committee of the Seventh National People's Congress on September 7, 1990 and amended on October 27, 2001. Unlike patent and trademark protection, copyrighted works do not require registration for protection in China. However, copyright owners may wish to voluntarily register with China's National Copyright Administration to establish evidence of ownership in the event enforcement actions become necessary. Consent from the copyright owners and payment of royalties are required for the use of copyrighted works. Copyrights of movies or other audio or video works usually expire fifty years after their first publication. We believe that we are in compliance with the PRC regulations on copyright.

Regulations on Foreign Currency Exchange

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules promulgated on August 25, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, the Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from SAFE or its local branch for conversion of the Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in Renminbi. Domestic companies or individuals can repatriate foreign currency payments received from abroad or deposit these payments abroad subject to applicable regulations that expressly require repatriation within certain period. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Foreign currencies received under current account items can be either retained or sold to financial institutions engaged in the foreign exchange settlement or sales business without prior approval from SAFE by complying with relevant regulations. Foreign exchange income under capital account can be retained or sold to financial institutions engaged in foreign exchange settlement and sales business, with prior approval from SAFE unless otherwise provided.

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Our business operations, which are subject to the foreign currency exchange regulations, have all been implemented in accordance with these regulations. We will take steps to ensure that our future operations comply with these regulations.

Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75

Dividend Distribution

The principal laws, rules and regulations governing dividends paid by PRC operating subsidiaries and VIEs include the Company Law of the PRC (1993), as amended in 2006, the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, PRC subsidiaries and VIEs, including wholly owned foreign enterprises, or WFOEs, and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, its PRC significant subsidiaries and VIEs, including WFOEs and domestic companies, are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their statutory capital reserve fund until the cumulative amount of such reserve reaches 50% of their respective registered capital. These reserves are not distributable as cash dividends.

Tax

On March 16, 2007, the Fifth Session of the Tenth National People's Congress of PRC passed the Enterprise Income Tax Law of the People's Republic of China, or EIT Law, which became effective on January 1, 2008. On November 28, 2007, the State Council at the 197th Executive Meeting passed the Regulation on the Implementation of the Income Tax Law of the People's Republic of China, which became effective on January 1, 2008. The EIT Law adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the existing tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the EIT Law.

Under the EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the EIT Law and the Implementation Rules, enterprises established under PRC laws, or enterprises established outside China whose "de facto management bodies" are located in China, are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. According to the Implementation Rules, "de facto management body" refers to a managing body that in practice exercises overall management and control over the production and business, personnel, accounting and assets of an enterprise. Our management is currently based in China and is expected to remain in China in the future. In addition, although the EIT Law provides that "dividends, bonuses and other equity investment proceeds between qualified resident enterprises" is exempted income, and the Implementation Rules refer to "dividends, bonuses and other equity investment proceeds between qualified resident enterprises" as the investment proceeds obtained by a resident enterprise from its direct investment in another resident enterprise, however, it is unclear whether our circumstance is eligible for exemption.

Furthermore, the EIT Law and Implementation Rules provide that the "non-resident enterprises" are subject to the enterprise income tax rate of 10% on their income sourced from China, if such "non-resident enterprises" (i) do not have establishments or premises of business in China or (ii) have establishments or premises of business in China, but the relevant income does not have actual connection with their establishments or premises of business in China. Such income tax may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which its non-PRC shareholders reside. Under the Double Tax Avoidance Arrangement between Hong Kong and Mainland China, if the Hong Kong resident enterprise owns more than 25% of the equity interest in a company in China, the 10% withholding tax on the dividends the Hong Kong resident enterprise received from such company in China is reduced to 5%. If China Net HK is considered to be a Hong Kong resident enterprise under the Double Tax Avoidance Arrangement and is considered to be a "non-resident enterprise" under the EIT Law, the dividends paid to us by Rise King WFOE may be subject to the reduced income tax rate of 5% under the Double Tax Avoidance Arrangement. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, issued on February 20, 2009 by the State Administration of Taxation, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

We are in the process of evaluating the impact of the EIT Law on our results of operations. Any significant income tax expenses may have a material adverse effect on our net income in 2008 and beyond. Reduction or elimination of the financial subsidies or preferential tax treatments we currently enjoy or imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, including CSRC, MOC, SAT, SASAC, SAIC and SAFE, jointly promulgated the M&A Rules, which became effective on September 8, 2006, to regulate foreign investment in PRC domestic enterprises. The M&A Rules provide that the MOC must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exist: (i) the transaction involves an important industry in China; (ii) the transaction may affect national "economic security"; or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The M&A Rules also contain a provision requiring offshore SPVs formed for the purpose of the overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and procedures for obtaining any required approval from the CSRC.

To date, the application of the M&A Rules is unclear. Our PRC counsel, has advised us that:

- the CSRC approval requirement applies to SPVs that acquire equity interests in PRC companies through share exchanges and cash, and seek overseas listings; and

- based on their understanding of the current PRC laws, rules and regulations and the M&A Rules, unless there are new PRC laws and regulations or clear requirements from the CSRC in any form that require the prior approval of the CSRC for the listing and trading of any overseas SPV's securities on an overseas stock exchange, the M&A Rules do not require that we obtain prior CSRC approval because: (i) the Share Exchange is a purely foreign related transaction governed by foreign laws, not subject to the jurisdiction of PRC laws and regulations; (ii) we are not a special purpose vehicle formed or controlled by PRC companies or PRC individuals; and (iii) we are owned or substantively controlled by foreigners.

However, the interpretation and application of the M&A Rules remain unclear, and the PRC government authorities have the sole discretion to determine whether the transaction is subject to the approval of the CSRC, especially when taking into consideration of the performance-based incentive option arrangement by way of the Share Transfer Agreements. If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval is required for the transaction, we cannot predict how long it would take to obtain the approval. In addition, we may need to apply for a remedial approval from the CSRC and may be subject to certain administrative or other sanctions from these regulatory agencies.

Further, new rules and regulations or relevant interpretations may be issued from time to time that may require us to obtain retroactive approval from the CSRC in connection with the business combination. If this were to occur, our failure to obtain or delay in obtaining the CSRC approval for the business combination would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. These sanctions could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, results of operations and financial condition.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval is required for the business combination, we may need to apply for a remedial approval from the CSRC and may be subject to certain administrative punishments or other sanctions from these regulatory agencies. New rules and regulations or relevant interpretations may require that we retroactively obtain approval from the CSRC in connection with the business combination. If this were to occur, our failure to obtain or delay in obtaining the CSRC approval for the transaction would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. These sanctions could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, results of operations and financial condition.

The M&A Rules also established additional procedures and requirements expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. These rules may also require the approval from the MOC where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including MOC approval, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

Employees

As of December 31, 2013, we had 449 full-time employees, 114 of whom are in sales and marketing, 135 of whom are in operations and support, 88 of whom are in management and administration and 112 of whom are in technology support and R&D.

We are compliant with local prevailing wage, contractor licensing and insurance regulations, and have good relations with our employees.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans. We are required under PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member’s retirement date.

Generally we enter into a standard employment contract with our officers and managers for a set period of years and a standard employment contract with other employees for a set period of years. According to these contracts, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment with us. Furthermore, the employment contracts with officers or managers include a covenant that prohibits officers or managers from engaging in any activities that compete with our business for two years after the period of employment.

Corporation Information

Our principal executive offices are located at No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC. Our telephone number at this address is (86 10) 51600828 and our fax number is (86 10) 88857816. For more information, see www.chinanet-online.com.

ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, readers should carefully consider the following important factors. These factors, among others, in some cases have affected, and in the future could affect, our financial condition and results of operations and could cause our future results to differ materially from those expressed or implied in any forward-looking statements that appear in this on Form 10-K or that we have made or will make elsewhere .

Risks Related to Our Business

The decline of global and China's economy has had, and may continue to have, a negative effect on our business, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The China economy is in a slow recovery from the sharp decline incurred in mid 2011 with increasing housing price and inflation, which impact the overall consumer spending power. With the lower consumption will, small businesses or so-called small and medium enterprises have lower intention to spend more on their advertising and have intention to slow down their expansion. The global and China's economy has recovered slower than the anticipation, which has caused, among other things, for example, tightening in the credit markets, lower levels of liquidity, higher default and bankruptcy rates in small businesses, lower consumer and business spending, and lower consumer net worth, in China and other parts of the world. These global economic uncertainties and the slow recovery of China's economy have had, and may continue to have, a negative effect on the market price of our business, the volatility of which has increased as a result of the disruptions in the financial markets. It may also impair our ability to borrow funds or enter into other financial arrangements if and when additional founds become necessary for our operations. We believe many of our advertisers have also been affected by the current economic slowdowns in China. Current or potential advertisers may no longer be in business, may be unable to continue to purchase advertising 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 costs associated with our operations. Therefore, the global uncertainties and the downward trend of China's economy from 2011 could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

We operate in a fast-evolving industry, which may make it difficult to evaluate our business and prospects.

We began our Internet advertising service via 28.com in 2003, and entered into the TV production and advertising with China Net TV in May 2008. Both the Internet and TV advertising platforms are primarily targeting SME customers. The SME market in China is still in its early stages and is rapidly developing. Accordingly, the early stage of development of the markets in which we operate makes it difficult to evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. We cannot assure you that we will be profitable every year. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in operating losses.

We may be subject to, and may expend significant resources in defending against, government actions and civil suits based on the content and services we provide through our Internet, TV and bank kiosk advertising platforms.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute is fair, accurate and in full compliance with applicable laws, rules and regulations. Although we comply with the requirements by reviewing the business licenses and the profiles of our clients, clients may post advertisements about business opportunities that are not legitimate and over which we have no control. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for its advertising business operations.

In April 2009, CCTV reported a story that a franchised store advertised on 28.com turned out to be a fraud, and the fraud victim asserted she joined the store because she trusted the website. Pursuant to the PRC advertising law, Business Opportunity Online, as the publisher of advertisement, has the obligation to check relevant documents and verify the content of the advertisement. For commercial franchise business in China, a franchiser needs to file an application with the MOC or its local branches through the website http://txjy.syggs.mofcom.gov.cn/. When a franchiser publishes an advertisement through Business Opportunity Online, Business Opportunity Online checks the business license, the franchiser's registration form, the trade mark certificate and other relevant documents to verify the content of the advertisement. The Internet information services regulations and the unfair competition regulations have similar requirements for Internet advertisement publishers. Based on the laws and regulations above, it is our view that there is neither any mandatory requirement that Business Opportunity Online bear any responsibility for the franchiser's business activities, nor any valid action or investigation that can be brought by the consumer or the government against Business Opportunity Online based on the franchiser's business activities. Nevertheless, the possibility remains that Business Opportunity Online may be required to assume civil and administrative responsibilities subject to further investigation or enforcement by competent authorities.

If advertisers or the viewing public do not accept, or lose interest in, our advertising platforms, our revenues may be negatively affected and our business may not expand or be successful.

The Internet and bank kiosk advertising platforms in China are relatively new and their potential is uncertain. We compete for advertising revenues with many forms of more established advertising media. Our success depends on the acceptance of our advertising platforms by advertisers and their continuing interest in this media as part of their advertising strategies. Our success also depends on the viewing public's continued receptiveness towards our advertising models. Advertisers may elect not to use our services if they believe that viewers are not receptive to our platforms or that our platforms do not provide sufficient value as an effective advertising medium. If a substantial number of advertisers lose interest in advertising on our platforms, we will be unable to generate sufficient revenues and cash flows to operate our business, and our financial condition and results of operations would be materially and adversely affected.

We operate in the advertising industry, which is particularly sensitive to changes in economic conditions and advertising trends.

Advertising spending by our clients, is particularly sensitive to changes in general economic conditions. For example, advertising expenditures typically decrease during periods of economic downturn. Advertisers may reduce the amount of money they spend to advertise on our advertising platforms for a number of reasons, including:

- a general decline in economic conditions;
- a decline in economic conditions in the particular cities where we conduct business;
- a decision to shift advertising expenditures to other available less expensive advertising media; and

- a decline in advertising spending in general.

A decrease in the demand for advertising media in general, and for our advertising services in particular, would materially and adversely affect our ability to generate revenues, and have a material adverse effect on our financial condition and results of operations.

If the Internet and, in particular, Internet marketing are not broadly adopted in China, our ability to generate revenue and sustain profitability from our website portals could be materially and adversely affected.

Our future revenues and profits from our online advertising business that we operate through our website portals are dependent in part upon advertisers in China increasingly accepting the use of the Internet as a marketing channel, which is at an early stage in China. Penetration rates for personal computers, the Internet and broadband in China are all relatively low compared to those in more developed countries. Furthermore, many Chinese Internet users are not accustomed to using the Internet for e-commerce or as a medium for other transactions. Many of our current and potential SME clients have limited experience with the Internet as a marketing channel, and have not historically devoted a significant portion of their marketing budgets to Internet marketing and promotion. As a result, they may not consider the Internet as effective in promoting their products and services as traditional print and broadcast media.

We face significant competition, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.

Increased competition could reduce our profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as significantly greater financial, marketing or other resources, and may successfully mimic and adopt our business models. Moreover, increased competition will provide advertisers with a wider range of media and advertising service alternatives, which could lead to lower prices and decreased revenues, gross margins and profits. We cannot assure you that we will be able to successfully compete against new or existing competitors.

Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.

We have been expanding our operations and plan to continue to expand in China. To meet the demand of advertisers for broader coverage, we must continue to expand our platforms by showing our TV productions and advertisements on more television stations, and expanding the capacity and enhancing the technology advantages of our internet advertising portals. The continued growth of our business has resulted in, and will continue to result in, substantial demand on our management, operational and other resources. In particular, the management of our growth will require, among other things:

- increased sales and sales support activities;
- improved administrative and operational systems;
- enhancements to our information technology system;
- stringent cost controls and sufficient working capital;
- strengthening of financial and management controls; and
- hiring and training of new personnel.

As we continue this effort, we may incur substantial costs and expend substantial resources. We may not be able to manage our current or future operations effectively and efficiently or compete effectively in new markets we enter. If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

Key employees are essential to growing our business.

Handong Cheng, our chief executive officer and president, Zhige Zhang, our chief financial officer and George K. Chu, our chief operating officer are essential to our ability to continue to grow our business. They have established relationships within the industries in which we operate. If they were to leave us, our growth strategy might be hindered, which could limit our ability to increase revenue.

In addition, we face competition for attracting skilled personnel with increasing labor cost. If we fail to attract and retain qualified personnel to meet current and future needs, this could slow our ability to grow our business, which could result in a decrease in market share.

We may need additional capital and we may not be able to obtain it at acceptable terms, or at all, which could adversely affect our liquidity and financial position.

We may need additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

· investors' perception of, and demand for, securities of alternative advertising media companies;

· conditions of the U.S. and other capital markets in which we may seek to raise funds;

· our future results of operations, financial condition and cash flow;

· PRC governmental regulation of foreign investment in advertising service companies in China;

· economic, political and other conditions in China; and

· PRC governmental policies relating to foreign currency borrowings.

Our failure to protect our intellectual property rights could have a negative impact on our business.

We believe our brand, trade name, copyrights, domain name and other intellectual property are critical to our success. The success of our business depends in part upon our continued ability to use our brand, trade names and copyrights to further develop and increase brand awareness. The infringement of our trade names and copyrights could diminish the value of our brand and its market acceptance, competitive advantages or goodwill. In addition, our information and operational systems, which have not been patented or otherwise registered as our property, are a key component of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, copyrights, domain name and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trade names, copyrights, domain name and other intellectual property rights, we may lose these rights and our business may suffer materially. Further, unauthorized use of our brand, domain name or trade names could cause brand confusion among advertisers and harm our reputation. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

We rely on computer software and hardware systems in managing our operations, the failure of which could adversely affect our business, financial condition and results of operations.

We are dependent upon our computer software and hardware systems in supporting our network and managing and monitoring programs on the network. In addition, we rely on our computer hardware for the storage, delivery and transmission of the data on our network. Any system failure that interrupts the input, retrieval and transmission of data or increases the service time could disrupt our normal operation. Any failure in our computer software or hardware systems could decrease our revenues and harm our relationships with advertisers and consumers, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We have limited insurance coverage.

The insurance industry in China is still in the early stages of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China except for insurance on some company owned vehicles. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

If we are unable to maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price for shares of our Common Stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

As a public company, we have significant additional requirements for enhanced financial reporting and internal controls. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company.

We cannot assure you that we will not, in the future, identify areas requiring improvement in our internal control over financial reporting. We cannot assure you that the measures we will take to remediate any areas in need of improvement will be successful or that we will implement and maintain adequate controls over our financial processes and reporting in the future as we continue our growth. If we are unable to maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price for shares of our Common Stock.

Risks Relating to Regulation of Our Business and to Our Structure

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties.

All of our operations are conducted through our PRC subsidiary and PRC Operating Entities, or VIEs, and through our contractual agreements with each of our PRC Operating Entities in China. PRC regulations require any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry outside of China. We do not currently directly operate an advertising business outside of China and cannot qualify under PRC regulations any earlier than two or three years after we commence any such operations outside of China or until we acquire a company that has directly operated an advertising business outside of China for the required period of time. Our PRC Operating Entities hold the requisite licenses to provide advertising services in China. Our PRC Operating Entities directly operate our advertising network. We have been and are expected to continue to be dependent on these PRC Operating Entities to operate our advertising business for the foreseeable future. We have entered into Contractual Agreements with the PRC Operating Entities, pursuant to which we, through Rise King WFOE, provide technical support and consulting services to the PRC Operating Entities. In addition, we have entered into agreements with our PRC Operating Entities and each of their shareholders which provide us with the substantial ability to control these affiliates.

If we or our existing or future PRC Operating Entities are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce, or SAIC, which regulates advertising companies, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of Rise King WFOE and/or the PRC Operating Entities;
- discontinuing or restricting the operations of Rise King WFOE and/or the PRC Operating Entities;
- imposing conditions or requirements with which we, Rise King WFOE and/or our PRC Operating Entities may not be able to comply;
- requiring us or Rise King WFOE and/or PRC Operating Entities to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with the PRC Operating Entities and their shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.

We rely on contractual arrangements with our PRC Operating Entities and their shareholders to operate our advertising business. These contractual arrangements may not be as effective in providing us with control over the PRC Operating Entities as direct ownership. If we had direct ownership of the PRC Operating Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of those companies, which in turn could affect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, as a legal matter, if the PRC Operating Entities or any of their subsidiaries and shareholders fail to perform its or their respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you to be effective. Accordingly, it may be difficult for us to change our corporate structure or to bring claims against the PRC Operating Entities if they do not perform their obligations under its contracts with us or if any of the PRC citizens who hold the equity interest in the PRC Operating Entities do not cooperate with any such actions.

Many of these contractual arrangements are governed by PRC laws and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating entities, and our ability to conduct our

business may be negatively affected. In addition, a PRC court or arbitration tribunal may refuse to enforce the contractual arrangements on the grounds that they are designed to circumvent PRC foreign investment restrictions and therefore are against PRC public policy.

Contractual arrangements we have entered into among the PRC Operating Entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.

Under PRC law, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions we have entered into among our subsidiary and affiliated entities are found not to be on an arm's-length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties.

If any of our PRC Operating Entities incurs debt on its own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements with the PRC Operating Entities we currently have in place in a manner that would materially and adversely affect the PRC Operating Entities' ability to pay dividends and other distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by the PRC Operating Entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, each of the PRC Operating Entities is also required to set aside a portion of its net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends. In addition, subject to certain cumulative limits, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends. As a result of these PRC laws and regulations, the PRC Operating Entities are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of the PRC Operating Entities to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

Risks Associated With Doing Business In China

There are substantial risks associated with doing business in China, as set forth in the following risk factors.

Our operations and assets in China are subject to significant political and economic uncertainties.

Changes in PRC laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

We derive a substantial portion of ours sales from China.

Substantially all of our sales are generated in China. We anticipate that sales of our services in China will continue to represent a substantial proportion of our total sales in the near future. Any significant decline in the condition of the PRC economy could adversely affect consumer demand of our services, among other things, which in turn would have a material adverse effect on our business and financial condition.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi into foreign currencies and, if Chinese Renminbi were to decline in value, reducing our revenue in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China use the local currency as their functional currencies. Substantially all of our revenue and expenses are in Chinese Renminbi. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the Renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to the U.S. dollar had generally been stable and the Renminbi had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese Renminbi to the U.S. dollar. Under the new policy, Chinese Renminbi may fluctuate within a narrow and managed band against a basket of certain foreign currencies. As a result of this policy change, Chinese Renminbi continually appreciated approximately 0.2% in 2009, 3.3% in 2010, 3.7% in 2011, 0.8% in 2012 and 3.2% in 2013. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese Renminbi against the U.S. dollar. We can offer no assurance that Chinese Renminbi will be stable against the U.S. dollar or any other foreign currency.

The income statements of our operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign operating subsidiary and VIEs into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiary and VIEs' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or those Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese Renminbi in the future. Because a significant amount of our future revenue may be in the form of Chinese Renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese Renminbi to fund our business activities outside of China, or to repay foreign currency obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operations

We may have limited legal recourse under PRC laws if disputes arise under our contracts with third parties.

The Chinese government has enacted laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we cannot assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

Changes in foreign exchange regulations in the PRC may affect our ability to pay dividends in foreign currency or conduct other foreign exchange business.

The Renminbi is not a freely convertible currency, and the restrictions on currency exchanges may limit our ability to use revenues generated in Renminbi to fund our business activities outside the PRC or to make dividends or other payments in United States dollars. The PRC government strictly regulates conversion of Renminbi into foreign currencies. Over the years, foreign exchange regulations in the PRC have significantly reduced the government's control over routine foreign exchange transactions under current accounts. In the PRC, the State Administration for Foreign Exchange, or the SAFE, regulates the conversion of the Renminbi into foreign currencies. Pursuant to applicable PRC laws and regulations, foreign invested enterprises incorporated in the PRC are required to apply for "Foreign Exchange Registration Certificates." Currently, conversion within the scope of the "current account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

Recent PRC regulations relating to mergers and acquisitions of domestic enterprises by foreign investors may increase the administrative burden we face and create regulatory uncertainties.

On August 8, 2006, the Ministry of Commerce (the "MOC"), joined by the China Securities Regulatory Commission (the "CSRC"), State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), the State Administration of Taxation (the "SAT"), the State Administration of Industry and Commerce (the "SAIC"), and SAFE, jointly promulgated a rule entitled the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "M&A Rules"), which took effect as of September 8, 2006. This new regulation, among other things, has certain provisions that require special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock market. However, the new regulation does not expressly provide that approval from the CSRC is required for the offshore listing of the SPV which acquires, directly or indirectly, equity interest or shares of domestic PRC entities held by domestic companies or individuals by cash payment, nor does it expressly provide that approval from CSRC is not required for the offshore listing of a SPV which has fully completed its acquisition of equity interest of domestic PRC equity prior to September 8, 2006. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval.

It is not clear whether the provisions in the new regulation regarding the offshore listing and trading of the securities of a SPV applies to an offshore company such as us which owns controlling contractual interest in the PRC Operating Entities. We believe that the M&A Rules and the CSRC approval are not required in the context of the share exchange under our transaction because (i) such share exchange is a purely foreign related transaction governed by foreign laws, not subject to the jurisdiction of PRC laws and regulations; (ii) we are not a SPV formed or controlled by PRC companies or PRC individuals; and (iii) we are owned or substantively controlled by foreigners. However, we cannot be certain that the relevant PRC government agencies, including the CSRC, would reach the same conclusion, and we still cannot rule out the possibility that CSRC may deem that the transactions effected by the share exchange circumvented the new M&A rules, the PRC Securities Law and other rules and notices.

If the CSRC or another PRC regulatory agency subsequently determines that the CSRC's approval is required for the transaction, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, restrict or prohibit payment or remittance of dividends to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to delay or cancel the transaction.

The M&A Rules, along with foreign exchange regulations discussed in the above subsection, will be interpreted or implemented by the relevant government authorities in connection with our future offshore financings or acquisitions, and we cannot predict how they will affect our acquisition strategy. For example, our operating companies' ability to remit dividends to us, or to engage in foreign-currency-denominated borrowings, may be conditioned upon compliance with the SAFE registration requirements by such Chinese domestic residents, over whom we may have no control. In addition, such Chinese domestic residents may be unable to complete the necessary approval and registration procedures required by the SAFE regulations. Such uncertainties may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities, and, as a result, we are dependent on our relationship with the local government in the province in which we operate our business. Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our services.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. We may have difficulty establishing adequate management, legal and financial controls in the PRC.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, some of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon some of our directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. It would also be difficult for investors to bring an original lawsuit against us or our directors or executive officers before a Chinese court based on U.S. federal securities laws or otherwise. Moreover, China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

PRC enterprise income tax law could adversely affect our business and our net income.

On March 16, 2007, the National People's Congress of the PRC passed the revised Enterprise Income Tax Law (or EIT Law), which took effect on of January 1, 2008. The EIT Law imposes a unified income tax rate of 25% on all companies established in China. Under the EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered as a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its global income. The EIT Law, however, does not define the term "de facto management bodies." If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25%.

With the introduction of the EIT Law, China has resumed imposition of a withholding tax (10% in the absence of a bilateral tax treaty or new domestic regulation reducing such withholding tax rate to a lower rate). Per the Double Tax Avoidance Arrangement between Hong Kong and Mainland China, a Hong Kong company as the investor, which is considered a "non-resident enterprise" under the EIT Law, may enjoy the reduced withholding tax rate of 5% if it holds more than 25% equity interest in its PRC subsidiary. As China Net HK is the sole shareholder of Rise King WFOE, substantially all of our income will derive from dividends we receive from Rise King WFOE through China Net HK. When we declare dividends from the income in the PRC, we cannot assure whether such dividends may be taxed at a reduced withholding tax rate of 5% per the Double Tax Avoidance Arrangement between Hong Kong and Mainland China as the PRC tax authorities may regard our China Net HK as a shell company formed only for tax purposes and still deem Rise King WFOE in the PRC as the subsidiary directly owned by us. Based on the Notice on Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties, issued on February 20, 2009 by the State Administration of Taxation, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

Investors should note that the EIT Law provides only a framework of the enterprise tax provisions, leaving many details on the definitions of numerous terms as well as the interpretation and specific applications of various provisions unclear and unspecified. Any increase in our tax rate in the future could have a material adverse effect on our financial conditions and results of operations.

Under the EIT Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and holders of our securities.

Under the EIT Law, an enterprise established outside of China with its "de facto management body" in China is considered a "resident enterprise," meaning that it can be treated the same as a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law defines "de facto management body" as an organization that exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of an enterprise. Currently no interpretation or application of the EIT Law and its implementing rules is available, therefore it is unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that China Net is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we will be subject to enterprise income tax at a rate of 25% on our worldwide income as well as PRC enterprise income tax reporting obligations. This would mean that income such as interest on offering proceeds and other non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the EIT Law and its implementing rules dividends paid to us by our PRC subsidiary would qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, a 10% withholding tax will be imposed on dividends we pay to our non-PRC shareholders.

Our Chinese operating companies are obligated to withhold and pay PRC individual income tax in respect of the salaries and other income received by their employees who are subject to PRC individual income tax. If they fail to withhold or pay such individual income tax in accordance with applicable PRC regulations, they may be subject to certain sanctions and other penalties, which could have a material adverse impact on our business.

Under PRC laws, Rise King WFOE and the PRC Operating Entities will be obligated to withhold and pay individual income tax in respect of the salaries and other income received by their employees who are subject to PRC individual income tax. Such companies may be subject to certain sanctions and other liabilities under PRC laws in case of failure to withhold and pay individual income taxes for its employees in accordance with the applicable laws.

In addition, the SAT has issued several circulars concerning employee stock options. Under these circulars, employees working in the PRC (which could include both PRC employees and expatriate employees subject to PRC individual income tax) are required to pay PRC individual income tax in respect of their income derived from exercising or otherwise disposing of their stock options. Our PRC entities will be obligated to file documents related to employee stock options with relevant tax authorities and withhold and pay individual income taxes for those employees who exercise their stock options. While tax authorities may advise us that our policy is compliant, they may change their policy, and we could be subject to sanctions.

Because Chinese laws will govern almost all of our business' material agreements, we may not be able to enforce our rights within the PRC or elsewhere, which could result in a significant loss of business, business opportunities or capital.

The Chinese legal system is similar to a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. Although legislation in the PRC over the past 30 years has significantly improved the protection afforded to various forms of foreign investment and contractual arrangements in the PRC, these laws, regulations and legal requirements are relatively new. Due to the limited volume of published judicial decisions, their non-binding nature, the short history since their enactments, the discrete understanding of the judges or government agencies of the same legal provision, inconsistent professional abilities of the judicators, and the inclination to protect local interest in the court rooms, interpretation and enforcement of PRC laws and regulations involve uncertainties, which could limit the legal protection available to us, and foreign investors, including you. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital and could have a material adverse impact on our business, prospects, financial condition, and results of operations. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until a period of time after the violation. In addition, any litigation in the PRC, regardless of outcome, may be protracted and result in substantial costs and diversion of resources and management attention.

Risks Related to our Securities

Insiders have substantial control over us, and they could delay or prevent a change in our corporate control even if our other stockholders wanted it to occur.

Our executive officers, directors, and principal stockholders hold approximately 35% of our outstanding Common Stock. Accordingly, these stockholders are able to exert substantial influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if our other stockholders wanted it to occur.

There may not be sufficient liquidity in the market for our securities in order for investors to sell their securities.

There is currently only a limited public market for our Common Stock and there can be no assurance that a trading market will develop further or be maintained in the future. As of June 13, 2014, the closing trade price of our Common Stock was $0.86 per share. As of June 13, 2014, we had approximately 630 shareholders of record of our Common Stock, not including shares held in street name. In addition, during the past two fiscal years our Common Stock has had a trading range with a low price of $0.37 per share and a high price of $1.22 per share.

The market price of our Common Stock may be volatile.

The market price of our Common Stock has been and will likely continue to be highly volatile, as is the stock market in general. Some of the factors that may materially affect the market price of our Common Stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our Common Stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility particularly for companies whose primary operations are located in the PRC. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our Common Stock.

Because the Company became public by means of a reverse merger, it may not be able to attract the attention of major brokerage firms.

Additional risks may exist since the Company became public through a “reverse merger.” Securities analysts of major brokerage firms may not provide coverage of the Company since there is little incentive to brokerage firms to recommend the purchase of its Common Stock. No assurance can be given that brokerage firms will want to conduct any secondary offerings on behalf of the Company in the future.

The outstanding warrants and options may adversely affect us in the future and cause dilution to existing stockholders.

We currently have warrants outstanding to purchase up to 2,363,456 shares of our Common Stock, which will expire on August 20, 2014. The exercise price of these warrants ranges from $2.5 to $3.75 per share, subject to adjustment in certain circumstances. We also have common stock options outstanding to purchase up to 54,000 shares of our Common Stock, issued to our independent directors, which will expire on November 30, 2014. The exercise price of these options is $5.00 per share. On November 30, 2011, we also issued common stock options to purchase up to 885,440 shares of our Common Stock in the aggregate to our management, executive directors and employees, subject to forfeiture upon an employee's cessation of employment at the discretion of the Company. The exercise price of these options is $1.20 per share and these options will expire on November 30, 2021. Exercise of these warrants and options may cause dilution in the interests of other stockholders as a result of the additional Common Stock that would be issued upon exercise. In addition, sales of the shares of our Common Stock issuable upon exercise of these warrants and options could have a depressive effect on the price of our stock, particularly if there is not a coinciding increase in demand by purchasers of our Common Stock. Further, the terms on which we may obtain additional financing during the period any of these warrants and options remain outstanding may be adversely affected by the existence of these warrants and options as well.

We may need additional capital and may sell additional securities or other equity securities or incur indebtedness, which could result in additional dilution to our shareholders or increase our debt service obligations.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or equity-linked debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

We have never paid any cash dividends on our Common Stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future and any return on investment may be limited to the value of our stock. We plan to retain any future earning to finance growth.

Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock.

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometime known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in China and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, oftentimes we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy – oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

The NASDAQ may delist our securities from quotation on its exchange which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.

Our Common Stock is traded on the Nasdaq Stock Market LLC ("NASDAQ"), a national securities exchange. We cannot assure you that our securities will meet the continued listing requirements be listed on the NASDAQ in the future.

On May 30, 2012, we received a letter from the NASDAQ, which stated that, based upon the closing bid price for the last 30 consecutive business days, the Company no longer meets the requirement set forth in Nasdaq Rule 5550(a)(2), which requires listed securities to maintain a minimum bid price of $1 per share (the "Minimum Bid Price Rule"). In accordance with Nasdaq Rule 5810(c)(3)(A), we were provided with a period of 180 calendar days, or until November 26, 2012, to regain compliance with the Minimum Bid Price Rule. We would regain compliance with the Minimum Bid Price Rule if the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days at any time prior to November 26, 2012.

On November 30, 2012, we received a letter from the NASDAQ notifying that we regained compliance with the minimum bid price requirement for continued listing set forth in NASDAQ Listing Rule 5450(a)(1), as our common stock had achieved a closing bid price of $1.00 or more for 10 consecutive business days from November 15, 2012 to November 29, 2012.

On April 30, 2013, we received a letter from the NASDAQ stating that for 30 consecutive business days immediately preceding the date of the letter our common stock did not maintain a minimum closing bid price of $1.00 per share as required by NASDAQ Listing Rule 5450(a)(1). The Company was provided 180 calendar days to regain compliance.

In a letter dated October 28, 2013, NASDAQ notified us that we were eligible for an additional 180-day period, or until April 28, 2014, to regain compliance with the Minimum Bid Price Requirement. In connection with the grant of the additional 180-day period, the listing of our common stock was transferred, at our request, to the NASDAQ Capital Market under the existing ticker symbol (CNET) at the opening of business on October 29, 2013.

In a letter dated March 6, 2014, NASDAQ notified us that we regained compliance with the Minimum Bid Price Requirement for continued listing on the stock exchange. Our common stock achieved a closing bid price of more than $1.00 for 10 consecutive business days from February 20, 2014 to March 5, 2014.

In a letter dated April 16, 2014, NASDAQ notified us that we no longer comply with the NASDAQ Listing Rule 5250(c)(1) for continued listing due to our inability to file with the SEC our annual report on Form 10-K for the fiscal year ended December 31, 2013 on a timely basis, and that we have 60 calendar days (or until June 16, 2014) to submit a plan explaining how we expect to regain compliance. Subsequently, in a letter dated May 22, 2014, NASDAQ notified us that since NASDAQ has not received the our quarterly report on Form 10-Q for the period ended March 31, 2014, and because the Company remained delinquent in filing our annual report on Form 10-K for the fiscal year ended December 31, 2013, the Company does not comply with the NASDAQ Listing Rules for continued listing. In accordance with the NASDAQ letter dated April 16, 2014, the Company has until June 16, 2014 to submit a plan to regain compliance with respect to the annual report and the quarterly report. If NASDAQ approves our plan, it can grant us an extension of up to 180 calendar days from the due date of the Form 10-K (or until October 13, 2014) to regain compliance. Although we have filed our annual report on Form 10-K for the fiscal year ended December 31, 2013 and intend to submit a plan to NASDAQ prior to June 16, 2014 in respect of our delinquent quarterly report to regain compliance within the Listing Rules of the NASDAQ, acceptance of such plan is discretionary with the NASDAQ. This notification has no immediate effect on the listing of our common stock on the NASDAQ. There can be no assurance, however, that we will be able to regain compliance with the NASDAQ Listing Rule 5250(c)(1) for continued listing or otherwise satisfy the other NASDAQ listing criteria.

On June 11, 2014, the Company received a letter from the NASDAQ stating that, based upon the closing bid price for the last 30 consecutive business days, the Company no longer met the requirement set forth in Listing Rule 5550, which requires listed securities to maintain a minimum bid price of $1 per share. The Company was provided 180 calendar days from such letter, or until December 8, 2014, to regain compliance. The Company is currently looking at all of the options available with respect to regaining such compliance.

We cannot assure you our securities will meet the continued listing requirements to be listed on NASDAQ in the future. If NASDAQ delists our Common Stock from trading on its exchange, we could face significant material adverse consequences including:

- a limited availability of market quotations for our securities;
- a determination that our Common Stock is a “penny stock” which will require brokers trading in our Common Stock to adhere to more stringent rules and possibly resulting in a reduced level of trading activity in the secondary trading market for our Common Stock;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

Our Common Stock is considered “penny stock.”

The SEC has adopted regulations which generally define “penny stock” to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our Common Stock is currently less than $5.00 per share and therefore may be a “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell the Common Stock and may affect your ability to sell shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2PROPERTIES

The following table summarizes the location of real property we lease. We do not own any real property.

Item	Address	Leased/Owned
1	No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, 1st Floor	Leased
2	No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, 2nd Floor	Leased
3	No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, Basement	Leased
4	6C-6D, Building C-1, Yingdu Plaza, No. Jia 48 Zhi Chun Road, Haidian District, Beijing, PRC	Leased
5	No. 15 First Changzheng Road, Xiaogan City, Hubei Province, PRC, 2nd Floor	Leased
6	Unit 206, 2nd Floor, Building East C, Ling Show World, Quan Xiu Road, Fengze District, Quanzhou City, Fujian Province, PRC	Leased

The properties listed in Items 1, 2 and 3 above are our principal executive offices and are used by all of our business segments. The property listed in Items 4 is used by one of our operating VIEs in Beijing, and is primarily used by our internet advertising business segment. The property listed in Items 5 is the office for our operating VIEs in Xiaogan, Hubei province, and is primarily used by our internet advertising and TV advertising business segments. The property listed in Items 6 above is the office for our operating VIE in Quanzhou, Fujian province, and is primarily used by our brand management and sales channel building business segment.

We believe that our existing facilities and equipment are well maintained and in good operating condition, and are sufficient to meet our needs for the foreseeable future.

ITEM 3LEGAL PROCEEDINGS

Business Opportunity Online, one of the indirect wholly owned VIEs of ours, Handong Cheng, Chairman and CEO of our Company, and Jinbo Yao, Legal Representative of Beijing 58 Information Technology Co., Ltd. (the “Beijing 58”) have been named as defendants in a civil lawsuit filed in the PRC. The action was filed by Xuanfu Liu, an approximate 34% shareholder of the Company, on October 19, 2013, in the Xiaogan City Xiaonan District People’s Court in Hubei Province, China. The complaint alleges that Mr. Cheng abused operation and management rights and that Mr. Cheng’s disposition of equity interests that Business Opportunity Online held in Beijing 58 (the “Equity Interests”), without the consent of the plaintiff, was an act of infringement and in violation of the articles of association of Business Opportunity Online and Chinese corporate law. The complaint seeks a court order to declare the contract allegedly entered into by and between Mr. Cheng, on behalf of Business Opportunity Online, and Mr. Yao, null and void. We deny all of the allegations against the Company and intend to defend vigorously against the lawsuit. During the course of the civil litigation, Jinbo Yao, the defendant, filed an objection to remove this case from the Xiaogan City Xiaonan District People’s Court to a Beijing court. Xiaogan City Xiaonan District People’s Court denied the defendant’s objection to remove the case. Jinbo Yao then filed an appeal of that decision to the Intermediate People’s Court of Xiaogan. On March 10, 2014, the Intermediate People’s Court of Xiaogan rendered a final ruling holding that the dispute shall be transferred and heard by the Haidian District People’s Court of Beijing. Business Opportunity Online is awaiting a hearing date from the Haidian District People’s Court of Beijing.

Rise King WFOE, our indirectly wholly owned subsidiary, Handong Cheng, our Chairman and CEO, Zhige Zhang, our CFO and Xuanfu Liu have been named as defendants in a civil lawsuit filed in the PRC. The action was filed by Shanghai Pan Gu Investment Management Co., Ltd. (the “Shanghai Pan Gu”), on December 17, 2013, in the Haidian District People’s Court of Beijing, China. The complaint alleges that the defendants breached a consulting agreement entered into on April 22, 2011 by and among Shanghai Pan Gu and the defendants. The complaint seeks a court order for liquidated damages in the amount of RMB0.56 million (equal to approximately US$92,100) under the consulting agreement. The Company denies all of the allegations against it and intends to defend vigorously against the lawsuit.

Business Opportunity Online has been named as a defendant in another civil lawsuit filed in the PRC. The action was filed by Haifeng Wang in the Haidian District People’s Court, Beijing, PRC, on April 29, 2014. The complaint alleges that the plaintiff neither attended any shareholders meeting in respect of the transfer of the plaintiff’s investment in Business Opportunity Online to another party, nor executed any written shareholders resolutions approving such transfer. The complaint seeks a court order to declare such shareholders resolutions null and void. The Company denies all of the allegations against it and intends to defend vigorously against the lawsuit.

We currently cannot estimate the amount or range of possible losses from lawsuits described above.

ITEM 4MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEMMARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 5ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the Nasdaq Captial Market under the symbol "CNET" since October 29, 2013. Prior to that, from September 14, 2010 through October 28, 2013, our common stock was listed on Nasdaq Global Market under the symbol "CNET". Prior to that time, from March 4, 2010 through September 13, 2010, our common stock was listed on the NYSE AMEX under the trading symbol "CNET." Prior to that, our common stock was quoted on the OTC Bulletin Board ("OTCBB ") under the trading symbol "EMZG", until August 14, 2009, when our ticker symbol was change to "CHNT". The last reported price for our common stock on the Nasdaq Capital Market on June 13, 2014 was $0.86 per share.

The following table shows the high and low closing sale prices for our common stock reported by the Nasdaq Global Market / Nasdaq Capital Market for the two years ended December 31, 2013 and subsequent periods.

Year	Period	High	Low
2012	First Quarter	$ 1.17	$ 0.97
	Second Quarter	$ 1.06	$ 0.63
	Third Quarter	$ 0.69	$ 0.37
	Fourth Quarter	$ 1.22	$ 0.44
2013	First Quarter	$ 1.02	$ 0.71
	Second Quarter	$ 0.92	$ 0.53
	Third Quarter	$ 0.67	$ 0.42
	Fourth Quarter	$ 0.92	$ 0.57
2014	First Quarter	$ 2.19	$ 0.75
	Second Quarter (through June 13, 2014)	$ 1.79	$ 0.76

Holders

As of June 13, 2014, there were approximately 630 record holders of our common stock.

Dividends

We have never paid any dividends on our common stock and we plan to retain earnings, if any, for use in the development and growth of our business. Payment of future dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs. If we ever determine to pay a dividend, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency from China for the payment of such dividends from the profits of our PRC subsidiary and VIEs.

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Securities Authorized for Issuance Under Equity Compensation Plans

Additional information required under this item is incorporated herein by reference to Item 12 of this Annual Report on Form 10-K under the heading "Equity Compensation Plan Information."

Equity Repurchases

During the fourth quarter of our fiscal year ended December 31, 2013, neither we nor any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) purchased any shares of our common stock, the only class of our equity securities registered pursuant to Section 12 of the Exchange Act.

Recent Sales of Unregistered Securities

Any previous sales of unregistered securities by the Company have been previously disclosed in our reports on Form 10-Q or Form 8-K, as applicable, filed with the SEC.

ITEM 6SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to include disclosure under this Item.

ITEM 7MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this Form 10-K. Our audited consolidated financial statements have been prepared in accordance with U.S. GAAP. In addition, our audited consolidated financial statements and the financial data included in this Form 10-K reflect our reorganization and have been prepared as if our current corporate structure had been in place throughout the relevant periods. The following discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words “expect,” “anticipate,” “intend,” “believe,” or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading “Risk Factors” and elsewhere in this Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements.

Overview

Our company (formerly known as Emazing Interactive, Inc.) was incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. From the date of our company’s incorporation until June 26, 2009, when our company consummated the Share Exchange (as defined below), our company’s activities were primarily concentrated in web server access and company branding in hosting web based e-games.

On June 26, 2009, our company entered into a Share Exchange Agreement (the "Exchange Agreement"), with (i) China Net Online Media Group Limited, a company organized under the laws of British Virgin Islands ("China Net BVI"), (ii) China Net BVI's shareholders, Allglad Limited, a British Virgin Islands company ("Allglad"), Growgain Limited, a British Virgin Islands company ("Growgain"), Rise King Investments Limited, a British Virgin Islands company ("Rise King BVI"), Star (China) Holdings Limited, a British Virgin Islands company ("Star"), Surplus Elegant Investment Limited, a British Virgin Islands company ("Surplus"), Clear Jolly Holdings Limited, a British Virgin Islands company ("Clear" and together with Allglad, Growgain, Rise King BVI, Star and Surplus, the "China Net BVI Shareholders"), who together owned shares constituting 100% of the issued and outstanding ordinary shares of China Net BVI (the "China Net BVI Shares") and (iii) G. Edward Hancock, our principal stockholder at such time. Pursuant to the terms of the Exchange Agreement, the China Net BVI Shareholders transferred to us all of the China Net BVI Shares in exchange for the issuance of 13,790,800 shares (the "Exchange Shares") in the aggregate of our common stock (the "Share Exchange"). As a result of the Share Exchange, China Net BVI became our wholly owned subsidiary and we are now a holding company which, through certain contractual arrangements with operating companies in the People's Republic of China (the "PRC"), is engaged in providing advertising, marketing, communication and brand management and sales channel building services to small and medium companies in China.

Our wholly owned subsidiary, China Net BVI, was incorporated in the British Virgin Islands on August 13, 2007. On April 11, 2008, China Net BVI became the parent holding company of a group of companies comprised of CNET Online Technology Limited, a Hong Kong company ("China Net HK"), which established, and is the parent company of, Rise King Century Technology Development (Beijing) Co., Ltd., a wholly foreign-owned enterprise ("WFOE") established in the PRC ("Rise King WFOE"). We refer to the transactions that resulted in China Net BVI becoming an indirect parent company of Rise King WFOE as the "Offshore Restructuring."

PRC regulations prohibit direct foreign ownership of business entities providing internet content, or ICP services in the PRC, and restrict foreign ownership of business entities engaging in the advertising business. In October 2008, a series of contractual arrangements (the "Contractual Agreements" or the "VIE Agreements") were entered between Rise King WFOE and Business Opportunity Online (Beijing) Network Technology Co., Ltd. ("Business Opportunity Online"), Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online") (collectively the "PRC Operating Entities") and its common individual owners (the "PRC Shareholders" or the "Control Group"). The Contractual Agreements allowed China Net BVI through Rise King WFOE to, among other things, secure significant rights to influence the PRC Operating Entities' business operations, policies and management, approve all matters requiring shareholder approval, and receive 100% of the income earned by the PRC Operating Entities. In return, Rise King WFOE provides consulting services to the PRC Operating Entities. In addition, to ensure that the PRC Operating Entities and the PRC Shareholders perform their obligations under the Contractual Arrangements, the PRC Shareholders have pledged all of their equity interests in the PRC Operating Entities to Rise King WFOE. They have also entered into an option agreement with Rise King WFOE which provides that at such time as when the current restrictions under PRC law on foreign ownership of Chinese companies engaging in the Internet content, information services or advertising business in China are lifted, Rise King WFOE may exercise its option to purchase the equity interests in the PRC Operating Entities directly.

Pursuant to the Contractual Agreements, all of the equity owners' rights and obligations of the VIEs were assigned to Rise King WFOE, which resulted in the equity owners lacking the ability to make decisions that have a significant effect on the VIEs, Rise King WFOE's ability to extract the profits from the operation of the VIEs and assume the residual benefits of the VIEs. Due to the fact that Rise King WFOE and its indirect parent are the sole interest holders of the VIEs, we included the assets, liabilities, revenues and expenses of the VIEs in our consolidated financial statements, which is consistent with the provisions of FASB Accounting Standards Codification ("ASC") Topic 810, "Consolidation" subtopic 10.

As of the date of the Share Exchange, through a series of contractual agreements, we operate our business in China primarily through Business Opportunity Online and Beijing CNET Online. Beijing CNET Online owns 51% of Shanghai Borongdingsi Computer Technology Co., Ltd. ("Shanghai Borongdingsi"). Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi, were incorporated on December 8, 2004, January 27, 2003 and August 3, 2005, respectively.

Shanghai Borongdingsi is 51% owned by Beijing CNET Online. Beijing CNET Online and Shanghai Borongdingsi entered into a cooperation agreement in June 2008, followed up with a supplementary agreement in December 2008, to conduct a bank kiosk advertisement business. The business is based on a bank kiosk cooperation agreement between Shanghai Borongdingsi and Henan provincial branch of China Construction Bank which allows Shanghai Borongdingsi or its designated party to conduct in-door advertisement business within the business outlets throughout Henan Province. The bank kiosk cooperation agreement has a term of eight years beginning in August 2008. However, Shanghai Borongdingsi was not able to conduct the advertisement business as a stand-alone business due to the lack of an advertisement business license and supporting financial resources. Pursuant to the aforementioned cooperation agreements, Beijing CNET Online committed to purchase equipment and to provide working capital, technical and other related support to Shanghai Borongdingsi. Beijing CNET Online owns the equipment used in the kiosk business, is entitled to sign contracts in its name on behalf of the business, and holds the right to collect the advertisement revenue generated from the bank kiosk business exclusively until it recovers the cost of purchasing the equipment. Thereafter, Beijing CNET Online has agreed to distribute 49% of the net profit generated from the bank kiosk advertising business, if any, to the minority shareholders of Shanghai Borongdingsi.

On June 24, 2010, one of our VIEs, Business Opportunity Online, together with three other individuals, who were not affiliated with us, formed a new company, Shenzhen City Mingshan Network Technology Co., Ltd. (“Shenzhen Mingshan”). Shenzhen Mingshan is 51% owned by Business Opportunity Online and 49% owned collectively by the other three individuals. Shenzhen Mingshan is primarily engaged in developing and designing internet based software, online games and the related operating websites and providing related internet and information technology services necessary to operate such games and websites. On January 6, 2011, as approved by the shareholders of Shenzhen Mingshan, an unaffiliated third party invested RMB15,000,000 (approximately US$2,453,386) into Shenzhen Mingshan in exchange for a 60% equity interest in Shenzhen Mingshan. As a result of this transaction, our share of the equity interest in Shenzhen Mingshan decreased from 51% to 20.4% and we ceased to have a controlling financial interest in Shenzhen Mingshan, but still retained an investment in, and significant influence over, Shenzhen Mingshan. On December 19, 2012, as approved by the shareholders of Shenzhen Mingshan, Shenzhen Mingshan reduced its registered and paid-in capital from RMB25,000,000 (approximately US$4,088,976) to RMB22,000,000 (approximately US$3,598,299), resulted from a decrease of paid-in capital from three other noncontrolling shareholders, except Business Opportunity Online. As a result, our share of the equity interest in Shenzhen Mingshan increased from 20.4% to 23.18% and we continued to retain significant influence over Shenzhen Mingshan. Therefore, as of December 31, 2013, Shenzhen Mingshan was an equity investment affiliate of ours.

On December 6, 2010, through our wholly-owned subsidiary, Rise King WFOE, we entered into a series of exclusive contractual arrangements, which were similar to the Contractual Agreements discussed above, with Rise King (Shanghai) Advertisement Media Co., Ltd. (“Shanghai Jing Yang”), a company incorporated under PRC laws in December 2009. The contractual arrangements that we entered into with Shanghai Jing Yang allow us, through Rise King WFOE, to, among other things, secure significant rights to influence Shanghai Jing Yang’s business operations, policies and management, approve all matters requiring shareholder approval, and receive 100% of the income earned by Shanghai Jing Yang. From the date of incorporation until December 6, 2010, Shanghai Jing Yang did not conduct any business activities. Therefore, Shanghai Jing Yang’s accounts were included in our consolidated financial statements with no goodwill recognized in accordance with ASC Topic 810 “Consolidation”.

We, through one of our VIEs, Beijing CNET Online, acquired a 100% equity interest in Quanzhou Zhi Yuan Marketing Planning Co., Ltd. (“Quanzhou Zhi Yuan”) and a 51% equity interest in Quanzhou Tian Xi Shun He Advertisement Co., Ltd. (“Quanzhou Tian Xi Shun He”) on January 4, 2011 and February 23, 2011, respectively. In June 2011, Beijing CNET Online acquired the remaining 49% equity interest in Quanzhou Tian Xi Shun He. Quanzhou Tian Xi Shun He became a wholly owned subsidiary of Beijing CNET Online. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were both independent advertising companies based in Quanzhou City, Fujian province of the PRC, which provide comprehensive branding and marketing services to SMEs focused primarily in the sportswear and clothing industry. In April 2013, we formed a new wholly-owned company, Quanzhou City Zhi Lang Network Technology Co., Ltd. (“Quanzhou Zhi Lang”). All business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were integrated and merged into Quanzhou Zhi Lang. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were subsequently disposed by us in November 2013.

On January 28, 2011, one of our VIEs, Business Opportunity Online, formed a new wholly owned subsidiary, Business Opportunity Online (Hubei) Network Technology Co., Ltd. (“Business Opportunity Online Hubei”). Business Opportunity Online Hubei is primarily engaged in internet advertisement design, production and promulgation.

On March 1, 2011, one of our VIEs, Business Opportunity Online, together with an individual, who was not affiliated with us, formed a new company, Beijing Chuang Fu Tian Xia Network Technology Co., Ltd. ("Beijing Chuang Fu Tian Xia"). Business Opportunity Online and the co-founding individual owned 51% and 49% of the equity interests of Beijing Chuang Fu Tian Xia, respectively. Beijing Chuang Fu Tian Xia is primarily engaged in providing and operating internet advertising, marketing and communication services to SMEs.

On April 18, 2011, Business Opportunity Online Hubei formed a new wholly owned company, Hubei CNET Advertising Media Co., Ltd. ("Hubei CNET"). Hubei CNET is primarily engaged in advertisement design, production, promulgation and providing the related advertising and marketing consultancy services.

On April 18, 2011, Business Opportunity Online Hubei, together with an individual, who was not affiliated with us, formed a new company, Zhao Shang Ke Network Technology (Hubei) Co., Ltd. ("Zhao Shang Ke Hubei"). Business Opportunity Online Hubei and the co-founding individual owned 51% and 49% of the equity interests of Zhao Shang Ke Hubei, respectively. Zhao Shang Ke Hubei is primarily engaged in providing advertisement design, production, promulgation and brand management and sales channels building services. On December 29, 2011, as approved by the shareholders of Zhao Shang Ke Hubei, two unaffiliated third party investors invested RMB10,000,000 (approximately US$1,635,590) into Zhao Shang Ke Hubei in exchange for an aggregate 50% equity interests in Zhao Shang Ke Hubei. As a result of this transaction, our share of the equity interests in Zhao Shang Ke Hubei decreased from 51% to 25.5%. As such, we ceased to have a controlling financial interest in Zhao Shang Ke Hubei, but still retained an investment in, and significant influence over, Zhao Shang Ke Hubei. Therefore, as of December 31, 2013, Zhao Shang Ke Hubei was an equity investment affiliate of ours.

On July 1, 2011, Quanzhou Zhi Yuan formed a new wholly owned company, Xin Qi Yuan Advertisement Planning (Hubei) Co., Ltd. ("Xin Qi Yuan Hubei") and Quanzhou Tian Xi Shun He formed a new wholly owned company, Mu Lin Sen Advertisement (Hubei) Co., Ltd. ("Mu Lin Sen Hubei"). These companies were primarily engaged in advertisement design, production, promulgation and provided the related advertising and marketing consultancy services. In October 2013, we unregistered these two companies as their business activities were dormant since incorporation.

On July 1, 2011, Business Opportunity Online Hubei, together with an individual who is not affiliated with us, formed a new company, Sheng Tian Network Technology (Hubei) Co., Ltd. ("Sheng Tian Hubei"). Sheng Tian Hubei was 51% owned by Business Opportunity Online Hubei and 49% owned by the co-founding individual until September 3, 2013 when Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sheng Tian Hubei. As a result of the acquisition, Sheng Tian Hubei became a wholly owned subsidiary of Business Opportunity Online Hubei. Sheng Tian Hubei is primarily engaged in computer system design, development and promotion, software development and promotion, and providing the related technical consultancy services.

On December 20, 2011, Business Opportunity Online Hubei acquired a 51% equity interest in Sou Yi Lian Mei Network Technology (Beijing) Co. Ltd., ("Sou Yi Lian Mei"). In September 2012, Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sou Yi Lian Mei. Sou Yi Lian Mei became a wholly owned subsidiary of Business Opportunity Online Hubei. Sou Yi Lian Mei has a wholly-owned subsidiary, which is Jin Du Ya He (Beijing) Network Technology Co., Ltd ("Jin Du Ya He"). Sou Yi Lian Mei and its subsidiary are primary engaged in providing online advertising and marketing services.

Through our PRC operating subsidiary and VIEs, we primarily operate an one-stop services for our clients on four major service platforms, including social networking service information platform, multi-channel advertising and promotion platform, brand management and sales channel building platform and management tools platform. Our social networking service information platform primarily consists of www.chuangye.com, an information and service portal for entrepreneurs or any individual who plans to start their own business. Our multi-channel advertising and promotion platform primarily consists of internet advertising and marketing portals, including www.28.com ("28.com"), www.liansuo.com ("liansuo.com") and www.sooe.cn ("sooe.cn"), ChinaNet TV as our TV production and advertising unit and the bank kiosk advertising unit. We provide varieties of marketing campaigns through this platform by the combination of the Internet, mobile, television, bank kiosks and printed-medias to maximize market exposure and effectiveness for our clients. Our band management and sales channel building platform consists of our brand consulting and management service and offline sales channel expansion service, which is to physically help small businesses to recruit dealers, wholesalers, partners or franchisees based on their business needs. Management tools platform consists of a mobile-based sales and administrative management tools specifically designed for small business in China to match their simplicity.

Basis of presentation, critical accounting policies and management estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and include the accounts of our Company, and all of our subsidiaries and VIEs. We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements.

Foreign currency translation and transactions

Our functional currency is United States dollars ("US$"), and the functional currency of China Net HK is Hong Kong dollars ("HK$"). The functional currency of our PRC operating subsidiary and VIEs is Renminbi ("RMB'), and PRC is the primary economic environment in which we operate.

For financial reporting purposes, the financial statements of our PRC operating subsidiary and VIEs, which are prepared using the RMB, are translated into our reporting currency, the United States Dollar ("U.S. dollar"). Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and stockholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in stockholders' equity.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income of the consolidated financial statements for the respective periods.

The exchange rates used to translate amounts in RMB into US$ for the purposes of preparing the consolidated financial statements are as follows:

	As of December 31,	
	2013	2012
Balance sheet items, except for equity accounts	6.1140	6.3161

	Year ended December 31,	
	2013	2012
Items in the statements of income and comprehensive income, and statements of cash flows	6.1982	6.3198

No representation is made that the RMB amounts could have been, or could be converted into US$ at the above rates.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of acquisitions of interests in our subsidiaries.

Goodwill is not depreciated or amortized but is tested for impairment at the reporting unit level at least on an annual basis, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. The test consists of two steps. First, identify potential impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired. Second, if there is impairment identified in the first step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC Topic 805, "Business Combinations."

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Transaction between entities under common control

We accounted for transaction between entities under common control in accordance with ASC 805-50, which provided guidance on measuring assets and liabilities transferred between entities under common control. In accordance with ASC 805-50, transferring assets between entities under common control, the entity that receives the net assets should initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

Deconsolidation

The Company accounts for deconsolidation of subsidiaries in accordance with ASC Topic 810 "Consolidation".

In accordance with ASC Topic 810-10-40-5, the parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income attributable to the parent, measured as the difference between:

a. The aggregate of all of the following:

1. The fair value of any consideration received;

2. The fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated;

3. The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated.

b. The carrying amount of the former subsidiary's assets and liabilities.

Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary

We accounted for changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary in accordance with ASC Topic 810 "Consolidation", subtopic 10, which requires the transaction be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent and reallocated the subsidiary's accumulated comprehensive income, if any, among the parent and the noncontrolling interest through an adjustment to the parent's equity.

Revenue recognition

Our revenue recognition policies are in compliance with ASC Topic 605. In accordance with ASC Topic 605, revenues are recognized when all four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

Sales include revenues from reselling of advertising time purchased from TV stations, internet advertising and providing related value added technical services, reselling of internet advertising spaces and other advertisement related resources. No revenue from advertising-for-advertising barter transactions was recognized because the transactions did not meet the criteria for recognition in ASC Topic 605, subtopic 20. Advertising contracts establish the fixed price and advertising services to be provided. Pursuant to advertising contracts, we provide advertisement placements in different formats, including but not limited to banners, links, logos, buttons, rich media and content integration. Revenue is recognized ratably over the period the advertising is provided and, as such, we consider the services to have been delivered. We treat all elements of advertising contracts as a single unit of accounting for revenue recognition purposes. Value added technical services are provided based on two types of contracts: (i) fixed price and (ii) fixed price with minimum performance threshold. For contracts with fixed price term, revenue is recognized on a pro-rata basis over the engaged service period. For fixed price contracts with minimum performance threshold, revenue is recognized when the specified performance criteria is met. Based upon our credit assessments of our customers prior to entering into contracts, we determine if collectability is reasonably assured. In situations where collectability is not deemed to be reasonably assured, we recognize revenue upon receipt of cash from customers, only after services have been provided and all other criteria for revenue recognition have been met.

Taxation

1. Income tax

We adopt ASC Topic 740 “Income taxes” and use liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets, if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income statement in the period that includes the enactment date.

We adopt ASC Topic 740-10-25-5 through 740-10-25-7 and 740-10-25-13, which prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. We did not have any interest and penalties associated with tax positions for the years ended December 31, 2013 and 2012 and did not have any significant unrecognized uncertain tax positions as of December 31, 2013 and 2012.

i). We were incorporated in the State of Nevada. Under the current laws of Nevada we are not subject to state corporate income tax. We became a holding company and do not conduct any substantial operations of our own after the Share Exchange. No provision for federal corporate income tax has been made in our financial statements as no assessable profits for the years ended December 31, 2013 and 2012, or any prior periods. We do not provide for U.S. taxes or foreign withholding taxes on undistributed earnings from non-U.S. subsidiaries and VIEs because such earnings are intended to be reinvested indefinitely. If undistributed earnings were distributed, foreign tax credits could become available under current law to reduce the resulting U.S. income tax liability.

ii). China Net BVI was incorporated in the British Virgin Islands (“BVI”). Under the current laws of the BVI, we are not subject to tax on income or capital gains. Additionally, upon payments of dividends by China Net BVI to us, no BVI withholding tax will be imposed.

iii). China Net HK was incorporated in Hong Kong and does not conduct any substantial operations of its own. No provision for Hong Kong profits tax have been made in our financial statements as no assessable profits for the years ended December 31, 2013 and 2012, or any prior periods. Additionally, upon payments of dividends by China Net HK to its sole shareholder, China Net BVI, no Hong Kong withholding tax will be imposed.

iv). Our PRC operating subsidiary and VIEs, being incorporated in the PRC, are governed by the income tax law of the PRC and are subject to PRC enterprise income tax ("EIT"). The EIT rate of PRC is 25%, which applies to both domestic and foreign invested enterprises.

- Rise King WFOE is a software company qualified by the related PRC governmental authorities and was approved by the local tax authorities of Beijing, the PRC, to be entitled to a two-year EIT exemption from its first profitable year and a 50% reduction of its applicable EIT rate, which is 25% to 12.5% of its taxable income for the succeeding three years. Rise King WFOE had a net loss for the year ended December 31, 2008 and its first profitable year was fiscal year 2009 which has been verified by the local tax bureau by accepting the application filed by the Company. Therefore, it was approved to be entitled to a two-year EIT exemption for fiscal year 2009 through fiscal year 2010 and a 50% reduction of its applicable EIT rate which is 25% to 12.5% for fiscal year 2011 through fiscal year 2013. Therefore, for the years ended December 31, 2013 and 2012, the applicable income tax rate for Rise King WFOE was both 12.5%. After fiscal year 2013, the applicable income tax rate for Rise King WFOE will be 25% under the current EIT law of PRC.

- Business Opportunity Online was approved by the related PRC governmental authorities as a High and New Technology Enterprise under the current EIT law, and was approved by the local tax authorities of Beijing, the PRC, to be entitled to a favorable statutory tax rate of 15% until December 31, 2014. Therefore, for the years ended December 31, 2013 and 2012, the applicable income tax rate of Business Opportunity Online was both 15%. After fiscal year 2014, the applicable income tax rate for Business Opportunity Online will be 25% under the current EIT law of PRC unless the entity regains the qualification as a High and New Technology Enterprise in fiscal 2015. We believe that more likely than not Business Opportunity Online will be able to regain its qualification as a High and New Technology Enterprise and continue to enjoy the favorable statutory tax rate of 15% after fiscal 2014.

- Business Opportunity Online Hubei was incorporated in Xiaotian Industrial Park of Xiaogan Economic Development Zone in Xiaogan City, Hubei province of the PRC in 2011. On June 15, 2012, Business Opportunity Online Hubei was approved by the related PRC governmental authorities to be qualified as a software company and was approved by the local tax authorities of Xiaogan City, Hubei province, the PRC, to be entitled to a two-year EIT exemption from its first profitable year, and a 50% reduction of its applicable EIT rate which is 25% to 12.5% of its taxable income for the succeeding three years. Based on the previous communication between the entity and the local tax authorities of Xiaogan Economic Development Zone, the entity is entitled to a two-year EIT exemption for fiscal 2012 and 2013, and a 50% reduction of its applicable EIT rate which is 25% to 12.5% of its taxable income for the succeeding three years until December 31, 2016. However, during the periodic administrative review conducted by local tax authorities of Xiaogan Economic Development Zone in early August 2013, the local tax authorities determined that the first profitable year of the entity was fiscal 2011 instead of fiscal 2012, despite the fact that a deemed income tax computation method was adopted by the entity as approved by the local tax authorities previously. The deemed income tax computation method is considered as a special tax computation and collection method as compared to the regular actual income/loss method. Although there is no definite guidance set forth in the current EIT law regard this issue, we believe it may have a favorable impact of the determination of the entity's first profitable year. Based on the current circumstances, we believe that more likely than not the local tax authorities will determine the first profitable year of Business Opportunity Online Hubei as fiscal 2011, which may result in the increase of the entity's applicable income tax rate for its fiscal year 2013 to 12.5%. Therefore, the entity accrued its income tax expense based on a 12.5% income tax rate for the year ended December 31, 2013. For the year ended December 31, 2012, the applicable income tax rate of Business Opportunity Online Hubei was nil%. After fiscal 2015, the applicable income tax rate for Business Opportunity Online Hubei will be 25% under the current EIT law of PRC.

· The applicable income tax rate for the rest of our PRC operating entities was 25% for the years ended December 31, 2013 and 2012.

- The current EIT law also imposed a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% withholding tax rate. Rise King WFOE is invested by immediate holding company in Hong Kong and will be entitled to the 5% preferential withholding tax rate upon distribution of the dividends to its immediate holding company.

For the years ended December 31, 2013 and 2012, all of the preferential income tax treatments enjoyed by our PRC subsidiary and VIEs were based on the current applicable laws and regulations of the PRC and approved by the related government regulatory authorities and local tax authorities where our respective PRC subsidiary and VIEs operate in. Rise King WFOE, Business Opportunity Online and Business Opportunity Online Hubei were most affected by these preferential income tax treatments within the structure of us. The preferential income tax treatments are subject to change in accordance with the PRC government economic development policies and regulations. These preferential income tax treatments are primarily determined by the regulation and policies of the PRC government in the context of the overall economic policy and strategy. As a result, the uncertainty of theses preferential income tax treatments are subject to, but not limited to, the PRC government policy on supporting any specific industry's development under the outlook and strategy of overall macroeconomic development.

2. Turnover taxes and the relevant surcharges

From January 1, 2012 through August 31, 2012 (for our PRC operating entities incorporated in Beijing) or October 31, 2012 (for our PRC operating entities incorporated in Fujian province) or November 30, 2012 (for our PRC operating entities incorporated in Hubei province), revenue from advertising services is subject to 5.6%-5.7% business tax (including surcharges), depending on which tax jurisdiction our PRC operating subsidiary and VIE operate in, and 3% cultural industry development surcharge of the net service income after deducting amount paid to ending media promulgators. Revenue from internet technical services was subjected to 5.6%-5.7% business tax (including surcharges), depending on which tax jurisdiction our PRC operating subsidiary and VIE operate in.

On July 31, 2012, the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC jointly promulgated a "Circular on Launching the Pilot Collection of Value Added Tax in lieu of Business Tax in Transportation and Certain Areas of Modern Services Industries in Eight Provinces and Municipalities Including Beijing" ("Circular Cai Shui [2012] No. 71"), pursuant to which a business tax to value added tax (the "VAT") transformation pilot program was launched. The implementation date for Beijing is September 1, 2012, for Fujian province, November 1, 2012, and for Hubei province, December 1, 2012. Other circulars such as "Circular on Carrying out the Pilot Collection of Value Added Tax in Lieu of Business Tax to be imposed on Transportation Industry and Part of Modern Services Industry in Shanghai" ("Circular Cai Shui [2011] No. 111") jointly promulgated by the MOF and the SAT on November 16, 2011 which contains detailed implementation measures for such VAT pilot program apply to the locations including Beijing, Fujian province and Hubei province. In accordance with the Circular Cai Shui [2011] No. 111, the VAT rate for provision of modern services (other than lease of corporeal movables) is 6% and for small scale taxpayer, 3%. Therefore, beginning on September 1, 2012, for our PRC operating subsidiary and VIEs incorporated in Beijing, November 1, 2012, for our PRC operating VIEs incorporated in Fujian province, and December 1, 2012, for our PRC operating VIEs incorporated in Hubei province, service revenues are subject to VAT at a rate of 6%, after deducting the VAT paid for the services purchased from suppliers, or at a rate of 3% without any deduction of VAT paid for the services purchased from suppliers. The surcharges of the VAT is 12%-14% of the VAT, depending on which tax jurisdiction our PRC operating subsidiary and VIE operate in.

Business tax is a price including tax in the PRC turnover tax system, which is calculated based on the revenue inclusive of turnover tax. Therefore, revenues achieved by us which are subject to business tax are presented on a gross basis inclusive of business tax, because we are considered to serve as the primary obligor, and on the other hand, business tax was included in cost of revenues upon recognition of business tax payable simultaneously with the recognition of revenue. Contrastively, VAT is a price excluding tax in the PRC turnover tax system, which is calculated based on the revenue exclusive of turnover tax. Therefore, revenues achieved by us, which are subject to VAT are presented on a net basis exclusive of VAT, because customers who purchase the services from us is considered to serve as the primary obligor, and VAT received from customers excluded from revenue is recognized as the output VAT upon recognition of revenue. VAT payable on taxable services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the balance of input VAT (VAT paid for the services purchased from suppliers). Hence, the amount of VAT payable does not result directly from output VAT generated from taxable services provided.

The tax authority of the PRC Government conducts periodic and ad hoc tax filing reviews on business enterprises operating in the PRC after those enterprises had completed their relevant tax filings, hence our tax filings may not be finalized. It is therefore uncertain as to whether the

PRC tax authority may take different views about our tax filings which may lead to additional tax liabilities.

Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The ASU does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, this ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012 for public entities. The adoption of this standard did not have a material impact on our consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters, (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity", to resolve a diversity in accounting for the cumulative translation adjustment of foreign currency upon derecognition of a foreign subsidiary or group of assets. This ASU requires the parent to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Further, this ASU clarified that the parent should apply the guidance in subtopic 810-10 if there is a sale of an investment in a foreign entity, including both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The provisions in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes, (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The provisions in this update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. These provisions provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. The provisions in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

A. RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period. All amounts, except number of shares and per share data, are presented in thousands of US dollars.

	Year ended December 31,	
	2013	2012
	US$	US$
Sales		
From unrelated parties	$29,932	$46,403
From related parties	361	197
	30,293	46,600
Cost of sales	16,563	31,558
Gross margin	13,730	15,042
Operating expenses		
Selling expenses	2,574	2,683
General and administrative expenses	7,691	6,030
Research and development expenses	1,995	1,819
	12,260	10,532
Income from operations	1,470	4,510
Other income (expenses)		
Interest income	125	186
Interest expense	(26)	-
Changes in fair value of contingent consideration receivables	-	(160)
Loss on disposal of intangible assets	(315)	-
Loss on disposal of subsidiaries	(543)	-
Other income (expenses)	5	(150)
	(754)	(124)
Income before income tax expense, equity method investments and noncontrolling interests	716	4,386
Income tax expense	(816)	(529)
Loss/income before equity method investments and noncontrolling interests	(100)	3,857
Share of losses in equity investment affiliates	(183)	(449)
Net loss/income	(283)	3,408
Net loss (income) attributable to noncontrolling interests	49	(412)
Net loss/income attributable to ChinaNet Online Holdings, Inc.	(234)	2,996
Loss/earnings per share		
Loss/earnings per common share		
Basic	$(0.01)	$0.14
Diluted	$(0.01)	$0.14
Weighted average number of common shares outstanding:		
Basic	22,284,485	22,185,556
Diluted	22,284,485	22,185,556

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REVENUE

The following tables set forth a breakdown of our total revenue, divided into five segments for the periods indicated, with inter-segment transactions eliminated:

Revenue type	Year ended December 31, 2013 (Amounts expressed in thousands of US dollars, except percentages)			2012		
Internet advertisement	$ 20,300	67.0	%	$ 21,121	45.3	%
Technical services	372	1.2	%	245	0.5	%
TV advertisement	6,801	22.5	%	20,454	43.9	%
Bank kiosks	251	0.8	%	282	0.6	%
Brand management and sales channel building	2,569	8.5	%	4,498	9.7	%
Total	$ 30,293	100	%	$ 46,600	100	%

On July 31, 2012, the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) of the PRC jointly promulgated a “Circular on Launching the Pilot Collection of Value Added Tax in lieu of Business Tax in Transportation and Certain Areas of Modern Services Industries in Eight Provinces and Municipalities Including Beijing” (“Circular Cai Shui [2012] No. 71”), pursuant to which a business tax to value added tax (the “VAT”) transformation pilot program (the “Pilot Program”) was launched. The implementation date for Beijing was September 1, 2012, for Fujian province, November 1, 2012, and for Hubei province, December 1, 2012.

Before the adoption of the Pilot Program, our service revenues were subject to PRC business tax. Business tax is a price including tax in the PRC turnover tax system, which is calculated based on the revenue inclusive of turnover tax. Therefore, revenues achieved by us which were subject to business tax were presented on a gross basis inclusive of business tax, because we were considered to serve as the primary obligor, and on the other hand, business tax was included in cost of revenues upon recognition of business tax payable simultaneously with the recognition of revenue.

With the adoption of the Pilot Program, our service revenues were subject to PRC VAT. The VAT rate for provision of modern services is 6% and for small scale taxpayer, 3%. VAT is a price excluding tax in the PRC turnover tax system, which is calculated based on the revenue exclusive of turnover tax. Therefore, revenues achieved by us which were subject to VAT were presented on a net basis exclusive of VAT, because customers who purchase the services from us were considered to serve as the primary obligor, and VAT received from customers excluded from revenue were recognized as output VAT upon recognition of revenue.

Due to the adoption of the Pilot Program, our service revenue provided to customers for the years ended December 31, 2013 and 2012 were subject to two different type of PRC turnover tax, in terms of tax basis, overall effective tax rate and primary obligor, which directly resulted in the non comparability of the total revenue and the related total cost of revenues for the years ended December 31, 2013 and 2012. However, in consideration of the approximative overall effective turnover tax rate for the years ended December 31, 2013 and 2012, we believe that the comparison of the net revenue and cost of revenues for the year ended December 31, 2013 to the adjusted revenue and cost of revenues exclusive of business tax will help to better analyze the fluctuations of our financial performance during fiscal 2013 as compared to fiscal 2012.

Total Revenues: Our total revenues decreased to US$30.29 million for the year ended December 31, 2013 from US$46.60 million for the year ended December 31, 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$1.22 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing, November 1, 2012 in Fujian province and December 1, 2012 in Hubei province, we achieved approximately US$30.29 million and US$45.38 million of revenue for the years ended December 31, 2013 and 2012, respectively, which representing a 33% decrease. The decrease was primarily due to the significant decrease in low margin TV advertising revenue for the year ended December 31, 2013 as compared to that achieved in last year.

We derive the majority of our advertising service revenues from the sale of advertising space on our internet portals and from providing the related technical support and services, internet marketing service and content management services to unrelated third parties and to certain related parties. We also derive revenue from the sale of advertising time purchased from different TV programs. Our advertising services to related parties were provided in the ordinary course of business on the same terms as those provided to our unrelated advertising clients. For the years ended December 31, 2013 and 2012, our service revenue from related parties in the aggregate was less than 1.2% of the total revenue we achieved for each respective reporting period.

Our advertising service revenues are recorded net of any sales discounts. Sales discounts include volume discounts and other customary incentives offered to our small and medium-sized franchise and merchant clients, including providing them with additional advertising time for their advertisements if we have unused space available on our websites and represent the difference between our official list price and the amount we actually charge our clients. We typically sign service contracts with our small and medium-sized franchisor and other clients that require us to place the advertisements on our portal websites in specified locations on the sites and for agreed periods; and/or place the advertisements onto our purchased advertisement time during specific TV programs for agreed periods. We recognize revenues as the advertisement airs over the contractual term based on the schedule agreed upon with our clients.

As a result of the research and development activities conducted and managed by Rise King WFOE, beginning in December 2009, our WFOE began providing a number of value added technical services and management systems to our internet advertisement customers, which services enhance the quality and performance of the internet advertising services provided by Business Opportunity Online. These value added technical services are primarily online technical management systems and platforms. Customers use these technical services to analyze, monitor and manage their advertisements on our key advertising portal, 28.com, their other traffic generating activities and their online marketing campaign activities. Revenues generated by Rise King WFOE are from the provision of technical and management systems including tools, databases and services developed and managed by Rise King WFOE to analyze, monitor and manage a customer's advertisements on our key advertising portal, 28.com, their traffic generating activities, and their online marketing campaign activities. Most of these services are based on fixed price terms; revenues are then generated and recognized from the use of the online management system and tools on a periodic basis, together with the satisfaction of other applicable performance thresholds, if specified. Rise King WFOE's customers are similar to our internet advertising customers, with over 70% of the WFOE's customers also being customers of our internet advertisement services. The other 30% of Rise King WFOE's customers do not directly advertise on our web portal but use Rise King WFOE's management systems and the internet information collected from our key advertising web portal to monitor and manage their traffic generating activities and online marketing campaign activities. These value added technical services, operated and managed by Rise King WFOE, are primarily developed and offered as additions to the internet advertisement services provided by Business Opportunity Online. The revenue generating activities conducted by Rise King WFOE are not prohibited under the known and existing PRC laws and regulations, as our WFOE is providing value-added technical services to our clients, and is not engaged in the internet advertising business or any other business that is subject to obtaining an Internet Content Provider License. For the internet advertisement services conducted by our VIE, Business Opportunity Online, customers use our internet advertising portal, www.28.com, to place internet advertisements in different formats, such as: banners, links, logos, buttons, as well as mini-sites. Customers get internet visits and messages from their advertisements placed on our portal. For the value added technical services provided by our WFOE, customers primarily use the technical and management systems offered by it to analyze, monitor and manage their advertisements and traffic generating activities on our advertising portal. For example, Rise King WFOE's customers can use our management tools to obtain analysis of messages and sales leads received from their internet advertising.

The tables below summarize the revenues, cost of sales, gross margin and net income (loss) generated from each of our VIEs and subsidiaries for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013:

Name of subsidiary or VIE	Revenue from unrelated parties $('000)	Revenue from related parties $('000)	Revenue from inter-company $('000)	Total $('000)
Rise King WFOE	204	168	-	372
Business Opportunity Online and subsidiaries	23,875	193	-	24,068
Beijing CNET Online and subsidiaries	5,853	-	-	5,853
Total revenue	29,932	361	-	30,293

For the year ended December 31, 2013:

Name of subsidiary or VIE	Cost of Sales $('000)	Gross Margin $('000)
Rise King WFOE	2	370
Business Opportunity Online and subsidiaries	12,040	12,028
Beijing CNET Online and subsidiaries	4,521	1,332
Total	16,563	13,730

For the year ended December 31, 2013:

Name of subsidiary or VIE	Net (Loss)/Income $('000)
Rise King WFOE	(1,322)
Business Opportunity Online and subsidiaries	3,022
Beijing CNET Online and subsidiaries	(1,500)
Shanghai Jing Yang	(6)
ChinaNet Online Holdings, Inc.	(477)
Total net loss before allocation to the noncontrolling interest	(283)

For the year ended December 31, 2012:

Name of subsidiary or VIE	Revenue from unrelated parties $('000)	Revenue from related parties $('000)	Revenue from inter-company $('000)	Total $('000)
Rise King WFOE	156	89	40	285
Business Opportunity Online and subsidiaries	37,961	108	-	38,069
Beijing CNET Online and subsidiaries	8,286	-	228	8,514
Shanghai Jing Yang	-	-	-	-
Inter-co., elimination	-	-	(268)	(268)
Total revenue	46,403	197	-	46,600

For the year ended December 31, 2012:

Name of subsidiary or VIE	Cost of Sales $('000)	Gross Margin $('000)
Rise King WFOE	9	276
Business Opportunity Online and subsidiaries	26,643	11,426
Beijing CNET Online and subsidiaries	5,134	3,380
Shanghai Jing Yang	-	-
Inter-co., elimination	(228)	(40)
Total	31,558	15,042

For the year ended December 31, 2012:

Name of subsidiary or VIE	Net (Loss)/Income $('000)
Rise King WFOE	(1,520)
Business Opportunity Online and subsidiaries	4,503
Beijing CNET Online and subsidiaries	1,418
Shanghai Jing Yang	(11)
ChinaNet Online Holdings, Inc.	(982)
Total net income before allocation to the noncontrolling interest	3,408

Management considers revenues generated from internet advertising and the related technical services as one aggregate business operation and relies upon the consolidated results of all the operations in this business unit, when making decisions about allocating resources and assessing performance.

- Internet advertising revenues for the year ended December 31, 2013 were approximately US$20.30 million as compared to US$21.12 million for the same period in 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$0.82 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing and December 1, 2012 in Hubei province, we achieved both approximately US$20.30 million of revenue for the years ended December 31, 2013 and 2012. For the year ended

December 31, 2013, an approximately overall 12% decrease in average internet advertising spending per customer incurred as compared with that achieved in last year, which was due to the general decline of China's economy from the second quarter of 2011, which continued during fiscal 2012 and 2013, and this also resulted in a decrease of our net revenue by approximately 9% and 1% in this business segment for the first fiscal quarter and first half of 2013 as compared to the same periods of last year. However, on the other hand, with the management's continue efforts in brand building and new client base development, along with the gradual increase in the number of customers in this segment, our net revenue increased by approximately 6% and 11% for the second and third fiscal quarter of 2013 as compared to the same periods of last year. For the fourth fiscal quarter, the revenue decreased by 9% as compared to the same period in 2012 due to one of the technical staff stole and intercepted our websites visitors' message and information from our database for his own benefit, which damaged the effectiveness of our online advertising platform and its ability to satisfy the overall advertising effects expected by our clients for a certain time of period. The average spending of our customer therefore further decreased in the fourth quarter as compared to previous quarters. Management has taken immediate remedial measures once this incident was detected, including reassessing of our server security and monitoring processes, upgrading firewalls and security procedures, and communicating and comforting our customers to regain their confidence. Management believes that this is an infrequent event in our ordinary course of business and will not have any substantive impact on our revenue and net income in the future.

- Revenues generated from technical services offered by Rise King WFOE were US$0.37 million for the year ended December 31, 2013, as compared to US$0.25 million for the same period in 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$0.01 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing, we achieved approximately US$0.37 million and US$0.24 million of revenue for the years ended December 31, 2013 and 2012, respectively. Due to the slowdown in economic growth from the second quarter of 2011, which continued during fiscal 2012 and 2013, many of our clients, including our branded clients, who are mostly SMEs, reduced their advertising spending significantly. In response to the overall economic downturn in China, from the second half of 2011, the majority of our clients cancelled the subscription of these services and only continued their basic internet advertising service, which was recorded in as our internet advertising revenue discussed above. Therefore, for the years ended December 31, 2013 and 2012, our technical services revenues generated by Rise King WFOE were both insignificant.

- Our TV advertising revenue decreased significantly to US$6.80 million for the year ended December 31, 2013 from US$20.45 million for the same period in 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$0.04 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing and December 1, 2012 in Hubei province, we achieved approximately US$6.80 million and US$20.41 million of revenue for the years ended December 31, 2013 and 2012, respectively. We sold approximately 5,100 minutes of advertising time purchased from different provincial TV stations for the year ended December 31, 2013 as compared with approximately 18,510 minutes of advertising time that we sold in the same period of 2012. For the year ended December 31, 2012, we had significantly increased the quantity of time slots purchased from TV stations as compared with previous years and year 2013 with the purpose to strategically bind the cooperation with the TV stations for the launching of our entrepreneurial reality show, and consecutively to facilitate more general public visits to our entrepreneurial website, Chuanye.com, create additional traffic on our advertising portals, 28.com and Liansuo.com, and monetize more branded larger size small and medium enterprises for our services and secure our competitive advantage and resources in the TV business segment against our competitors in concordance. In October 2013, the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (the "SARFT") issued a notice to enhance the management of TV shopping infomercials broadcasted in provincial satellite television stations, which further restricts the contents, air time and duration of these infomercials. These restrictions to certain extent affected the overall demands of our TV advertising services. In response to these restrictions, management plans to cooperate with the television stations to develop and produce new form of TV program which will replace TV shopping infomercials to help our client to raise their brand and product awareness, and to develop of Non-TV shopping advertising customers. We will continue to monitor our customers' needs of the TV advertising services and improve the profitability of this business segment in future periods.

- For the year ended December 31, 2013, we earned approximately US$0.25 million of revenue from the bank kiosk business segment as compared to approximately US$0.28 million for the same period in 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$0.02 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing, we achieved approximately US$0.25 million and US$0.26 million of revenue for the years ended December 31, 2013 and 2012, respectively. The bank kiosk advertising business is not intended to expand at the moment as management's main focus is on expanding internet business. The kiosk business' many details still need to be further analyzed and confirmed before allocating more capital to this business unit. Therefore, it was not a significant contributor to revenue for either year ended December 31, 2013 or 2012. Management currently maintains this business without any expansion plans and some of the technology used in this business unit will be fully integrated into the overall advertising and marketing platform.

- For the year ended December 31, 2013, we achieved approximately US$2.57 million service revenue from our brand management and sales channel building segment as compared to US$4.50 million service revenue generated in the same period of 2012. Excluding the business tax expenses included in revenue for the year ended December 31, 2012 of approximately US$0.33 million before the launching of the Pilot Program commencing on November 1, 2012 in Fujian province, we achieved approximately US$2.57 million and US$4.17 million of revenue for the years ended December 31, 2013 and 2012, respectively. The decrease in the revenue from this business segment was primarily due to the cyclical downturn in the average brand advertising and marketing spending per customer caused by the cautiously tighten of advertising budget by our major customers who had made large spending to use our services in previous years. We will invest more efforts in developing new clients to overcome the unfavorable impact on the overall slowdown of economy growth in China.

Cost of revenues

Our cost of revenue consisted of costs directly related to the offering of our advertising services, technical services, marketing services and brand management and sales channel building services. The following table sets forth our cost of revenues, divided into five segments, by amount and gross profit ratio for the periods indicated, with inter-segment transactions eliminated:

	Year ended December 31,					
	2013			2012		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Revenue	Cost	GP ratio	Revenue	Cost	GP ratio
Internet advertisement	$ 20,300	8,641	57 %	$ 21,121	9,781	54 %
Technical service	372	2	99 %	245	9	96 %
TV advertisement	6,801	6,463	5 %	20,454	20,222	1 %
Bank kiosk	251	1	99 %	282	18	94 %
Brand management and sales channel building	2,569	1,456	43 %	4,498	1,528	66 %
Total	$ 30,293	$ 16,563	45 %	$ 46,600	$ 31,558	32 %

Cost of revenues: Our total cost of revenues decreased to US$16.56 million for the year ended December 31, 2013 from US$31.56 million for the same period in 2012. Excluding the business tax expenses included in cost of revenues for the year ended December 31, 2012 of approximately US$1.22 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing, November 1, 2012 in Fujian province and December 1, 2012 in Hubei province, our total cost of revenues was approximately US$16.56 million and US$30.34 million for the years ended December 31, 2013 and 2012, respectively. The decrease in total cost of revenues for the year ended December 31, 2013 was primarily due to the significant decrease in costs associated with our TV advertisement business segment, which was in line with the decrease in our TV advertisement revenue for the year ended December 31, 2013, as discussed above. Our cost of revenues related to the offering of our advertising and marketing services primarily consists of internet resources purchased from other portal websites and technical services providers related to lead generation, sponsored search, TV advertisement time costs purchased from TV stations, direct labor cost associated with providing services.

- Cost associated with obtaining internet resources was the largest component of our cost of revenue for internet advertisement, accounting for approximately 80%-90% of our total internet advertisement cost of sales. We purchased these internet resources from other well-known portal websites in China, for example, Baidu, Qihu 360, Sohu (Sogou) and Tecent (QQ). We were able to secure discounts from our suppliers for purchasing these internet resources in large volumes. The majority of the resources purchased were used by the internet advertising unit to attract more internet traffic to our advertising portals, assist our internet advertisement clients to obtain more diversified exposure and to generate more visits to their advertisements and mini-sites placed on our portal websites. For the years ended December 31, 2013 and 2012, our total cost of sales for internet advertising was US$8.64 million and US$9.78 million, respectively. Excluding the business tax expenses included in internet advertising cost of revenue for the year ended December 31, 2012 of approximately US$0.82 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing and December 1, 2012 in Hubei province, our internet

advertising cost of revenue was approximately US$8.64 million and US$8.96 million for the years ended December 31, 2013 and 2012, respectively. Our gross margin ratio of this segment was 57% for the year ended December 31, 2013 as compared to 56% (calculated based on adjusted net revenue and cost of revenue) for the same period of last year. Along with the overall decrease in demands of TV advertising and other traditional advertising media, the increase in internet advertising resources cost is at a rate of 5%-15% per annual in these years, we were able to secure a relatively stable gross profit rate for this business segment were partially benefited from our efforts in, first, actively engaging in mobile marketing tools, such as Weibo and WeChat; second, actively participating in various franchise exhibitions and other related events, which indirectly promoted our brand recognition, and in return created additional traffic to our advertising portals and enabled us to save certain of our internet resources cost.

- TV advertisement time cost is the largest component of cost of revenue for TV advertisement revenue. We purchase TV advertisement time from different provincial TV stations and resell it to our TV advertisement clients. Our TV advertisement time cost was approximately US$6.46 million and US$20.22 million for the years ended December 31, 2013 and 2012, respectively. Excluding the business tax expenses included in TV advertising cost of revenue for the year ended December 31, 2012 of approximately US$0.04 million before the launching of the Pilot Program commencing on September 1, 2012 in Beijing and December 1, 2012 in Hubei province, our TV advertising cost of revenue was approximately US$6.46 million and US$20.18 million for the years ended December 31, 2013 and 2012, respectively. The significant decrease in our total TV advertisement time cost was in line with the significant decrease of TV advertising revenue for the year ended December 31, 2013 as compared to that in the same periods of 2012, as discussed above. Due to a better sales price control under decreased overall purchase volume of TV advertising time in fiscal 2013, the gross profit margin of this business segment improved to 5% for the year ended December 31, 2013 from 1% (calculated based on adjusted net revenue and cost of revenue) for the same period of last year.

- Cost recognized for brand management and sales channel building business segment primarily consisted of director labor cost for providing these services to our customers and other related direct cost. The gross profit margin for this business segment decreased to 43% for the year ended December 31, 2013 as compared to 71% (calculated based on adjusted net revenue and cost of revenue) for the same period of last year, which was caused by (1) the cyclical decrease in average brand advertising and marketing spending per customer and cautiously tighten of advertising budget by our customers to respond the uncertainty of the China’s economy, and (2) on the other hand, we were unable to reduce our cost of revenue synchronously under the situation of an overall increasing of labor cost, office rental and other utilities and supplies. We will strengthen our cost management in further periods to improve the profitability of this business segment.

Gross Profit

As a result of the foregoing, our gross profit was US$13.7 million for the year ended December 31, 2013 as compared to US$15.0 million for the same period in 2012. Our overall gross profit rate increased to 45% for the year ended December 31, 2013, as compared to 33% (calculated based on adjusted net revenue and cost of revenue) for the same period in 2012. For the year ended December 31, 2013, the decrease in gross profit was primarily due to the decrease in revenue and gross profit rate we achieved from our brand management and sales channel building business segment and the increase in the overall gross profit rate was a direct result of the significant decrease in the low margin TV advertising revenue, which accounted for approximately 23% of our total revenue for the year ended December 31, 2013, as compared to 44% for the same periods of 2012, respectively.

Operating Expenses and Net Income

Our operating expenses consist of selling expenses, general and administrative expenses and research and development expenses. The following tables set forth our operating expenses, divided into their major categories by amount and as a percentage of our total revenues for the periods indicated.

	Years ended December 31,					
	2013			2012		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Amount	% of total revenue		Amount	% of total revenue	
Total Revenue	$ 30,293	100	%	$ 46,600	100	%
Gross Profit	13,730	45	%	15,042	32	%
Selling expenses	2,574	8	%	2,683	6	%
General and administrative expenses	7,691	25	%	6,030	13	%
Research and development expenses	1,995	7	%	1,819	4	%
Total operating expenses	12,260	40	%	10,532	23	%

Operating Expenses: Our operating expenses increased to US$12.3 million for the year ended December 31, 2013 from US$10.5 million for the same period of 2012.

- Selling expenses: For the year ended December 31, 2013, our selling expenses decreased to US$2.57 million from US$2.68 million for the same period of 2012. Our selling expenses primarily consist of advertising expenses for brand development that we pay to TV stations and other media outlets for the promotion and marketing of our advertising web portals, other advertising and promotional expenses, website server hosting and broadband leasing expenses, staff salaries, staff benefits, performance bonuses, travelling expenses, communication expenses and other general office expenses of our sales department. For the year ended December 31, 2013, the change in our selling expenses was primarily due to the following reasons: (1) the decrease in staff salary, bonus, employee related benefit expenses and other general selling expenses, such as travelling expenses, business and entertainment expenses and communication expenses of approximately US$0.27 million, primarily due to decrease in sales performance achieved by some of our business segments during the year as compared to that achieved in last year; and (2) the increase in our brand development advertising expenses for our advertising web portals of approximately US$0.16 million. Due to the current economic downturn and the increase of TV advertising cost, we will continue to actively participate in both domestic and international franchise exhibitions and in government supported employment promotion programs, which are considered as more cost-effective ways for our consistent brand building efforts.

- General and administrative expenses: General and administrative expenses increased to US$7.69 million for the year ended December 31, 2013 as compared to US$6.03 million for the same period in 2012. Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. For the year ended December 31, 2013, the change in our general and administrative expenses was primarily due to the following reasons: (1) the increase in general administrative expenses, such as: office supplies, travelling expenses and entertainment expenses of approximately US$0.29 million, primarily due to the additional expenses incurred for the “10-year Anniversary and Customer Sharing Conference” hosted by us in August 2013; (2) the increase in allowance for doubtful debts provided of approximately US$1.56 million and (3) the decrease in professional service (such as: investor relations, legal, etc.) charges of approximately US$0.19 million, primarily due to decrease in the related services required from these parties as compared to the same period of last year.

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- Research and development expenses: Research and development expenses increased to US$2.00 million for the year ended December 31, 2013 from US$1.82 million for the same period of 2012. Our research and development expenses primarily consist of salaries and benefits for the research and development staff, equipment depreciation expenses, and office utilities and supplies allocated to our research and development department. For the year ended December 31, 2013, the increase in research and development expenses was primarily due to the increase in the research and development activities related to new platform and cross platform compatibility under the new developed internet technologies during the period. We will continue to expand, optimize and enhance the technology of our portal websites, upgrade our advertising and internet management software and develop our management tools system.

Operating Profit: As a result of the foregoing, our operating profit decreased to US$1.5 million for the year ended December 31, 2013 from US$4.5 million for the same period of 2012.

Changes in fair value of contingent consideration receivables: Contingent consideration receivables arose from certain “make good” provisions entered into by and between our company and the former stockholders of Quanzhou Zhi Yuan, Quanzhou Tian Xi Shun He and Sou Yi Lian Mei, upon acquisition of these operating VIEs. These “make good” provisions provide that if the acquired VIEs’ audited pretax profit or after tax profit for the year ended December 31, 2012 and 2011 increases by less than a certain amount or percentage as compared to that of the prior year, then the former VIE stockholders will be required to compensate us in cash for the difference between target pretax profit or after tax profit and the actual pretax profit or after tax profit, as applicable. We assessed the fair value of these contingent consideration receivables as of each of the reporting date. The changes in the fair value of these contingent consideration receivables of approximately US$0.16 million for the year ended December 31, 2012 was included in our consolidated statement of income and comprehensive income. There was no further “make good” arrangement exit for fiscal 2013 with the former stockholders of these acquired VIEs and we did not consummate any new business combination transactions in fiscal 2013.

Loss on disposal of intangible assets: Loss on disposal of intangible assets of approximately US$0.32 million represented the disposal of trade mark we owned upon disposal of 100% equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013.

Loss on disposal of subsidiaries: In November 2013, upon completion of the reorganization of our brand management and sales channel building business segment by chartering a new entity (Quanzhou Zhi Lang) and transferring all of the business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He (excluding tangible assets and liabilities incurred), we disposed the 100% of the equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013. We recognized an approximately US$0.54 million of loss on disposal of these two subsidiaries, which reflected the difference between the fair value of consideration to be received from the successors of shareholders of these two companies and the carrying amount of the former subsidiaries’ tangible assets and liabilities that were not transferred to Quanzhou Zhi Lang as of the date of disposal.

Income before income tax expense, equity method investments and noncontrolling interests: As a result of the foregoing, our income before income tax expenses, equity method investment and noncontrolling interest decreased to US$0.72 million for the year ended December 31, 2013 from US$4.39 million for the same period in 2012.

Income tax expenses: We recognized a net income tax expense of approximately US$0.82 million and US$0.53 million for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013 and 2012, net income tax expenses included: (1) current income tax expenses of approximately US$1.30 million and US$1.36 million, respectively; and (2) deferred income tax benefit of approximately US$0.49 million and US$0.83 million, respectively. For the year ended December 31, 2013 and 2012, deferred income tax benefit recognized in relation to the amortization of the intangible assets identified in the acquisition transactions consummated in 2011 was both approximately US$0.22 million and an additional approximately US$0.08 million deferred tax benefit was recognized for the year ended December 31, 2013 due to the disposal of trade mark upon disposal the 100% equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He. We recognized an approximately US$0.19 million and US$0.61 million net deferred income tax benefit in relation to a portion of the net operating loss carry forward incurred by our PRC operating VIEs, which we consider likely to be able to be utilized with respect to future earnings of the entities to which the operating losses relate, after net of utilized amount resulted from net income generated during the year, and after deduction of US$0.58 million and US$nil allowance for the years ended December 31, 2013 and 2012, respectively, which related to the portion of the net operating loss carry forward, that we consider likely not be able to utilized due to insufficient future earnings.

Loss/income before equity method investments and noncontrolling interests: As a result of the foregoing, we incurred a loss before equity method investment and noncontrolling interest of US$0.10 million for the year ended December 31, 2013 as compared to a net income of US$3.86 million for the same period of 2012.

Share of losses in equity investment affiliates: For the year ended December 31, 2013, we beneficially own 23.18% and 25.5% equity interest in Shenzhen Mingshan and Zhao Shang Ke Hubei, respectively. Accordingly, we recognized our pro-rata share of losses in Shenzhen Mingshan and Zhao Shang Ke Hubei of approximately US$0.04 million and US$0.14 million, respectively. For the year ended December 31, 2012, we beneficially own 20.4% and 25.5% equity interest in Shenzhen Mingshan and Zhao Shang Ke Hubei, respectively. Accordingly, we recognized our pro-rata share of losses in Shenzhen Mingshan and Zhao Shang Ke Hubei of approximately US$0.11 million and US$0.34 million, respectively. Given the foregoing, net amount recognized as share of losses in equity investment affiliates was approximately US$0.18 million and US$0.45 million for the years ended December 31, 2013 and 2012, respectively

Net loss/income: As a result of the foregoing, we incurred a net loss of US$0.28 million for the year ended December 31, 2013 as compared to a net income of US$3.41 million for the same period of 2012.

Loss/(income) attributable to noncontrolling interest: Beijing Chuang Fu Tian Xia was 51% owned by Business Opportunity Online upon incorporation. Sheng Tian Hubei was 51% owned by Business Opportunity Online Hubei upon incorporation until early September 2013 when we acquired the remaining 49% equity interest in it. In December 2011, we acquired a 51% equity interest in Sou Yi Lian Mei and Sou Yi Lian Mei became a majority-owned VIE of ours until September 2012, when we acquired the remaining 49% equity interest in it. For the year ended December 31, 2013, the net income allocated to the noncontrolling interest of Beijing Chuang Fu Tian Xia was approximately US$0.01 million, the net loss allocated to the noncontroliing interest of Sheng Tian Hubei was approximately US$0.06 million. Given the foregoing, net loss attributable to noncontrolling interest in the aggregate was approximately US$0.05 million for the year ended December 31, 2013. For the year ended December 31, 2012, the net income allocated to the noncontrolling interest of Sou Yi Lian Mei was approximately US$0.62 million, the aggregate net losses allocated to the noncontroliing interest of Beijing Chuang Fu Tian Xia and Sheng Tian Hubei was approximately US$0.21 million. Given the foregoing, net income attributable to noncontrolling interest in the aggregate was approximately US$0.41 million for the year ended December 31, 2012.

Net loss/income attributable to ChinaNet Online Holdings, Inc.: Total net loss/income as adjusted by the net loss/income attributable to the noncontrolling interest shareholders as discussed above yields the net loss/income attributable to ChinaNet Online Holdings, Inc. Net loss attributable to ChinaNet Online Holdings, Inc. was US$0.23 million for the year ended December 31, 2013 as compared to a net income attributable to ChinaNet Online Holdings, Inc. of US$3.00 million for the year ended December 31, 2012.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents represent cash on hand and deposits held at call with banks. We consider all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of December 31, 2013, we had cash and cash equivalents of approximately US$3.4 million and we also have approximately US$3.5 million of term deposit placed in one of the major financial institutes in China which will expire in July 2014.

Our liquidity needs include (i) net cash used in operating activities that consists of (a) cash required to fund the initial build-out and continued expansion of our network and (b) our working capital needs, which include deposits and advance payment to TV advertising slots and internet resource providers, payment of our operating expenses and financing of our accounts receivable; and (ii) net cash used in investing activities that consist of the payment for acquisitions to further expand our business and client base, investment in software technologies to enhance the functionality of the management tools provided by our advertising portals and investment in other general office equipment. To date, we have financed our liquidity need primarily through proceeds from operating activities we generated in prior years. Our existing cash is adequate to fund operations for the next twelve months.

The following table provides detailed information about our net cash flow for the periods indicated:

	Year ended December 31,	
	2013	2012
	Amounts in thousands of US dollars	
Net cash provided by operating activities	$ 2,756	$ 5,028
Net cash used in investing activities	(5,733)	(9,919)
Net cash provided by/(used in) financing activities	807	(385)
Effect of foreign currency exchange rate changes on cash	129	64
Net decrease in cash and cash equivalents	$ (2,041)	$ (5,212)

Net cash provided by operating activities:

For the year ended December 31, 2013, our net cash provided by operating activities of approximately US$2.76 million were primarily attributable to:

(1) net income excluding approximately US$1.74 million of non-cash expenses of depreciation, amortizations, share-based compensation; approximately US$2.70 million of non-cash charge of bad debts provisions; approximately US$0.18 million of share of losses in equity investment affiliates; approximately US$0.32 million of disposal of intangible assets, approximately US$0.54 million of loss on disposal of subsidiaries; and approximately US$0.49 million of deferred income tax benefit, of approximately US$4.72 million;

(2) the receipt of cash from operations from changes in operating assets and liabilities such as:

- other receivables decreased by approximately US$0.10 million, which was primarily due to the partial collection of the loan made for the production of the TV series “Xiao Zhan Feng Yun”, which amount was partially offset by the increase of overdue contract guarantee deposits during the year ended December 31, 2013;

- prepayments and deposits to suppliers decreased by approximately US$0.38 million, primarily due to the decrease in prepayments and deposits paid for the TV advertisement time purchased for reselling in 2013;

- accounts payable increased by approximately US$0.30 million;

- taxes payable increased by approximately US$1.52 million; and

- other current assets decreased by approximately US$0.11 million.

(3) offset by the use from operations from changes in operating assets and liabilities such as:

- accounts receivable and due from related parties for the advertising services provided increased by approximately US$3.96 million; and

- advance from customers decreased by approximately US$0.10 million; and

- accruals and other payables decreased by approximately US$0.31 million.

For the year ended December 31, 2012, our net cash provided by operating activities of approximately US$5.03 million were primarily attributable to:

(1) net income excluding approximately US$1.69 million of non-cash expenses of depreciation, amortizations, share-based compensation; approximately US$1.14 million of non-cash charge of bad debts provisions; approximately US$0.45 million of share of losses in equity investment affiliates and approximately US$0.16 million of change in fair value of contingent consideration receivable, and net of approximately US$0.83 million of deferred income tax benefit, of approximately US$6.02 million;

(2) the receipt of cash from operations from changes in operating assets and liabilities such as:

- other receivables decreased by approximately US$1.4 million, which was primarily due to the collection of the overdue contract execution guarantee deposits and the partial collection of the loan made for the production of the TV series “Xiao Zhan Feng Yun”;

- prepayments and deposits to suppliers decreased by approximately US$0.88 million, primarily due to the decrease in prepayments and deposits paid for the TV advertisement time purchased for reselling in 2013;

- advance from customers and due to related parties for advertising services to be provided increased by approximately US$0.33 million;

- taxes payable increased by approximately US$1.60 million; and

- other payables and accrued payroll and other accruals increased by approximately US$0.36 million.

(3) offset by the use from operations from changes in operating assets and liabilities such as:

- accounts receivable and due from related parties for the advertising services provided increased by approximately US$5.40 million; and

- accounts payable decreased by approximately US$0.16 million.

Net cash used in investing activities:

For the year ended December 31, 2013, our net cash used in investing activities included the following transactions: (1) we spent approximately US$0.10 million for purchasing of general office equipment; (2) for further development of comprehensive value-added services to our customers, which are mostly small and medium enterprises in China (“SMEs”), we made a deposit to an unrelated technical consulting entity of approximately US$2.42 million for the purchasing of software technology that related to operation management applications for SMEs. As of the date that the financial statements are issued, we are trial testing these software applications, and are in the process of negotiations and determination of the transaction details, we expect to consummate this transaction in 2014; (3) we paid approximately US$1.29 million to settle the outstanding payment for the acquisition of the 49% equity interest in Sou Yi Lian Mei and approximately US$0.97 million for the acquisition of the 49% equity interest in Sheng Tian Hubei; (4) we made an approximately US$0.79 million temporary loan to unrelated entities; (5) the cash effect on disposal of two of our subsidiaries of approximately US$0.15 million, which was recorded as a cash outflow from investing activities. In the aggregate, these transactions resulted in a net cash outflow from investing activities of approximately US$5.73 million for the year ended December 31, 2013.

For the year ended December 31, 2012, our net cash used in investing activities included the following transactions: (1) we paid an aggregate of approximately US$5.78 million in connection with the acquisition of equity interest in Sou Yi Lian Mei; (2) we placed approximately US$3.36 million cash as term deposit in one of the major financial institutions in China, which would expire in July 2013 and this amount was recorded as a decrease in cash and cash equivalents, i.e. cash outflow in investing activity for the year ended December 31, 2012; (3) during the year ended December 31, 2012, we made an approximately US$2.45 million project development deposit to a third party project development and management company for the participation in the development and management of the Xiaogan TMT Zone, which had been fully refunded before December 31, 2012 due to our withdrawing from this project after evaluation; (4) we made an approximately US$0.48 million temporary loan to unrelated entities; and (5) we spent approximately US$0.31 million in general office equipment during the year ended December 31,

2012. In the aggregate, these transactions resulted in a net cash outflow from investing activities of approximately US$9.92 million for the year ended December 31, 2012.

Net cash provided by/(used in) financing activities:

For the year ended December 31, 2013, our cash provided by financing activities of approximately US$0.81 million represented the proceeds from short-term bank loan borrowed by one of our operating VIEs from a major financial institution of China during the reporting period.

For the year ended December 31, 2012, our net cash used in financing activities was approximately US$0.39 million which primarily consisted of the following transactions: (1) cash dividends paid to our preferred stockholders of approximately US$0.01 million; (2) one of our VIEs borrowed an approximately US$0.32 million working capital loan from Zhao Shang Ke Hubei, our equity investment affiliate during the three months ended March 31, 2012; and (3) our VIEs repaid all previously borrowed outstanding working capital loan of approximately US$0.54 million to Zhao Shang Ke Hubei during the three months ended June 30, 2012; (4) we also repaid approximately US$0.16 million to the legal (nominal) shareholders of Shanghai Jing Yang, with whom we entered into the VIE contractual arrangements in December 2010, for the initial paid-in capital they contributed upon incorporation of Shanghai Jing Yang.

Restricted Net Assets

As most of our operations are conducted through our PRC subsidiary and VIEs, our ability to pay dividends is primarily dependent on receiving distributions of funds from our PRC subsidiary and VIEs. Relevant PRC statutory laws and regulations permit payments of dividends by our PRC subsidiary and VIEs only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations and after it has met the PRC requirements for appropriation to statutory reserves. Paid in capital of the PRC subsidiary and VIEs included in our consolidated net assets are also not distributable for dividend purposes.

In accordance with the PRC regulations on Enterprises with Foreign Investment, a WFOE established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A WFOE is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Rise King WFOE is subject to the above mandated restrictions on distributable profits. Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide a statutory common reserve of at least 10% of its annual after-tax profit until such reserve has reached 50% of its registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for a discretionary surplus reserve, at the discretion of the board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. All of our PRC VIEs are subject to the above mandated restrictions on distributable profits.

As a result of these PRC laws and regulations, our PRC subsidiary and VIEs are restricted in their ability to transfer a portion of their net assets to us. As of December 31, 2013 and 2012, net assets restricted in the aggregate, which includes paid-in capital and statutory reserve funds of our PRC subsidiary and VIEs that are included in our consolidated net assets, was approximately US$7.3 million and US$5.5 million, respectively.

The New PRC Enterprise Income Tax ("EIT") Law, which was effected on January 1, 2008, also imposed a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China, which were exempted under the previous EIT law. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% rate. Rise King WFOE is invested by its immediate holding company in Hong Kong and will be entitled to the 5% preferential withholding tax rate upon distribution of the dividends to its immediate holding company.

The ability of our PRC subsidiaries to make dividends and other payments to us may also be restricted by changes in applicable foreign exchange and other laws and regulations.

Foreign currency exchange regulation in China is primarily governed by the following rules:

· Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules;

· Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Currently, under the Administration Rules, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange (the "SAFE") is obtained and prior registration with the SAFE is made. Foreign-invested enterprises like Rise King WFOE that need foreign exchange for the distribution of profits to its shareholders may effect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

Although the current Exchange Rules allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. We cannot be sure that it will be able to obtain all required conversion approvals for our operations or the Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese Renminbi in the future. Currently, most of our retained earnings are generated in Renminbi. Any future restrictions on currency exchanges may limit our ability to use retained earnings generated in Renminbi to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

As of December 31, 2013 and 2012, there were approximately US$39.3 million and US$38.1 million retained earnings in the aggregate, respectively, which were generated by our PRC subsidiary and VIEs in Renminbi included in our consolidated net assets, aside from US$2.8 million and US$2.4 million statutory reserve funds as of December 31, 2013 and 2012, respectively, that may be affected by increased restrictions on currency exchanges in the future and accordingly may further limit our PRC subsidiary' or VIEs' ability to make dividends or other payments in U.S. dollars to us, in addition to the approximately US$7.3 million and US$5.5 million restricted net assets as of December 31, 2013 and 2012, respectively, as discussed above.

C. Off-Balance Sheet Arrangements

None.

D. Disclosure of Contractual Obligations

The following table sets forth our company's contractual obligations as of December 31, 2013:

	Office Rental US$('000)
Year ending December 31,	
-2014	361
-2015	307
-2016	76
	744

In October 2013, we entered into a contract to engage an unrelated third party to develop several software systems related to internet environment monitoring and system optimization to enhance the overall safety and efficiency of our network system. The total contract amount was RMB13 million (approximately US$2.1 million) and a first installment of RMB5.2 million (approximately US$0.85 million) was paid in the first fiscal quarter of 2014. The transaction as contemplated under the contract is expected to be consummated in 2014 and the remaining unpaid

contract amount is expected to be paid in 2014.

ITEM 7B. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to include disclosure under this Item.

ITEM 8FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

Our consolidated financial statements and the notes thereto begin on page F-1 of this Annual Report.

ITEM 9CHANGES IN AND DISAGREEMENTS WITH ACCOUNTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, with the participation of other members of management, evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of December 31, 2013. Based on this evaluation, our chief executive officer and chief financial officer concluded as of December 31, 2013 that our disclosure controls and procedures were effective such that the material information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to our company, including our consolidating subsidiaries and VIEs, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

Management’s Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2013. The framework on which such evaluation was based is contained in the report entitled “Internal Control — Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO Report”) in 1992. Based on the criteria set forth in the COSO Report, management assessed the effectiveness of the Company's internal control over financial reporting, as of December 31, 2013, and determined it to be effective.

Changes in Internal Controls over Financial Reporting

There were no significant changes in our internal controls over financial reporting identified in connection with this evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. As a smaller reporting company, management's report is not subject to attestation by our registered public accounting firm.

ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-K but not reported.

PART III.

ITEM 10DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers and Directors

The following discussion sets forth information regarding the executive officers and directors of the Company as of June 16, 2014. The board of directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Provided below is a brief description of our executive officers' and directors' business experience during the past five years.

Name	Age	Other positions with Company; other directorships held in last five years	Has served as Company director since
Handong Cheng	43	Chairman of the Board, Chief Executive Officer and President	September 2007
Zhige Zhang	39	Chief Financial Officer, Treasurer and Director	January 2009
Watanabe Mototake	72	Independent Non-Executive Director	November 2009
Zhiqing Chen	41	Independent Non-Executive Director	November 2009
Douglas MacLellan	58	Independent Non-Executive Director	November 2009

The business experience during the last five years of each of these individuals is as follows:

Handong Cheng, Chairman of the Board. Chief Executive Officer and President. Mr. Cheng has served as Chief Executive Officer of ChinaNet since September 2007. Prior to that role, from October 2003 to September 2007, Mr. Cheng acted as President of ChinaNet Online Advertising Limited. Mr. Cheng holds an EMBA from Guanghua School of Management at the Beijing University, and a degree in economic law from the College of Law of Wuhan University.

Zhige Zhang, Chief Financial Officer, Treasurer and Director. Mr. Zhang has served as Chief Financial Officer of ChinaNet since January 2009. Prior to that role, from January 2008 to January 2009, Mr. Zhang served as Executive Director of ChinaNet Online Media Group Limited. From January 2007 to December 2007, Mr. Zhang was Director and Vice President of Fu Jian Rong Ji Software Limited Corporation, a software company. From August 2002 to December 2006, Mr. Zhang acted as Chief Operating Officer of Beijing HSHZ Information System Engineering Company, a computer technology company. Mr. Zhang holds a degree in industry design from Guilin University of Electronic Technology.

Zhiqing Chen, Director. Mr. Chen has been a partner at Chen & Partners Law Firm since July 2010. From January 2002 to June 2010, Mr. Chen was a partner at Jin Mao P.R.C. Lawyers in Shanghai, a law firm specializing in corporate law, including foreign investments and mergers and acquisitions. Mr. Chen's clients include local PRC enterprises as well as international corporations. Prior to joining the Company, Mr. Chen served as a non-management director for Shanghai Fumai Investment Management Co., Ltd., Shanghai Zhijinwu Investment Management Co., Ltd, and Shanghai Merciful Groups Co., Ltd. Mr. Chen received a bachelor's degree in international law from East China University and an EMBA degree from Peking University.

Watanabe Mototake, Director. Mr. Watanabe serves as a corporate advisor to SJI, Inc. (Jasdaq Market), a provider of computer and computer peripheral equipment and software merchant wholesaler, and has served in several capacities there since July 2005, including operating officer, manager of the president's office and corporate auditor. From June 2007 to June 2008, Mr. Watanabe served as the Corporate Auditor for SJ Holdings, Inc., a provider of information services such as system development and provision of system-related consulting and maintenance support services. From April 2000 to April 2005, Mr. Watanabe served as the executive director for TCC Inc., a power conversion company specializing in high quality connectors and adapters for the RF connector industry. Mr. Watanabe graduated in 1966 from Chuo University Faculty of Commerce in Japan.

Douglas MacLellan, Director. Mr. MacLellan currently serves as chairman of eWellness Corporation, a distance monitored physical therapy telemedicine company. Until April 2014, he was chairman and chief executive officer at Radient Pharmaceuticals Corporation. (OTCQB: RXPC.PK), a vertically integrated specialty pharmaceutical company, and also serves as president and chief executive officer for the MacLellan Group, an international financial advisory firm established in 1992, where he advises clients on strategic planning, operational activities, corporate finance, economic policy, asset allocation and mergers & acquisitions. From August 2005 to May 2009, Mr. MacLellan was co-founder and vice chairman at Ocean Smart, Inc., a Canadian based aquaculture company. From February 2002 to September 2006, Mr. MacLellan served as chairman and co-founder at Broadband Access MarketSpace, Ltd., a China based IT advisory firm, and was also co-founder at Datalex Corp., a software and IT company specializing in mainframe applications, from February 1997 to May 2002. Mr. MacLellan was educated at the University of Southern California in economic and international relations.

The business experience during at least the last five years of the Company's executive officers not included above is as follows:

George Kai Chu, Chief Operating Officer and Secretary. Mr. Chu has been our Chief Operating Officer and Secretary since May 2010. From December 2007 to May 2010, Mr. Chu served as the Special Assistant to the Chairman of Dachan Food (Asia) Ltd. in Beijing and also served at Dachan Food as the Head of the Beijing and Hubei Operations. From June 2007 to December 2007, Mr. Chu acted as Business Advisor to the Chinese Aviation and Space Industry Development Association (CASIDA) in Taipei. From January 2005 to June 2007, Mr. Chu served as a Senior Manager at the Royal Bank of Canada Financial Group, Asset Management in Vancouver, Toronto and New York. Mr. Chu has a BBA from Simon Fraser University.

Zhenghong Yang, Chief Technology Officer. Mr. Yang has served as our Chief Technology Officer since June 2012. From 1999 to 2011, Mr. Yang was responsible for enterprise content management software and cloud computing platform development and implementation at the IBM research lab in Silicon Valley. Mr. Yang has a Master's degree in Computer Science from the State University of New York at Stony Brook. He was also the head of the next-generation Internet Access System National Engineering Laboratory of Cloud Computing Research Institute at Huazhong University of Science and Technology.

Wen Hu, Vice President, Head of Television Operations. Mr. Hu has been our Vice President, Head of Television Operations since July 2012. From May 2010 to June 2012, Mr. Hu acted as our Vice President and Head of Human Resources. From January 2009 to April 2010, Mr. Hu acted as our Vice President and Head of Television Operations.

Man Huang, Head of 28.com. Ms. Huang has been our Head of 28.com since March 2013. From August 2009 to February 2013, Ms. Huang acted as the Marketing Director of New Oriental Elite English under the New Oriental Education & Technology Group Inc. (NYSE: EDU).

Family Relationships

No director or executive officer is related to any other director or executive officer.

Board Operations

Board Leadership Structure

Mr. Handong Cheng holds the positions of chief executive officer and chairman of the Board of the Company. The Board believes that Mr. Cheng's services as both chief executive officer and chairman of the Board is in the best interest of the Company and its stockholders. Mr. Cheng possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company in the advertising and media industry and its business and is thus best positioned to develop agendas that ensure that the Board's time and attention are focused on the most critical matters relating to the business of the Company. His combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's stockholders, employees and customers.

The Board has not designated a lead director. Given the limited number of directors comprising the Board, the independent directors call and plan their executive sessions collaboratively and, between meetings of the Board, communicate with management and one another directly. Under these circumstances, the directors believe designating a lead director to take on responsibility for functions in which they all currently participate might detract from rather than enhance performance of their responsibilities as directors.

Director Qualifications

The Company seeks directors with established strong professional reputations and experience in areas relevant to the strategy and operations of our businesses. The Company also seeks directors who possess the qualities of integrity and candor, who have strong analytical skills and who are willing to engage management and each other in a constructive and collaborative fashion, in addition to the ability and commitment to devote time and energy to service on the Board and its committees. We believe that all of our directors meet the foregoing qualifications.

The Nominating and Corporate Governance Committee and the Board believe that the leadership skills and other experience of the Board members, as described below, provide the Company with a range of perspectives and judgment necessary to guide our strategies and monitor their execution.

Handong Cheng. Mr. Cheng is the founder of the Company and has been serving the franchise and advertising media industries for more than ten years. In 2003, he participated in the establishment of Beijing ChinaNet Online Advertising limited and Business Opportunity Online (Beijing) Networking Technology Ltd. (www.28.com), an entity engaged in operational, administration and management activities. Mr. Cheng has contributed to the Board's strong leadership and vision for the development of the Company.

Zhige Zhang. Mr. Zhang has years of experience in capital markets, financial and software development management. Prior joining the Company, he was responsible for marketing and investment operations at Konka Group. In 2001, Mr. Zhang started working in the software and network technology industry integrating with new advertising technology from PRECOM, who has wealth of experience in software development management and the network technology advertising industry.

Douglas MacLellan. Mr. MacLellan has been working in China since 1983 and has experience with joint venture and wholly-foreign owned enterprise structuring. In addition, Mr. MacLellan has over fifteen years of active audit committee chair experience.

Zhiqing Chen. Mr. Chen contributes to the Board extensive legal knowledge with respect to foreign investments and mergers and acquisitions. Mr. Chen also has experience working with PRC enterprises and international corporations.

Mototake Watanabe. Mr. Watanabe has over fifteen years of experience in management, finance, business strategy and audit.

Meetings of the Board of Directors

The Board held four meetings during 2013. During 2013, no director attended fewer than 75% of the meetings of the Board and Board committees of which the director was a member.

The Company's directors are expected to attend board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. The Company's directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so. All of our directors attended the 2013 annual meeting of stockholders.

Corporation Governance

The Board has a standing audit, compensation, and nominating and corporate governance committee, comprised solely of independent directors. Each committee has a charter, which is available at the Company's website, www.chinanet-online.com.

Audit Committee

The Audit Committee, which is established in accordance with Section 3(a)(58)(A) of the Exchange Act, engages Company's independent accountants, reviewing their independence and performance; reviews the Company's accounting and financial reporting processes and the integrity of its financial statements; the audits of the Company's financial statements and the appointment, compensation, qualifications, independence and performance of the Company's independent auditors; the Company's compliance with legal and regulatory requirements; and the performance of the Company's internal audit function and internal control over financial reporting. The Audit Committee held four meetings during 2013.

The members of the Audit Committee are Douglas MacLellan, Chair, Zhiqing Cheng, and Mototake Watanabe. The Board has determined that Douglas MacLellan is an audit committee financial expert, as defined in the Exchange Act.

Audit Committee Report

With respect to the audit of the Company's financial statements for the year ended December 31, 2013, the Audit Committee:

- Ÿ reviewed and discussed the audited financial statements with management;
- Ÿ discussed with the Company's independent accountants the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
- Ÿ received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with the independent accountant the independent accountant's independence.

Based upon the foregoing review and discussion, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed on June 16, 2014.

Douglas MacLellan, Chair

Zhiqing Chen

Mototake Watanabe

Compensation Committee

The Compensation Committee reviews annually the Company's corporate goals and objectives relevant to the officers' compensation, evaluates the officers' performance in light of such goals and objectives, determines and approves the officers' compensation level based on this evaluation; makes recommendations to the Board regarding approval, disapproval, modification, or termination of existing or proposed employee benefit plans, makes recommendations to the Board with respect to non-CEO and non-CFO compensation and administers the Company's incentive-compensation plans and equity-based plans. The Compensation Committee has the authority to delegate any of its responsibilities to subcommittees as it may deem appropriate in its sole discretion. The chief executive officer of the Company may not be present during voting or deliberations of the Compensation Committee with respect to his compensation. The Company's executive officers do not play a role in suggesting their own salaries. Neither the Company nor the Compensation Committee has engaged any compensation consultant who has a role

in determining or recommending the amount or form of executive or director compensation. The Compensation Committee did not hold any meetings during 2013.

The members of the Compensation Committee are Douglas MacLellan, Chair, Zhiqing Chen, and Mototake Watanabe.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board in identifying qualified individuals to the Board as its nominees for election as directors, in determining the composition of the Board, and in assessing the Board's effectiveness. The Nominating and Corporate Governance Committee did not hold any meetings during 2013.

The members of the Nominating and Corporate Governance Committee are Zhiqing Chen, Chair, Douglas MacLellan, and Mototake Watanabe.

The Nominating and Corporate Governance Committee will consider director candidates recommended by security holders. Potential nominees to the Board are required to have such experience in business or financial matters as would make such nominee an asset to the Board and may, under certain circumstances, be required to be "independent", as such term is defined under Rule 5605 of the listing standards of NASDAQ and applicable SEC regulations. Security holders wishing to submit the name of a person as a potential nominee to the Board must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the Nominating and Corporate Governance Committee at the following address: Nominating and Corporate Governance Committee of the Board of Directors, c/o ChinaNet Online Holdings, Inc., No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the Nominating and Corporate Governance Committee, and/or any other method the Nominating and Corporate Governance Committee deems appropriate, which may, but need not, include a questionnaire. The Nominating and Corporate Governance Committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The Nominating and Corporate Governance Committee need not engage in an evaluation process unless (i) there is a vacancy on the Board, (ii) a director is not standing for re-election, or (iii) the Nominating and Corporate Governance Committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated differently from any other potential nominee. Although it has not done so in the past, the Nominating and Corporate Governance Committee may retain search firms to assist in identifying suitable director candidates.

The Board does not have a formal policy on Board candidate qualifications. The Board may consider those factors it deems appropriate in evaluating director nominees made either by the Board or stockholders, including judgment, skill, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other Board members, and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more or less heavily. In considering candidates for the Board, the directors evaluate the entirety of each candidate's credentials and do not have any specific minimum qualifications that must be met. "Diversity," as such, is not a criterion that the Committee considers. The directors will consider candidates from any reasonable source, including current Board members, stockholders, professional search firms or other persons. The directors will not evaluate candidates differently based on who has made the recommendation.

Code of Ethics

The Company adopted a Code of Ethics applicable to its directors, officers and employees on December 21, 2009. The Code of Ethics is designed to deter wrongdoing and to promote ethical conduct and full, fair, accurate, timely and understandable reports that the Company files or submits to the Securities and Exchange Commission and others. A printed copy of the Code of Ethics may be obtained free of charge by writing to us at our headquarters located at No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195 or on our website, www.chinanet-online.com.

Stockholder Communications

Stockholders can mail communications to the Board, c/o Secretary, ChinaNet Online Holdings, Inc., No.3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, who will forward the correspondence to each addressee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Company's directors and executive officers and any beneficial owner of more than 10% of any class of Company equity security to file reports of ownership and changes in ownership with the Securities and Exchange Commission and furnish copies of the reports to Company. Based solely on the Company's review of copies of such forms and written representations by Company's executive officers and directors received by it, Company believes that during 2013, all such reports were filed timely.

ITEM 11EXECUTIVE COMPENSATION

Compensation of Executive Officers

Our Board of Directors has not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. No pre-established, objective performance goals or metrics have been used by the Board of Directors in determining the compensation of our executive officers.

Elements of Compensation

Our executive officers receive a base salary to compensate them for services rendered during the year. In additional to their base salary, we also provide equity incentives to attract and retain executive talent for the Company's continued success.

Base Salary and Bonus. The value of base salary and bonus for each our executive reflects his skill set and the market value of that skill set in the sole discretion of the Board of Director.

Equity Incentives. The ChinaNet Online Holdings, Inc. 2011 Omnibus Securities and Incentive Plan (the "2011 Plan") provides for the granting of distribution equivalent rights, incentive stock options, non-qualified stock options, performance share awards, performance unit awards, restricted stock awards, restricted stock unit awards, stock appreciation rights, tandem stock appreciation rights, unrestricted stock awards or any combination of the foregoing, as may be best suited to the circumstances of the particular employee, director or consultant as provided therein (the "Awards"). Certain Awards are intended to qualify as "incentive stock options" within the meaning of the Internal Revenue Code (the "Code"). The 2011 Plan was approved by our stockholders on June 15, 2011.

Retirement Benefits. Our executive officers are not presently entitled to company-sponsored retirement benefits.

Perquisites. We have not provided our executive officers with any material perquisites and other personal benefits and, therefore, we do not view perquisites as a significant or necessary element of our executive's compensation.

Deferred Compensation. We do not provide our executives the opportunity to defer receipt of annual compensation.

Summary Compensation Table

The following table sets forth information regarding compensation of the named executive officers for each of the two fiscal years in the period ended December 31, 2013.

SUMMARY COMPENSATION OF NAMED EXECUTIVE OFFICERS

Name and Principal Position	Year	Salary ($)	Stock Awards ($)	Option Awards ($)	Total
Handong Cheng (Principal Executive Officer)	2013	37,382	-	-	37,382
	2012	36,473	-	-	36,473
Zhige Zhang (Principal Financial Officer)	2013	32,283	-	-	32,283
	2012	31,473	-	-	31,473
George Kai Chu (Chief Operating Officer and Secretary)	2013	31,921	-	-	31,921
	2012	31,124	-	-	31,124

Our executive officers are reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our Board, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

Employment Agreements

We, through Rise King Century Technology Development (Beijing) Co., Ltd., our indirect wholly owned subsidiary ("Rise King WFOE"), or Business Opportunity Online (Beijing) Network Technology Co., Ltd. (Business Opportunity Online") or Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online"), our indirect wholly owned Variable Interest Entities, entered into a standard employment contract with our executive officers from April 1, 2009 or the actual employment start date, if later, for a set period of years. According to these contracts, these executive officers will devote substantially all of his/her time to the service of the Company and may not compete directly or indirectly with us. These executive officers also agreed that in the event that his/her employment with us is terminated, for a period of two year following the date of his/her termination of employment, he/she will not contact, for any commercial purpose, or provide to a third party, information about clients or entities with which we were acquainted during the term of his employment with us. Subject to certain exceptions, either party may terminate the employment agreement upon 30 days prior written notice. Before April 1, 2009, we did not have any employment agreements with any of our executive officers.

The Company does not have change-in-control agreements with any of its directors or executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

OUTSTANDING EQUITY AWARDS AT FISCAL 2013 YEAR END

	OPTION AWARDS					STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Handong Cheng (Principal Executive Officer)	59,840	-	-	1.20	November 29, 2021	-	-	-	-
Zhige Zhang (Principal Financial Officer)	16,500	-	-	1.20	November 29, 2021	-	-	-	-

George Kai Chu (Chief Operating Officer and Secretary)	7,740	-	-	1.20	November 29, 2021	-	-	-	-

Compensation of Directors

The following table sets forth information regarding compensation of each director, other than named executive officers, for fiscal 2013.

FISCAL 2013 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Douglas MacLellan	60,000	-	-	-	-	-	60,000
Zhiqing Chen	6,000	-	-	-	-	-	6,000
Mototaka Watanabe	6,000	-	-	-	-	-	6,000

ITEMSECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND 12RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding beneficial ownership of Common Stock, as of June 16, 2014, by each of the Company's directors and executive officers; all executive officers and directors as a group, and each person known to the Company to own beneficially more than 5% of Company's Common Stock. Except as otherwise noted, the persons identified have sole voting and investment powers with respect to their shares.

	Common Stock		
Name of Beneficial Owner (1)	Number of Shares	Percent of Class (2)	
Handong Cheng (3)(5)	7,659,672	34.14	%
Zhige Zhang (3)(6)	7,594,662	33.92	%
George Kai Chu (7)	81,610	*	
Wen Hu (8)	142,840	*	
Zhenghong Yang	-	-	
Man Huang	-	-	
Zhiqing Chen (9)	55,000	*	
Watanabe Mototake (10)	55,000	*	
Douglas MacLellan (11)	94,000	*	
All Directors and Executive Officers as a Group (9 persons)	8,162,872	36.21	%
Rise King Investments Limited (3)(4)	7,519,912	33.61	%
Clear Jolly Holdings Limited (12)	1,279,080	5.72	%
Xuanfu Liu (3)	7,519,912	33.61	%
Sansar Capital Management, L.L.C. (13)	2,222,473	9.72	%

* Less than one percent.

(1) The address of each director and executive officer is c/o ChinaNet Online Holdings, Inc., No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing PRC 100195.

(2) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities anticipated to be exercisable or convertible at or within 60 days of June 16, 2014, are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. The indication herein that shares are anticipated to be beneficially owned is not an admission on the part of the listed stockholder that he, she or it is or will be a direct or indirect beneficial owner of those shares.

(3) Rise King Investments Limited ("Rise King") is collectively owned by Handong Cheng, Xuanfu Liu and Zhige Zhang. As a result, Mr. Cheng, Mr. Liu and Mr. Zhang may be deemed to be beneficial owners of the shares of our common stock held by Rise King. Each of Mr. Cheng, Mr. Liu and Mr. Zhang disclaim such beneficial ownership, and nothing herein shall be deemed to be an admission that Mr. Cheng, Mr. Liu or Mr. Zhang is the beneficial owner of any such shares for any purpose. Information regarding this beneficial owner is furnished in reliance upon the Form 4, dated December 7, 2012.

(4) The business address of Rise King Investments Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands. Information regarding this beneficial owner is furnished in reliance upon the Schedule 13D, dated July 6, 2009.

(5) Consists of (i) 7,519,912 shares of common stock owned by Rise King and which are deemed to be beneficially owned by Mr. Cheng; (ii) 79,920 shares of common stock owned directly by Mr. Cheng; and (iii) options to purchase up to 59,840 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(6) Consists of (i) 7,519,912 shares of common stock of which are owned by Rise King and which are deemed to be beneficially owned by Mr. Zhang; (ii) 58,250 shares of common stock held directly by Mr. Zhang; and (iii) options to purchase up to 16,500 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(7) Consists of (i) 73,870 shares of common stock and (ii) options to purchase up to 7,740 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(8) Consists of (i) 114,280 shares of common stock and (ii) options to purchase up to 28,560 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(9) Consists of (i) 50,000 shares of common stock and (ii) options to purchase up to 5,000 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(10) Consists of (i) 50,000 shares of common stock and (ii) options to purchase up to 5,000 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(11) Consists of (i) 50,000 shares of common stock and (ii) options to purchase up to 44,000 shares of the Company's common stock that are exercisable within 60 days from the date hereof.

(12) The business address of Clear Jolly Holdings Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13D, dated July 6, 2009.

(13) Consists of (i) 1,722,473 shares of Common Stock and (ii) Series A-2 Warrants to purchase up to 500,000 shares, in the aggregate, of our Common Stock, subject to a 9.99% limitation on beneficial ownership of our Common Stock. Percentage is computed assuming exercise of warrants held by the identified group, only. Mr. Sanjay Motwani, portfolio manager has voting and dispositive power over the shares held by Sansar Capital Management. Mr. Motwani may be deemed to beneficially own the shares of Common Stock held by Sansar Capital Management. Mr. Motwani disclaims beneficial ownership of such shares. The business address of Sansar Capital Management is 16 Raffles Quay #40-02, Hong Leong Building, Singapore 048581. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13G, dated February 14, 2012.

ITEM 13CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

It is Company's policy to not enter any transaction (other than compensation arrangements in the ordinary course) with any director, executive officer, employee, or principal stockholder or party related to them, unless authorized by a majority of the directors having no interest in the transaction, upon a favorable recommendation by the Audit Committee (or a majority of its disinterested members).

The following related party transactions were incurred in the fiscal year ended December 31, 2013:

During the year ended December 31, 2013, we earned in the aggregate of approximately $361,000 advertising revenue from certain related parties, which were directly or indirectly owned by the Mr. Handong Cheng or Mr. Xuanfu Liu. We provide advertising services to these related parties in its normal course of business on the same terms as those provided to its unrelated advertising clients.

Director Independence

The Board has determined that Watanabe Mototake, Zhiqing Chen and Douglas MacLellan are "independent" under the current independence standards of Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and meet the criteria set forth in Rule 10A(m)(3) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

ITEM 14PRINCIPAL ACCOUNTANT FEE AND SERVICES

Marcum Bernstein & Pinchuk LLP served as the Company's independent accountants for fiscal 2013 and 2012.

Aggregate fees billed to the Company by Marcum Bernstein & Pinchuk LLP during the fiscal years ended December 31, 2013 and 2012 were as follows:

	2013	2012

Fees		
Audit Fees	$184,000	$175,000
Audit Related Fees	$-	$50,000
Tax Fees	$-	$-
All Other Fees	$23,124	$8,500
Total	$207,124	$233,500

Audit Fees

This category includes aggregate fees billed by our independent auditors for the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the auditor in connection with statutory and regulatory filings for those fiscal years.

Audit-Related Fees

This category consists of services by our independent auditors that, including accounting consultations on transaction related matters, are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Tax Fees

This category consists of professional services rendered for tax compliance and preparation of our corporate tax returns and other tax advice.

All Other Fees

This category consists of professional services rendered for products and services provided, other than the services reported above under Audit Fees, Audit-Related Fees and Tax Fees.

Pre-Approval of Services

The Audit Committee must pre-approve all audit, review, attest and permissible non-audit services (including any permissible internal control-related services) to be provided to the company or its subsidiaries by the independent auditors. The Audit Committee may establish pre-approval policies and procedures in compliance with applicable SEC rules. All services described under the caption Services and Fees of Independent Accountants were pre-approved.

PART IV.

ITEM 15EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a)The following are filed with this report:

(1) The financial statements listed on the Financial Statement's Table of Contents

(2) Not applicable

(3) The exhibits referred to below, which include the following managerial contracts or compensatory plans or arrangements:

2.1 Share Exchange Agreement, dated as of June 26, 2009, by and among Emazing Interactive, Inc., G. Edward Hancock, China Net Online Media Group Limited, and the shareholders of China Net Online Media Group Limited.(1)

2.2 Escrow Agreement, dated as of June 8, 2009, by and between Emazing Interactive, Inc., China Net Online Media Group Limited, Edward Hancock and Leser, Hunter, Taubman & Taubman. (1)

2.3 Agreement and Plan of Merger (2)

3.1 Articles of Incorporation of Emazing Interactive, Inc., as amended (1)

3.2 Articles of Merger. (2)

3.3 By-laws. (4)

4.1	Registration Rights Agreement, dated as of June 26, 2009, by and among Emazing Interactive, Inc. and certain stockholders listed therein. (1)
4.2	Form of Series A-1 Warrant. (3)

4.3	Form of Series A-2 Warrant. (3)
4.4	Registration Rights Agreement, dated as of August 21, 2009. (3)
4.5*	2011 Omnibus Securities and Incentive Plan (9)
10.1	Exclusive Business Cooperation Agreement, dated October 8, 2008, by and between Rise King Century Technology Development (Beijing) Co., Ltd. and Beijing CNET Online Advertising Co., Ltd. (1)
10.2	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Handong Cheng with respect to Mr. Cheng's equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.3	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Xuanfu Liu with respect to Mr. Liu's equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.4	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Li Sun with respect to Ms. Sun's equity interest in Beijing CNET Online Advertising Co., Ltd.(1)
10.5	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Handong Cheng with respect to Mr. Cheng's equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.6	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Xuanfu Liu with respect to Mr. Liu's equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.7	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Beijing CNET Online Advertising Co., Ltd. and Li Sun with respect to Ms. Sun's equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.8	Power of Attorney of Handong Cheng, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his agent and attorney in connection with his equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.9	Power of Attorney of Xuanfu Liu, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his agent and attorney in connection with his equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.10	Power of Attorney of Li Sun, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as her agent and attorney in connection with her equity interest in Beijing CNET Online Advertising Co., Ltd. (1)
10.11	Exclusive Business Cooperation Agreement, dated October 8, 2008, by and between Rise King Century Technology Development (Beijing) Co., Ltd. and Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)

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10.12	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Handong Cheng with respect to Mr. Cheng's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.13	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Xuanfu Liu with respect to Mr. Liu's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.14	Exclusive Option Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Li Sun with respect to Ms. Sun's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.15	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Handong Cheng with respect to Mr. Cheng's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.16	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Xuanfu Liu with respect to Mr. Liu's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.17	Equity Interest Pledge Agreement, dated as of October 8, 2008, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Business Opportunity Online (Beijing) Network Technology Co., Ltd. and Li Sun with respect to Ms. Sun's equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.18	Power of Attorney of Handong Cheng, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his agent and attorney in connection with his equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.19	Power of Attorney of Xuanfu Liu, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his agent and attorney in connection with his equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.20	Power of Attorney of Li Sun, dated as of October 8, 2008, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as her agent and attorney in connection with her equity interest in Business Opportunity Online (Beijing) Network Technology Co., Ltd. (1)
10.21	Entrustment Agreement, dated June 5, 2009, by and between Rise King Investments Limited and Handong Cheng, Xuanfu Liu and Li Sun. (1)
10.22	Share Transfer Agreement, dated April 28, 2009, by and between Yang Li and Handong Cheng (1)
10.23	Share Transfer Agreement, dated April 28, 2009, by and between Yang Li and Xuanfu Liu (1)
10.24	Share Transfer Agreement, dated April 28, 2009, by and between Yang Li and Li Sun (1)

10.25	Internet Banking Experiencing All-in-One Engine Strategic Cooperation Agreement, dated August 7, 2008, by and between Henan Branch of China Construction Bank and Shanghai Borongdingsi Computer Technology Co., Ltd. (1)

10.26	Cooperation Agreement, dated July 8, 2008, by and between Beijing CNET Online Advertising Co., Ltd. and Shanghai Borongdingsi Computer Technology Co., Ltd. (1)
10.27	Supplemental Agreement to the Cooperation Agreement, dated December 10, 2008, by and between Beijing CNET Online Advertising Co., Ltd. and Shanghai Borongdingsi Computer Technology Co., Ltd. (1)
10.28	Office Lease Agreement, dated January 1, 2009, by and between Beijing YuQuanHuiGu Realty Management Ltd. Co. and Business Opportunity Online (Beijing) Network Technology Ltd. Co. (1)
10.29	Office Lease Agreement, dated January 1, 2009, by and between Beijing YuQuanHuiGu Realty Management Ltd. Co. and Beijing CNET Online Advertising Co., Ltd. (1)
10.30	Office Lease Agreement, dated January 1, 2009, by and between Beijing YuQuanHuiGu Realty Management Ltd. Co. and Rise King Century Technology Development (Beijing) Co., Ltd. (1)
10.31	Securities Purchase Agreement, dated as of August 21, 2009. (3)
10.32	Securities Escrow Agreement, dated as of August 21, 2009. (3)
10.33*	Independent Director Agreement effective as of November 30, 2009 by and between the Company and Douglas MacLellan. (5)
10.34*	Independent Director Agreement effective as of November 30, 2009 by and between the Company and Mototaka Watanabe. (5)
10.35*	Independent Director Agreement effective as of November 30, 2009 by and between the Company and Zhiqing Chen. (5)
10.36	Warrant Amendment Agreement (7)
10.37	Exclusive Business Cooperation Agreement, dated as of December 6, 2010, by and between Rise King Century Technology Development (Beijing) Co., Ltd. and Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)
10.38	Exclusive Option Agreement, dated as of December 6, 2010, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Wei Yanmin and Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)
10.39	Exclusive Option Agreement, dated as of December 6, 2010, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Wu Huamin and Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)
10.40	Equity Interest Pledge Agreement dated as of December 6, 2010, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Wei Yanmin and Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)
10.41	Equity Interest Pledge Agreement dated as of December 6, 2010, by and among Rise King Century Technology Development (Beijing) Co., Ltd., Wu Huamin and Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)

10.42	Power of Attorney of Wei Yanmin, dated as of December 6, 2010, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his exclusive agent and attorney in connection with his equity interest in Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)

10.43	Power of Attorney of Wu Huamin, dated as of December 6, 2010, appointing Rise King Century Technology Development (Beijing) Co., Ltd. as his exclusive agent and attorney in connection with his equity interest in Rise King (Shanghai) Advertisement & Media Co., Ltd. (8)
10.44	Equity Transfer Agreement, dated as of December 15, 2011, Among Business Opportunity Online (Hubei) Network Technology Co., Ltd., Liu Yihang, Wei Yanmin and Soo Yi Lian Mei Network Technology (Beijing) Co. Ltd. (10)
10.45	English Translation of the Equity Transfer Agreement by and among Business Opportunity Online (Hubei) Network Technology Co., Ltd., Liu Yihong and Sou Yi Lian Mei Network Technology (Beijing) Co., Ltd., dated September 10, 2012. (11)
14	Code of Ethics (6)
21.1	Subsidiaries of the Registrant +
23.1	Consent of Marcum Bernstein & Pinchuk LLP +
31.1	Certification pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
31.2	Certification pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

+Filed herewith

*Denotes managerial contracts or compensatory plans or arrangements:

(1)Incorporated by reference herein to the Report on Form 8-K filed on July 2, 2009.

(2)Incorporated by reference herein to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009.

(3)Incorporated by reference herein to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2009.

(4)Incorporated by reference herein to the Company’s Registration Statement on Form SB-1 filed with the Securities and Exchange Commission on October 20, 2006.

(5)Incorporated by reference herein to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2009.

(6)Incorporated by reference herein to the Company’s Current Report on Form 8-K filed on December 21, 2009

(7)Incorporated by reference herein to the Company’s Annual Report on Form 10-K filed on March 31, 2010.

(8)Incorporated by reference herein to the Company’s Annual Report on Form 10-K filed on March 31, 2011.

(9)Incorporated by reference herein to the Company's Registration Statement on Form S-1 filed on May 11, 2011.

(10)Incorporated by reference herein to the Company's Current Report on Form 8-K filed on December 16, 2011.

(11)Incorporated by reference herein to the Company's Current Report on Form 8-K filed on September 11, 2012.

(b)The exhibits listed on the Exhibit Index are filed as part of this report.

(c)Not applicable.

SIGNATURES

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

ChinaNet Online Holdings, Inc.

Dated: June 16, 2014

By: /s/ Handong Cheng
Name: Handong Cheng
Title: Chairman and Chief Executive Officer

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.

Dated: June 16, 2014

By: /s/ Handong Cheng
Name: Handong Cheng
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

Dated: June 16, 2014

By: /s/ Zhige Zhang
Name: Zhige Zhang
Title: Chief Financial Officer
(Principal Financial Officer) and Director

Dated: June 16, 2014

By: /s/ Zhiqing Chen
Name: Zhiqing Chen
Title: Director

Dated: June 16, 2014

By: /s/ Mototaka Watanabe
Name: Mototaka Watanabe
Title: Director

Dated: June 16, 2014

By: /s/ Douglas MacLellan
Name: Douglas MacLellan
Title: Director

CHINANET ONLINE HOLDINGS, INC.
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FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors and Stockholders of
ChinaNet Online Holdings, Inc.

We have audited the accompanying consolidated balance sheets of ChinaNet Online Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, changes in equity and cash flows for each of the years in the two-year period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/Marcum Bernstein & Pinchuk llp

Marcum Bernstein & Pinchuk llp
New York, New York
June 16, 2014

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of December 31, 2013 (US $)	2012 (US $)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,442	$ 5,483
Term deposit	3,467	3,357
Accounts receivable, net	7,673	8,486
Other receivables, net	4,299	3,103
Prepayment and deposit to suppliers	14,692	14,596
Due from related parties	502	210
Other current assets	27	136
Deferred tax assets-current	153	50
Total current assets	34,255	35,421
Investment in and advance to equity investment affiliates	845	959
Property and equipment, net	1,057	1,636
Intangible assets, net	6,015	7,167
Deposit for purchasing of software technology	2,453	-
Goodwill	11,450	11,083
Deferred tax assets-non current	759	652
Total Assets	$ 56,834	$ 56,918
Liabilities and Equity		
Current liabilities:		
Short-term bank loan *	$ 818	$ -
Accounts payable *	421	110
Advances from customers *	995	1,065
Accrued payroll and other accruals *	676	904
Payable for acquisition *	-	1,266
Taxes payable *	7,029	6,683
Other payables *	288	217
Total current liabilities	10,227	10,245

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands, except for number of shares and per share data)

	As of December 31, 2013 (US $)	2012 (US $)
Long-term liabilities:		
Deferred tax liability-non current *	1,439	1,689
Long-term borrowing from director	143	139
Total Liabilities	11,809	12,073
Commitments and contingencies		
Equity:		
ChinaNet Online Holdings, Inc.’s stockholders’ equity		
Common stock (US$0.001 par value; authorized 50,000,000 shares; issued and outstanding 22,376,540 shares and 22,186,540 shares at December 31, 2013 and 2012, respectively)	22	22
Additional paid-in capital	19,870	20,008
Statutory reserves	2,602	2,296
Retained earnings	18,965	19,505
Accumulated other comprehensive income	3,689	2,393
Total ChinaNet Online Holdings, Inc.’s stockholders’ equity	45,148	44,224
Noncontrolling interests	(123)	621
Total equity	45,025	44,845
Total Liabilities and Equity	$ 56,834	$ 56,918

*All of the VIEs' assets can be used to settle obligations of their primary beneficiary. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company’s general assets (Note 2).

See notes to consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,	
	2013 (US $)	2012 (US $)
Sales		
From unrelated parties	$ 29,932	$ 46,403
From related parties	361	197
	30,293	46,600
Cost of sales	16,563	31,558
Gross margin	13,730	15,042
Operating expenses		
Selling expenses	2,574	2,683
General and administrative expenses	7,691	6,030
Research and development expenses	1,995	1,819
	12,260	10,532
Income from operations	1,470	4,510
Other income (expenses)		
Interest income	125	186
Interest expense	(26)	-
Change in fair value of contingent consideration receivables	-	(160)
Loss on disposal of intangible asset	(315)	-
Loss on disposal of subsidiaries	(543)	-
Other income (expenses)	5	(150)
	(754)	(124)
Income before income tax expense, equity method investments and noncontrolling interests	716	4,386
Income tax expense	(816)	(529)
Loss/income before equity method investments and noncontrolling interests	(100)	3,857
Share of losses in equity investment affiliates	(183)	(449)
Net loss/income	(283)	3,408
Net loss/(income) attributable to noncontrolling interests	49	(412)
Net loss/income attributable to ChinaNet Online Holdings, Inc.	$ (234)	$ 2,996

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)
(In thousands, except for number of shares and per share data)

	Year Ended December 31,	
	2013 (US $)	2012 (US $)
Net loss/income	$ (283)	$ 3,408
Foreign currency translation gain	1,306	267
Comprehensive Income	$ 1,023	$ 3,675
Comprehensive loss/(income) attributable to noncontrolling interests	39	(418)
Comprehensive income attributable to ChinaNet Online Holdings, Inc.	$ 1,062	$ 3,257
Loss/earnings per share		
Loss/earnings per common share		
Basic	$ (0.01)	$ 0.14
Diluted	$ (0.01)	$ 0.14
Weighted average number of common shares outstanding:		
Basic	22,284,485	22,185,556
Diluted	22,284,485	22,185,556

See notes to consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2013 (US $)	2012 (US $)
Cash flows from operating activities		
Net loss/income	$ (283)	$ 3,408
Adjustments to reconcile net loss/income to net cash provided by operating activities		
Depreciation and amortization	1,617	1,637
Share-based compensation expenses	125	48
Change in fair value of contingent consideration receivable	-	160
Allowances for doubtful debts	2,702	1,141
Share of losses in equity investment affiliates	183	449
Loss on disposal of property and equipment	3	2
Loss on disposal of subsidiaries	543	-
Loss on disposal of intangible assets	315	-
Deferred taxes	(486)	(828)
Changes in operating assets and liabilities		
Accounts receivable	(3,676)	(5,516)
Other receivables	98	1,400
Prepayment and deposit to suppliers	380	882
Due from related parties	(282)	117
Other current assets	106	(5)
Accounts payable	301	(158)
Advances from customers	(104)	335
Accrued payroll and other accruals	(242)	285
Due to related parties	-	(4)
Other payables	(69)	72
Taxes payable	1,525	1,603
Net cash provided by operating activities	2,756	5,028
Cash flows from investing activities		
Purchases of vehicles and office equipment	(79)	(314)
Deposit for purchasing of software technology	(2,420)	-
Short-term loan to unrelated entities	(790)	(475)
Long-term investment in and advance to equity investment affiliates	(40)	-
Payment for acquisition of VIEs	(2,258)	(5,775)
Cash effect on disposal of VIEs	(146)	-
Project development deposit to a third party	-	(2,453)
Refund of project development deposit from a third party	-	2,453
Placement of term deposit	-	(3,355)
Net cash used in investing activities	(5,733)	(9,919)

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In thousands)

	Year Ended December 31,	
	2013 (US $)	2012 (US $)
Cash flows from financing activities		
Proceeds from short-term bank loan	807	-
Dividend paid to convertible preferred stockholders	-	(5)
Short-term loan borrowed from an equity investment affiliate	-	316
Short-term loan repaid to an equity investment affiliate	-	(538)
Repayment to legal (nominal) shareholders of Shanghai Jing Yang	-	(158)
Net cash provided by (used in) financing activities	807	(385)
Effect of exchange rate fluctuation on cash and cash equivalents	129	64
Net decrease in cash and cash equivalents	(2,041)	(5,212)
Cash and cash equivalents at beginning of the year	5,483	10,695
Cash and cash equivalents at end of the year	$ 3,442	$ 5,483
Supplemental disclosure of cash flow information		
Income taxes paid	$ 39	$ 75
Interest expense paid	$ 25	$ -
Non-cash transactions:		
Restricted stock and options granted for future service	$ -	$ 42
Payable for acquisition of Sou Yi Lian Mei	$ -	$ 1,266
Receivable on disposal of subsidiaries	$ 1,611	$ -

See notes to consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except for number of shares)

Total equity

	Common Stock		Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income	Noncontrolling Interests	Total Equity
	Number of shares	Amount (US $)	(US $)	(US $)	(US $)	(US $)	(US $)	(US $)
Balance, January 1, 2012	22,146,540	22	20,747	2,117	16,688	2,132	5,848	47,554
Restricted shares issued for services	40,000	-	42	-	-	-	-	42
Share based compensation related to services	-	-	6	-	-	-	-	6
Purchase of noncontrolling interests in a VIE	-	-	(787)	-	-	-	(5,645)	(6,432)
Appropriation of statutory reserves	-	-	-	179	(179)	-	-	-
Net income for the year	-	-	-	-	2,996	-	412	3,408
Foreign currency translation adjustment	-	-	-	-	-	261	6	267
Balance, December 31, 2012	22,186,540	22	20,008	2,296	19,505	2,393	621	44,845

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
(In thousands, except for number of shares)

Total equity (Continued)

	Common Stock		Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income	Noncontrolling Interests	Total Equity
	Number of shares	Amount (US $)	(US $)	(US $)	(US $)	(US $)	(US $)	(US $)
Restricted shares issued for services	190,000	-	125	-	-	-	-	125
Purchase of noncontrolling interests in a VIE	-	-	(263)	-	-	-	(705)	(968)
Appropriation of statutory reserves	-	-	-	306	(306)	-	-	-
Net loss for the year	-	-	-	-	(234)	-	(49)	(283)
Foreign currency translation adjustment	-	-	-	-	-	1,296	10	1,306
Balance, December 31, 2013	22,376,540	22	19,870	2,602	18,965	3,689	(123)	45,025

See notes to consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATMENTS

1. Organization and nature of operations

ChinaNet Online Holdings, Inc. (formerly known as Emazing Interactive, Inc.) (the "Company") was incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. From the date of the Company's incorporation until June 26, 2009, when the Company consummated the Share Exchange (discussed below), the Company's activities were primarily concentrated in web server access and company branding in hosting web based e-games.

On June 26, 2009, the Company entered into a Share Exchange Agreement (the "Exchange Agreement"), with (i) China Net Online Media Group Limited, a company organized under the laws of British Virgin Islands ("China Net BVI"), (ii) China Net BVI's shareholders, Allglad Limited, a British Virgin Islands company ("Allglad"), Growgain Limited, a British Virgin Islands company ("Growgain"), Rise King Investments Limited, a British Virgin Islands company ("Rise King BVI"), Star (China) Holdings Limited, a British Virgin Islands company ("Star"), Surplus Elegant Investment Limited, a British Virgin Islands company ("Surplus"), Clear Jolly Holdings Limited, a British Virgin Islands company ("Clear" and together with Allglad, Growgain, Rise King BVI, Star and Surplus, the "China Net BVI Shareholders"), who together owned shares constituting 100% of the issued and outstanding ordinary shares of China Net BVI (the "China Net BVI Shares") and (iii) G. Edward Hancock, the principal stockholder of the Company at that time. Pursuant to the terms of the Exchange Agreement, the China Net BVI Shareholders transferred to the Company all of the China Net BVI Shares in exchange for the issuance of 13,790,800 shares (the "Exchange Shares") in the aggregate of the Company's common stock (the "Share Exchange"). As a result of the Share Exchange, China Net BVI became a wholly owned subsidiary of the Company and the Company is now a holding company, which, through certain contractual arrangements with operating companies in the People's Republic of China (the "PRC"), is engaged in providing advertising, marketing, communication and brand management and sales channel building services to small and medium companies in China.

The Company's wholly owned subsidiary, China Net BVI was incorporated in the British Virgin Islands on August 13, 2007. On April 11, 2008, China Net BVI became the parent holding company of a group of companies comprised of CNET Online Technology Limited, a Hong Kong company ("China Net HK"), which established and is the parent company of Rise King Century Technology Development (Beijing) Co., Ltd., a wholly foreign-owned enterprise ("WFOE") established in the PRC ("Rise King WFOE"). The Company refers to the transactions that resulted in China Net BVI becoming an indirect parent company of Rise King WFOE as the "Offshore Restructuring."

PRC regulations prohibit direct foreign ownership of business entities providing internet content, or ICP services in the PRC, and restrict foreign ownership of business entities engaging in the advertising business. In October 2008, a series of contractual arrangements (the "Contractual Agreements" or "VIE Agreements") were entered into among Rise King WFOE and Business Opportunity Online (Beijing) Network Technology Co., Ltd. ("Business Opportunity Online"), Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online") (collectively the "PRC Operating Entities") and its common individual owners (the "PRC Shareholders" or the "Control Group"). The Contractual Agreements allowed China Net BVI, through Rise King WFOE, to, among other things, secure significant rights to influence the PRC Operating Entities' business operations, policies and management, approve all matters requiring shareholder approval, and receive 100% of the income earned by the PRC Operating Entities. In return, Rise King WFOE provides consulting services to the PRC Operating Entities. In addition, to ensure that the PRC Operating Entities and the PRC Shareholders perform their obligations under the Contractual Arrangements, the PRC Shareholders have pledged all of their equity interests in the PRC Operating Entities to Rise King WFOE. They also entered into an option agreement with Rise King WFOE which provides that at such time as when the current restrictions under PRC law on foreign ownership of Chinese companies engaging in the Internet content, information services or advertising business in China are lifted, Rise King WFOE may exercise its option to purchase the equity

interests in the PRC Operating Entities, directly.

Pursuant to the Contractual Agreements, all of the equity owners' rights and obligations of the VIEs were assigned to Rise King WFOE, which resulted in the equity owners lacking the ability to make decisions that have a significant effect on the VIEs, Rise King WFOE's ability to extract the profits from the operation of the VIEs and assume the residual benefits of the VIEs. Due to the fact that Rise King WFOE and its indirect parent are the sole interest holders of the VIEs, the Company included the assets, liabilities, revenues and expenses of the VIEs in its consolidated financial statements, which is consistent with the provisions of FASB Accounting Standards Codification ("ASC") Topic 810 “Consolidation”, subtopic 10.

As of the date of the Share Exchange, through the Contractual Agreements, the Company operates its business in China primarily through Business Opportunity Online and Beijing CNET Online. Beijing CNET Online owns 51% of Shanghai Borongdingsi Computer Technology Co., Ltd. (“Shanghai Borongdingsi”). Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi, were incorporated on December 8, 2004, January 27, 2003 and August 3, 2005, respectively.

CHINANET ONLINE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATMENTS

Shanghai Borongdingsi is 51% owned by Beijing CNET Online. Beijing CNET Online and Shanghai Borongdingsi entered into a cooperation agreement in June 2008, followed up with a supplementary agreement in December 2008, to conduct a bank kiosk advertisement business. The business is based on a bank kiosk cooperation agreement between Shanghai Borongdingsi and Henan provincial branch of China Construction Bank which allows Shanghai Borongdingsi or its designated party to conduct in-door advertisement business within the business outlets throughout Henan Province. The bank kiosk cooperation agreement has a term of eight years beginning in August 2008. However, Shanghai Borongdingsi was not able to conduct the advertisement business as a stand-alone business due to the lack of an advertisement business license and supporting financial resources. Pursuant to the aforementioned cooperation agreements, Beijing CNET Online committed to purchase equipment and to provide working capital, technical and other related support to Shanghai Borongdingsi. Beijing CNET Online owns the equipment used in the kiosk business, is entitled to sign contracts in its name on behalf of the business, and holds the right to collect the advertisement revenue generated from the bank kiosk business exclusively until it recovers the cost of purchasing the equipment. Thereafter, Beijing CNET Online has agreed to distribute 49% of the net profit generated from the bank kiosk advertising business, if any, to the minority shareholders of Shanghai Borongdingsi.

On June 24, 2010, one of the Company's VIEs, Business Opportunity Online, together with three other individuals, who were not affiliated with the Company, formed a new company, Shenzhen City Mingshan Network Technology Co., Ltd. ("Shenzhen Mingshan"). Shenzhen Mingshan is 51% owned by Business Opportunity Online and 49% owned collectively by the other three individuals. Shenzhen Mingshan is primarily engaged in developing and designing internet based software, online games and the related operating websites and providing related internet and information technology services necessary to operate such games and websites. On January 6, 2011, as approved by the shareholders of Shenzhen Mingshan, an unaffiliated third party invested RMB15,000,000 (approximately US$2,453,386) into Shenzhen Mingshan in exchange for a 60% equity interest in Shenzhen Mingshan. Therefore, beginning on January 6, 2011, the new investor became the majority shareholder of Shenzhen Mingshan. The Company's share of the equity interest in Shenzhen Mingshan decreased from 51% to 20.4% and the Company ceased to have a controlling financial interest in Shenzhen Mingshan, but still retains an investment in, and significant influence over, Shenzhen Mingshan. On December 19, 2012, as approved by the shareholders of Shenzhen Mingshan, Shenzhen Mingshan reduced its registered and paid-in capital from RMB25,000,000 (approximately US$4,088,976) to RMB22,000,000 (approximately US$3,598,299), resulted from a decrease in paid-in capital from three other noncontrolling shareholders, except Business Opportunity Online. As a result, the Company's share of the equity interest in Shenzhen Mingshan increased from 20.4% to 23.18% and the Company continued to retain significant influence over Shenzhen Mingshan.

On December 6, 2010, Rise King WFOE entered into a series of exclusive contractual arrangements, which were similar to the Contractual Agreements discussed above, with Rise King (Shanghai) Advertisement Media Co., Ltd. ("Shanghai Jing Yang"), a company incorporated under the PRC laws in December 2009 and primarily engaged in the advertising business, pursuant to which the Company, through its wholly owned subsidiary, Rise King WFOE obtained all of the equity owners' rights and obligations of Shanghai Jing Yang, and the ability to extract the profits from the operation and assume the residual benefits of Shanghai Jing Yang, and hence became the sole interest holder of Shanghai Jing Yang. As of the date these contractual agreements were entered into, Shanghai Jing Yang did not have the resources necessary to conduct any business activities by itself and the carrying amount of the net assets of Shanghai Jing Yang which was all cash and cash equivalents approximate its fair value due to their short maturities. Therefore, Shanghai Jing Yang's accounts were included in the Company's consolidated financial statements with no goodwill recognized in accordance with ASC Topic 810 "Consolidation".

The Company, through one of its VIEs, Beijing CNET Online, acquired a 100% equity interest in Quanzhou Zhi Yuan Marketing Planning Co., Ltd. ("Quanzhou Zhi Yuan") and a 51% equity interest in Quanzhou Tian Xi Shun He

Advertisement Co., Ltd. (“Quanzhou Tian Xi Shun He”) on January 4, 2011 and February 23, 2011, respectively. In June 2011, Beijing CNET Online acquired the remaining 49% equity interest in Quanzhou Tian Xi Shun He. Quanzhou Tian Xi Shun He became a wholly owned subsidiary of Beijing CNET Online. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were both independent advertising companies based in Quanzhou City, Fujian province of the PRC, which provide comprehensive branding and marketing services to SMEs focused primarily in the sportswear and clothing industry. In April 2013, the Company formed a new wholly-owned company, Quanzhou City Zhi Lang Network Technology Co., Ltd. (“Quanzhou Zhi Lang”). All business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were integrated and merged into Quanzhou Zhi Lang. Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He were subsequently disposed by the Company in November 2013.

CHINANET ONLINE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATMENTS

On January 28, 2011, one of the Company's VIEs, Business Opportunity Online, formed a new wholly owned subsidiary, Business Opportunity Online (Hubei) Network Technology Co., Ltd. ("Business Opportunity Online Hubei"). Business Opportunity Online Hubei is primarily engaged in internet advertisement design, production and promulgation.

On March 1, 2011, one of the Company's VIEs, Business Opportunity Online, together with an individual, who was not affiliated with the Company, formed a new company, Beijing Chuang Fu Tian Xia Network Technology Co., Ltd. ("Beijing Chuang Fu Tian Xia"). Beijing Chuang Fu Tian Xia is 51% owned by Business Opportunity Online and 49% owned by the co-founding individual. Beijing Chuang Fu Tian Xia is primarily engaged in providing and operating internet advertising, marketing and communication services to small and medium companies.

On April 18, 2011, the Company, through one of its VIEs, Business Opportunity Online Hubei formed a new wholly owned company, Hubei CNET Advertising Media Co., Ltd. ("Hubei CNET"). Hubei CNET is primarily engaged in advertisement design, production, promulgation and providing the related advertising and marketing consultancy services.

On April 18, 2011, one of the Company's VIEs, Business Opportunity Online Hubei, together with an individual, who was not affiliated with the Company, formed a new company, Zhao Shang Ke Network Technology (Hubei) Co., Ltd. ("Zhao Shang Ke Hubei"). Zhao Shang Ke Hubei is 51% owned by Business Opportunity Online Hubei and 49% owned by the co-founding individual. Zhao Shang Ke Hubei is primarily engaged in providing advertisement design, production, promulgation and brand management and sales channels building services. On December 29, 2011, as approved by the shareholders of Zhao Shang Ke Hubei, two unaffiliated third party investors invested RMB10,000,000 (approximately US$1,635,590) into Zhao Shang Ke Hubei in exchange for an aggregate 50% equity interest in Zhao Shang Ke Hubei. Therefore, beginning on December 29, 2011, the Company's share of the equity interest in Zhao Shang Ke Hubei decreased from 51% to 25.5%. As such, the Company ceased to have a controlling financial interest in Zhao Shang Ke Hubei, but still retained an investment in, and significant influence over, Zhao Shang Ke Hubei.

On July 1, 2011, Quanzhou Zhi Yuan formed a new wholly owned company, Xin Qi Yuan Advertisement Planning (Hubei) Co., Ltd. ("Xin Qi Yuan Hubei") and Quanzhou Tian Xi Shun He formed a new wholly owned company, Mu Lin Sen Advertisement (Hubei) Co., Ltd. ("Mu Lin Sen Hubei"). These companies were primarily engaged in advertisement design, production, promulgation and provided the related advertising and marketing consultancy services. In October 2013, the Company unregistered these two companies as their business activities were dormant since incorporation.

On July 1, 2011, one of the Company's VIEs, Business Opportunity Online Hubei, together with an individual who is not affiliated with the Company, formed a new company, Sheng Tian Network Technology (Hubei) Co., Ltd. ("Sheng Tian Hubei"). Sheng Tian Hubei was 51% owned by Business Opportunity Online Hubei and 49% owned by the co-founding individual until September 3, 2013 when Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sheng Tian Hubei. As a result of the acquisition, Sheng Tian Hubei became a wholly owned subsidiary of Business Opportunity Online Hubei. Sheng Tian Hubei is primarily engaged in computer system design, development and promotion, software development and promotion, and providing the related technical consultancy services.

On December 20, 2011, Business Opportunity Online Hubei acquired a 51% equity interest in Sou Yi Lian Mei Network Technology (Beijing) Co. Ltd., ("Sou Yi Lian Mei"). In September 2012, Business Opportunity Online Hubei acquired the remaining 49% equity interest in Sou Yi Lian Mei. Sou Yi Lian Mei became a wholly owned subsidiary

of Business Opportunity Online Hubei accordingly. Sou Yi Lian Mei has a wholly-owned subsidiary, which is Jin Du Ya He (Beijing) Network Technology Co., Ltd ("Jin Du Ya He"). Sou Yi Lian Mei and its subsidiary are primary engaged in providing online advertising and marketing services.

As of December 31, 2013, the Company operated its business primarily in China through its PRC subsidiary and PRC operating entities, or VIEs as described above.

2. Variable Interest Entities

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through its Variable Interest Entities ("VIEs").

CHINANET ONLINE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATMENTS

The significant terms of the VIE Agreements are summarized below:

Exclusive Business Cooperation Agreements: Pursuant to the Exclusive Business Cooperation Agreements entered into by and between Rise King WFOE and each of the PRC Operating Entities, Rise King WFOE has the exclusive right to provide to the PRC Operating Entities complete technical support, business support and related consulting services during the term of these agreements, which includes but is not limited to technical services, business consultations, equipment or property leasing, marketing consultancy system integration, product research and development, and system maintenance. In exchange for such services, each PRC Operating Entity has agreed to pay a service fee to Rise King WFOE equal to 100% of the net income of each PRC Operating Entity. Adjustments may be made upon approval by Rise King WFOE based on services rendered by Rise King WFOE and operational needs of the PRC Operating Entities. The payment shall be made on a monthly basis, if at year end, after an audit of the financial statements of any PRC Operating Entities, there is determined to be any shortfall in the payment of 100% of the annual net income, such PRC Operating Entity shall pay such shortfall to Rise King WFOE. Each agreement has a ten-year term. The term of these agreements may be extended if confirmed in writing by Rise King WFOE, prior to the expiration of the term. The extended term shall be determined by Rise King WFOE, and the PRC Operating Entities shall accept such extended term unconditionally.

Exclusive Option Agreements: Under the Exclusive Option Agreements entered into by and among Rise King WFOE, each of the PRC Shareholders irrevocably granted to Rise King WFOE or its designated person an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of their respective equity interest in any PRC Operating Entities for a purchase price of RMB 10, or a purchase price to be adjusted to be in compliance with applicable PRC laws and regulations. Rise King WFOE, or its designated person, has the sole discretion to decide when to exercise the option, whether in part or in full. Each of these agreements has a ten-year term, subject to renewal at the election of Rise King WFOE.

Equity Pledge Agreements: Under the Equity Pledge Agreements entered into by and among Rise King WFOE, the PRC Operating Entities and each of the PRC Shareholders, the PRC Shareholders pledged all of their equity interests in the PRC Operating Entities to guarantee the PRC Operating Entities' performance of its obligations under the Exclusive Business Cooperation Agreements. If the PRC Operating Entities or any of the PRC Shareholders breaches its/his/her respective contractual obligations under these agreements, or upon the occurrence of one of the events regarded as an event of default under each such agreement, Rise King WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests. The PRC Shareholders of the PRC Operating Entities agreed not to dispose of the pledged equity interests or take any actions that would prejudice Rise King WFOE's interest, and to notify Rise King WFOE of any events or upon receipt of any notices which may affect Rise King WFOE's interest in the pledge. Each of the equity pledge agreements will be valid until all the payments related to the services provided by Rise King WFOE to the PRC Operating Entities due under the Exclusive Business Cooperation Agreements have been fulfilled. Therefore, the equity pledge agreements shall only be terminated when the payments related to the ten-year Exclusive Business Cooperation Agreement are paid in full and the WFOE does not intend to extend the term of the Exclusive Business Cooperation Agreement.

Irrevocable Powers of Attorney: The PRC Shareholders have each executed an irrevocable power of attorney to appoint Rise King WFOE as their exclusive attorneys-in-fact to vote on their behalf on all PRC Operating Entities matters requiring shareholder approval. The term of each power of attorney is valid so long as such shareholder is a shareholder of the respective PRC Operating Entity.

As a result of these VIE Agreements, the Company through its wholly-owned subsidiary, Rise King WFOE, was granted with unconstrained decision making rights and power over key strategic and operational functions that would

significantly impact the PRC Operating Entities or the VIEs' economic performance, which includes, but is not limited to, the development and execution of the overall business strategy; important and material decision making; decision making for merger and acquisition targets and execution of merger and acquisition plans; business partnership strategy development and execution; government liaison; operation management and review; and human resources recruitment and compensation and incentive strategy development and execution. Rise King WFOE also provides comprehensive services to the VIEs for their daily operations, such as operational technical support, OA technical support, accounting support, general administration support and technical support for products and services. As a result of the Exclusive Business Cooperation Agreements, the Equity Pledge Agreements and the Exclusive Option Agreements, the Company will bear all of the VIEs' operating costs in exchange for 100% of the net income of the VIEs. Under these agreements, the Company has the absolute and exclusive right to enjoy economic benefits similar to equity ownership through the VIE Agreements with our PRC Operating Entities and their shareholders.

These contractual arrangements may not be as effective in providing the Company with control over the VIEs as direct ownership. Due to its VIE structure, the Company has to rely on contractual rights to effect control and management of the VIEs, which exposes it to the risk of potential breach of contract by the shareholders of the VIEs for a number of reasons. For example, their interests as shareholders of the VIEs and the interests of the Company may conflict and the Company may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, the Company may have to rely on legal or arbitral proceedings to enforce its contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost substantial financial and other resources, and result in a disruption of its business, and the Company cannot assure that the outcome will be in its favor. Apart from the above risks, there are no significant judgments or assumptions regarding enforceability of the contracts.

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In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit the Company's ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event the Company is unable to enforce these contractual arrangements, it may not be able to exert effective control over the VIEs, and its ability to conduct its business may be materially and adversely affected.

Summarized below is the information related to the consolidated VIEs' assets and liabilities as of December 31, 2013 and 2012, respectively:

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Assets		
Current assets:		
Cash and cash equivalents	$3,326	$4,275
Term deposit	3,467	3,357
Accounts receivable, net	7,637	8,392
Other receivables, net	3,416	2,921
Prepayment and deposit to suppliers	14,690	14,587
Due from related parties	174	49
Other current assets	27	35
Deferred tax assets-current	118	50
Total current assets	32,855	33,666
Investment in and advance to equity investment affiliates	801	916
Property and equipment, net	918	1,389
Intangible assets, net	6,013	7,152
Deposit for purchasing of software technology	2,453	-
Goodwill	11,450	11,083
Deferred tax assets-non current	482	511
Total Assets	$54,972	$54,717
Liabilities		
Current liabilities:		
Short-term bank loan	$818	$-
Accounts payable	421	110
Advances from customers	995	1,065
Accrued payroll and other accruals	279	455
Due to Control Group	11	11
Payable for acquisition	-	1,266
Taxes payable	6,542	6,136
Other payables	142	196
Total current liabilities	9,208	9,239

Deferred tax Liabilities-non current	1,439	1,689
Total Liabilities	$10,647	$10,928

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All of the VIEs' assets can be used to settle obligations of their primary beneficiary. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets.

For the year ended December 31, 2013, the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive income includes sales of approximately US$29,920,000, cost of sales of approximately US$16,561,000, operating expenses of approximately US$9,927,000 and net income before allocation to noncontrolling interests of approximately US$1,516,000.

For the year ended December 31, 2012, the financial performance of the VIEs reported in the Company's consolidated statements of income and comprehensive income includes sales of approximately US$46,355,000, cost of sales of approximately US$31,550,000, operating expenses of approximately US$7,655,000 and net income before allocation to noncontrolling interests of approximately US$5,910,000.

3. Summary of significant accounting policies

a) Basis of presentation

The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

b) Principles of consolidation

The consolidated financial statements include the financial statements of all the subsidiaries and VIEs of the Company. All transactions and balances between the Company and its subsidiaries and VIEs have been eliminated upon consolidation. According to the agreements between Beijing CNET Online and Shanghai Borongdingsi, although Beijing CNET Online legally owns 51% of Shanghai Borongdingsi's interests, Beijing CNET Online only controls the assets and liabilities related to the bank kiosks business, which has been included in the financial statements of Beijing CNET Online, but does not control other assets of Shanghai Borongdingsi, thus, Shanghai Borongdingsi's financial statements were not consolidated by the Company.

c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities at the date of these consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company continually evaluates these estimates and assumptions based on the most recently available information, historical experience and various other assumptions that the Company believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

d) Foreign currency translation and transactions

The functional currency of the Company is United States dollars ("US$"), and the functional currency of China Net HK is Hong Kong dollars ("HK$"). The functional currency of the Company's PRC operating subsidiary and VIEs is Renminbi ("RMB"), and PRC is the primary economic environment in which the Company operates.

For financial reporting purposes, the financial statements of the Company's PRC operating subsidiary and VIEs, which are prepared using the RMB, are translated into the Company's reporting currency, the United States Dollar ("U.S. dollar"). Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and stockholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in stockholders' equity.

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Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income of the consolidated statements of income and comprehensive income for the respective periods.

The exchange rates used to translate amounts in RMB into US$ for the purposes of preparing the consolidated financial statements are as follows:

	As of December 31,	
	2013	2012
Balance sheet items, except for equity accounts	6.1140	6.3161

	Year ended December 31,	
	2013	2012
Items in the statements of income and comprehensive income, and statements of cash flows	6.1982	6.3198

No representation is made that the RMB amounts could have been, or could be converted into US$ at the above rates.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, which are unrestricted as to withdrawal and use. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

f) Term deposits

Term deposits consist of bank deposits with an original maturity of between three to twelve months.

g) Accounts and other receivable, net

Accounts receivable and other receivables are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts as needed. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable and other receivables. The Company determines the allowance based on aging data, historical collection experience, customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not have any off-balance-sheet credit exposure relating to its customers, suppliers or others.

h) Investment in equity method affiliates

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting in accordance to ASC Topic 323 “Equity Method and Joint Ventures”. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee companies’ board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee companies. Under the equity method of accounting, an investee company’s accounts are not reflected within the Company’s consolidated

balance sheets and statements of income and comprehensive income; however, the Company's share of the earnings or losses of the investee company is reflected in the caption "Share of earnings (losses) in equity investment affiliates" in the consolidated statements of income and comprehensive income. The Company's carrying value (including advance to the investee) in equity method investee companies is reflected in the caption "Investment in and advance to equity investment affiliates" in the Company's consolidated balance sheets.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

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i) Property and equipment, net

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated on the straight-line method after taking into account their respective estimated residual values over the following estimated useful lives:

Vehicles (years)			5
Office equipment (years)	3	-	5
Electronic devices (years)			5

Depreciation expenses are included in selling expenses, general and administrative expenses and research and development expenses.

When property and equipment are retired or otherwise disposed of, resulting gain or loss is included in net income or loss in the year of disposition for the difference between the net book value and proceeds received thereon. Maintenance and repairs which do not improve or extend the expected useful lives of the assets are charged to expenses as incurred.

j) Intangible assets, net

Purchased software and software platform is initially recorded at cost and amortized on a straight-line basis over the estimated useful economic life.

Intangible assets other than goodwill acquired through various acquisitions consummated in fiscal 2011 are amortized on a straight-line basis over their expected useful economic lives.

Trade Name		indefinite	
Domain Name		indefinite	
Contract Backlog (years)	0.6	-	0.7
Customer Relationship (years)	5	-	9
Non-Compete Agreement (years)	5	-	6
Software technologies (years)		5	

If an acquired intangible asset is determined to have an indefinite useful life, it should not be amortized until its useful life is determined to be no longer indefinite. The Company reviews intangible assets' remaining useful lives in each reporting period. If such an asset is later determined to have a finite useful life, the asset will be tested for impairment. That asset will then be amortized prospectively over its estimated remaining useful life and accounted for in the same way as intangible assets subject to amortization.

The Company accounted for website development costs in accordance with ASC Topic 350-50, which requires that certain costs related to the development or purchase of internal-use software and systems as well as the costs incurred in the application development stage related to its website be capitalized and amortized over the estimated useful life of the software or system. ASC Topic 350-50 also require that costs related to the preliminary project stage, data conversion and post implementation/operation stage of an internal-use software development project be expensed as incurred. For the years ended December 31, 2013 and 2012, the Company did not capitalize any such cost, as the amount was considered immaterial.

k) Impairment of long-lived assets

Long-lived assets, which include tangible long-lived assets and intangible long-lived assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount of the asset and its fair value.

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For the years ended December 31, 2013 and 2012, the Company did not record any impairment losses associated with long-lived assets.

l) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company's acquisitions of interests in its consolidated VIEs.

Goodwill is not depreciated or amortized but is tested for impairment at the reporting unit level at least on an annual basis, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. The test consists of two steps. First, identify potential impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired. Second, if there is impairment identified in the first step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with Topic 805 “Business Combinations.”

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

For the years ended December 31, 2013 and 2012, the Company did not record any impairment losses associated with Goodwill.

m) Transaction between entities under common control

In April 2013, the Company formed a new wholly-owned company, Quanzhou City Zhi Lang Network Technology Co., Ltd. (“Quanzhou Zhi Lang”) for the reorganization of its brand management and sales channel building business segment. All of the business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He (excluding tangible assets and liabilities incurred), were transferred and merged into Quanzhou Zhi Lang. After the reorganization, the Company disposed 100% of the equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013.

The Company considered this transaction as transaction between entities under common control and accounted for this transaction in accordance with ASC 805-50, which provided guidance on measuring assets and liabilities transferred between entities under common control. In accordance with ASC 805-50, transferring assets between entities under common control, the entity that receives the net assets should initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

n) Deconsolidation

The Company accounts for deconsolidation of subsidiaries in accordance with ASC Topic 810 “Consolidation”.

In accordance with ASC Topic 810-10-40-5, the parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income attributable to the parent, measured as the difference between:

a. The aggregate of all of the following:

1. The fair value of any consideration received;

2. The fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated;

3. The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated.

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b. The carrying amount of the former subsidiary's assets and liabilities.

In November 2013, upon completion of the reorganization of the Company's brand management and sales channel building business segment by chartering a new entity (Quanzhou Zhi Lang) and transferring all of the business activities and resources of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He (excluding tangible assets and liabilities incurred), the Company disposed 100% of the equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013. The Company recognized approximately US$543,000 loss on disposal of these two subsidiaries, which reflected the difference between the fair value of consideration to be received and the carrying amount of the former subsidiaries' tangible assets and liabilities that were not transferred to Quanzhou Zhi Lang as of the date of disposal. The fair value of retained noncontrolling investment in the former subsidiary and the carrying amount of any noncontrolling interest in the former subsidiary is inapplicable in this transaction, as the Company disposal 100% of the equity interest in these two entities, which were wholly-owned subsidiaries of the Company as of the date of disposal.

o) Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary

The Company accounted for changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary in accordance with ASC Topic 810 "Consolidation", subtopic 10, which requires the transaction be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent and reallocated the subsidiary's accumulated comprehensive income, if any, among the parent and the noncontrolling interest through an adjustment to the parent's equity.

The Company acquired the remaining 49% equity interest in Sou Yi Lian Mei and Sheng Tian Hubei in September 2012 and September 2013, respectively. The difference between the cash consideration paid and the amount by which the noncontrolling interest was adjusted to reflect the change in its ownership interest in the subsidiary of approximately US$263,000 for the 49% equity interest acquisition in Sheng Tian Hubei and approximately US$787,000 for the 49% equity interest acquisition in Sou Yi Lian Mei was recognized in equity attributable to the Company for the years ended December 31, 2013 and 2012, respectively.

p) Noncontrolling interest

The Company accounts for noncontrolling interest in accordance with ASC Topic 810-10-45, which requires the Company to present noncontrolling interests as a separate component of total shareholders' equity on the consolidated balance sheet and the consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated income and comprehensive income statement. ASC Topic 810-10-45 also requires that losses attributable to the parent and the noncontrolling interest in a subsidiary be attributed to those interests even if it results in a deficit noncontrolling interest balance.

q) Fair value

The Company's financial instruments primarily consist of cash and cash equivalents, accounts receivable, other receivables, prepayment and deposits, accounts payable, advances from customers, accruals and other payables. The carrying values of these financial instruments approximate fair values due to their short maturities.

ASC Topic 820 "Fair Value Measurement and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

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Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter.

r) Revenue recognition

The Company's revenue recognition policies are in compliance with ASC Topic 605 “Revenue Recognition”. In accordance with ASC Topic 605, revenues are recognized when the four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

Sales include revenues from reselling of advertising time purchased from TV stations and, internet advertising and providing related value added technical services, reselling of internet advertising spaces and other advertisement related resources. No revenue from advertising-for-advertising barter transactions was recognized because the transactions did not meet the criteria for recognition in ASC Topic 605, subtopic 20. Advertising contracts establish the fixed price and advertising services to be provided. Pursuant to advertising contracts, the Company provides advertisement placements in different formats, including but not limited to banners, links, logos, buttons, rich media and content integration. Revenue is recognized ratably over the period the advertising is provided and, as such, the Company considers the services to have been delivered. The Company treats all elements of advertising contracts as a single unit of accounting for revenue recognition purposes. Value added technical services are provided based on two types of contracts: (i) fixed price and (ii) fixed price with minimum performance threshold. For contracts with fixed price terms, revenue is recognized on a pro-rata basis over the engaged service period. For fixed price contracts with minimum performance threshold, revenue is recognized when the specified performance criteria is met. Based upon the Company’s credit assessments of its customers prior to entering into contracts, the Company determines if collectability is reasonably assured. In situations where collectability is not deemed to be reasonably assured, the Company recognizes revenue upon receipt of cash from customers, only after services have been provided and all other criteria for revenue recognition have been met.

s) Cost of sales

Cost of sales primarily includes the cost of media advertising time, internet advertisement related resources and other technical services purchased from third parties, direct labor cost and benefits.

t) Advertising costs

Advertising costs for the Company’s own brand building are not includable in cost of sales, they are expensed when incurred or amortized over the estimated beneficial period and are included in “selling expenses” in the statement of income and comprehensive income. For the years ended December 31, 2013 and 2012, advertising expenses for the Company’s own brand building were approximately US$450,000 and US$289,000, respectively.

u) Research and development expenses

The Company accounts for the cost of developing and upgrading technologies and platforms and intellectual property that are used in its daily operations in research and development cost. Research and development costs are charged to expense when incurred. Expenses for research and development for the years ended December 31, 2013 and 2012 were approximately US$1,995,000 and US$1,819,000, respectively.

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v) Income taxes

The Company follows the guidance of ASC Topic 740 “Income taxes” and uses liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets, if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in statement of income and comprehensive income in the period that includes the enactment date.

w) Uncertain tax positions

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

The Company recognizes interest on non-payment of income taxes under requirement by tax law and penalties associated with tax positions when a tax position does not meet the minimum statutory threshold to avoid payment of penalties. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, where the underpayment of taxes is more than RMB100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The tax returns of the Company’s PRC subsidiary and VIEs are subject to examination by the relevant tax authorities. The Company did not have any material interest or penalties associated with tax positions for the years ended December 31, 2013 and 2012 and did not have any significant unrecognized uncertain tax positions as of December 31, 2013 and 2012, respectively.

x) Share-based Compensation

The Company accounted for share-based compensation to employees in accordance with ASC Topic 718 “Compensation-Stock Compensation” which requires that share-based payment transactions be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, or vesting period.

y) Comprehensive income

The Company accounts for comprehensive income in accordance with ASC Topic 220 “Comprehensive Income”, which establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented in the Company’s consolidated balance sheets are the cumulative foreign currency translation adjustments.

z) Earnings per share

Earnings per share are calculated in accordance with ASC Topic 260, “Earnings Per Share”. Basic earnings per share is computed by dividing income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Common shares issuable upon the conversion of the convertible preferred shares are included in the computation of diluted earnings per share on an “if-converted” basis when the impact is dilutive. The dilutive effect of outstanding common stock warrants and options are reflected in the diluted earnings per share by application of the treasury stock method when the impact is dilutive.

aa) Commitments and contingencies

The Company has adopted ASC 450 “Contingencies” subtopic 20, in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability have been incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

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bb) Recent accounting standards

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The ASU does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, this ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012 for public entities. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters, (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity", to resolve a diversity in accounting for the cumulative translation adjustment of foreign currency upon derecognition of a foreign subsidiary or group of assets. This ASU requires the parent to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Further, this ASU clarified that the parent should apply the guidance in subtopic 810-10 if there is a sale of an investment in a foreign entity, including both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The provisions in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes, (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The provisions in this update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. These provisions provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. The provisions in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

4. Term deposit

Term deposit as of December 31, 2013 and 2012 represent the amount of cash placed as a term deposit by one of the Company's operating VIEs in a major financial institution of China, which management believes is of high credit quality. The term deposit as of December 31, 2012 that matured on July 5, 2013 was extended to July 5, 2014 with an interest rate of 3.3% per annual.

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5. Accounts receivable, net

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Accounts receivable	13,358	12,116
Allowance for doubtful debts	(5,685)	(3,630)
Accounts receivable, net	7,673	8,486

All of the accounts receivable are non-interest bearing. Based on the assessment of the collectability of the accounts receivable as of December 31, 2013 and 2012, the Company provided approximately US$5,685,000 and US$3,630,000 allowance for doubtful debts, respectively, which were related to the accounts receivable of the Company's internet advertising and TV advertising business segment with an aging over six months. For the years ended December 31, 2013 and 2012, approximately US$1,910,000 and US$1,510,000 allowance for doubtful debts was provided, respectively.

6. Other receivables, net

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Short-term loan made for marketing campaign	1,636	2,375
Short-term loans to unrelated entities	790	475
Term deposit interest receivable	57	59
Receivable on disposal of fixed assets	98	-
Receivables on disposal of subsidiaries	1,611	-
Staff advances for normal business purpose	107	194
Overdue deposits	968	158
Allowance for doubtful debts	(968)	(158)
Other receivables, net	4,299	3,103

Short-term loan made for marketing campaign: for one of the major marketing campaigns, the Company made a marketing-related loan of RMB25,000,000 (approximately US$4,088,976) to a TV series of 36 episodes, called "Xiao Zhang Feng Yun." By participating in this TV series, the Company's logo is shown during the credits at the end of each episode and also shown as a separate card during the closing before the credit screen. This TV series has been broadcasted on CCTV 8 and www.sina.com.cn since September 2011 and continues to sell its broadcasting rights to other provincial TV channels for additional exposure. For the years ended December 31, 2013 and 2012, the Company collected in the aggregate of RMB5,000,000 (approximately US$818,000)and RMB4,000,000 (approximately US$654,000) from the borrower, respectively. In accordance with an agreement between the Company and the borrower, the Company extended the term of this loan from December 31, 2013 to December 31, 2014. The borrower subsequently repaid RMB5,000,000 (approximately US$818,000) of this debt in 2014 through the date that the financial statements are issued. The Company will continue to assess the collectability of this loan. If an event occurs or circumstances change that could indicate that the collectability of this loan is remote, a full allowance of bad debts provision will be provided for the remaining outstanding balance of this loan.

Short-term loans to unrelated entities represented temporary loans advanced to unrelated entities, which were unsecured, non-interest bearing and repayable on demand.

Receivables on disposal of subsidiaries represent the cash consideration to be received from the successors of shareholders of Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He.

For advertising resources purchase contracts signed by the Company with its resource providers, the Company was required to make deposits, which were either applied to the contract amounts that were needed to be paid with the consent of the counterparty or to be refunded to the Company of the remaining balance upon expiration of the cooperation. Overdue deposits represented the portion of the contractual deposits, which related advertising resources purchase contracts had been completed as of each of the reporting dates with no further cooperation. Based on the assessment of the collectability of these overdue deposits as of December 31, 2013 and 2012, the Company provided approximately US$968,000 and US$158,000 allowance for doubtful debts, respectively, which was related to the deposits of its internet advertising and TV advertising business segment. For the year ended December 31, 2013, allowance for doubtful debt of approximately US$793,000 was provided. For the year ended December 31, 2012, approximately US$370,000 allowance for doubtful debts provided in prior years was reversed due to subsequent collection of these overdue deposits in 2012.

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7. Prepayments and deposit to suppliers

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Deposits to TV advertisement and internet resources providers	8,907	9,463
Prepayments to TV advertisement and internet resources providers	5,292	5,069
Other deposits and prepayments	493	64
	14,692	14,596

In order to provide advertising and marketing services, the Company partners with provincial satellite TV stations or its agents to obtain time slots for resale through broadcast advertisements to advertise brands, business information, products and services of its customers. The Company also purchases internet resources from large internet search engines to attract more internet traffic to its advertising portals and provide value-added services to its customers.

In October 2013, the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (the "SARFT") issued a notice to enhance the management of TV shopping infomercials broadcasted in provincial satellite television stations, which further restricts the contents, air time and duration of these infomercials (the "Restriction Notice"). These restrictions to certain extent affected the supply of time slots for these infomercials.

Deposits to TV advertisement and internet resources providers are paid as contractual deposits to the Company's resources and services suppliers. As of December 31, 2013, the deposits to suppliers primarily consisted of deposit to an agent of one of the provincial satellite TV stations partnered with the Company. The Company has partnered with this TV station to broadcast its advertisements for three years. According to the contract signed between the Company and this agent for the time slots to be resold in fiscal 2014, the deposit will be either applied to the contract amounts of time slots cost that are needed to be paid with the consent of the counterparty or transferred as contractual deposit for fiscal 2015 upon renewal of the purchase contact. Although the Restriction Notice has had and may continue to have a negative impact on the Company's TV advertising business with this TV station, the Company believes that the cooperation with this TV station will continue and expand with the efforts of development of new form of TV advertising programs and non-TV shopping advertising customers. All deposits are refundable to the Company upon expiration of cooperation with suppliers.

According to the contracts signed between the Company and its suppliers, the Company is normally required to pay the contract amounts in advance. These prepayments will be transferred to cost of sales when the related services are provided.

As of December 31, 2013, the Company also had advanced payment carried forward from last year paid to another TV station which has been partnered with the Company for over five years, which amount the Company originally expected to be utilized in fiscal 2013. However, the Company became aware of that since the second half year of 2013, this TV station had decreased its broadcasting of TV shopping infomercials and adjusted their broadcasting schedule due to the adoption of the Restriction Notice by the SARFT in October 2013. In response to these restrictions on TV advertisement set forth in the Restriction Notice, the Company discussed with the TV station possible alternatives of applying the balance of the advanced payment, as the amount was unlikely to be refunded to the Company, due to internal administrative policies of the TV station. The TV station and the Company agreed that the unconsumed advanced payment balance can be consumed by any third parties designated by the Company and approved by the TV station, who will broadcast advertisements or other similar TV programs using the balance of

available time slots, and the Company will directly collect the amounts from the third parties for the time slots they utilized. The Company expects that the advanced payment balance will be fully utilized within the next twelve months or by December 31, 2014.

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8. Due from related parties

	As of December 31, 2013 US$('000)	2012 US$('000)
Beijing Fengshangyinli Technology Co., Ltd.	36	53
Beijing Saimeiwei Food Equipment Technology Co., Ltd.	295	87
Beijing Telijie Century Environmental Technology Co., Ltd.	171	70
	502	210

These related parties are directly or indirectly owned by Mr. Handong Cheng, Mr. Xuanfu Liu or Ms. Li Sun (acting as nominee for Mr. Zhige Zhang), the owners of the Company's PRC VIEs, Business Opportunities Online and Beijing CNET Online before the Offshore Restructuring. The Company provides advertising services to these related parties in its normal course of business on the same terms as those provided to its unrelated advertising clients. Due from related parties represented the outstanding receivables for the advertising services that the Company provided to these related parties as of each reporting date.

9. Investment in and advance to equity investment affiliates

	As of December 31, 2013 US$('000)	2012 US$('000)
Investment in equity investment affiliates	760	916
Advance to equity investment affiliates	85	43
	845	959

The following table summarizes the movement of the investment in and advance to equity investment affiliates for the two years then ended December 31, 2013:

	Shenzhen Mingshan US$('000)	Zhao Shang Ke Hubei US$('000)	Total US$('000)
Balance as of December 31, 2011	595	801	1,396
Share of losses in equity investment affiliates	(109)	(340)	(449)
Exchange translation adjustment	6	6	12
Balance as of December 31, 2012	492	467	959
Share of losses in equity investment affiliates	(40)	(143)	(183)
Advance to equity investment affiliates	-	41	41
Exchange translation adjustment	14	14	28
Balance as of December 31, 2013	466	379	845

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Shenzhen Mingshan:

Shenzhen Mingshan was incorporated on June 24, 2010 by one of the Company's VIEs, Business Opportunities Online and three other individuals who were not affiliated with the Company. Shenzhen Mingshan was 51% owned by the Company and was a consolidated VIE of the Company from the date of incorporation through January 6, 2011. On January 6, 2011, an unaffiliated third party invested RMB15,000,000 (approximately US$2,453,386) into Shenzhen Mingshan in exchange for a 60% equity interest in Shenzhen Mingshan. The Company's share of equity interest decreased from 51% to 20.4% accordingly. On December 19, 2012, as approved by the shareholders of Shenzhen Mingshan, Shenzhen Mingshan reduced its registered and paid-in capital from RMB25,000,000 (approximately US$4,088,976) to RMB22,000,000 (approximately US$3,598,299), resulted from a decrease of paid-in capital from three other noncontrolling shareholders, except Business Opportunity Online. As a result, the Company's share of the equity interest in Shenzhen Mingshan increased from 20.4% to 23.18% and the Company continued to retain significant influence over Shenzhen Mingshan.

For the years ended December 31, 2013 and 2012, the Company recognized its pro-rata share of losses in Shenzhen Mingshan of approximately US$40,000 and US$109,000, respectively. These losses recognized were reflected in the caption of "Share of losses in equity investment affiliates" in the Company's consolidated statements of income and comprehensive income with a corresponding decrease to the carrying value of the investment in Shenzhen Mingshan in the Company's consolidated balance sheets.

Zhao Shang Ke Hubei:

Zhao Shang Ke Hubei was incorporated on April 18, 2011 by one of the Company's VIEs, Business Opportunities Online Hubei and a co-founding individual who was not affiliated with the Company. Zhao Shang Ke Hubei was 51% owned by the Company and was a consolidated subsidiary of the Company from the date of incorporation through December 29, 2011. On December 29, 2011, two unaffiliated third party investors invested RMB10,000,000 (approximately US$1,635,590) in cash into Zhao Shang Ke Hubei in exchange for an aggregate 50% equity interest in Zhao Shang Ke Hubei. The Company's share of equity interest decreased from 51% to 25.5% accordingly.

For the years ended December 31, 2013 and 2012, the Company recognized its pro-rata share of losses in Zhao Shang Ke Hubei of approximately US$143,000 and US$340,000, respectively. These losses recognized was reflected in the caption of "Share of losses in equity investment affiliates" in the Company's consolidated statements of income and comprehensive income with a corresponding decrease to the carrying value of the investment in Zhao Shang Ke Hubei in the Company's consolidated balance sheets.

10. Property and equipment, net

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Vehicles	865	925
Office equipment	1,433	1,481
Electronic devices	1,245	1,205
Property and equipment, cost	3,543	3,611
Less: accumulated depreciation	(2,486)	(1,975)
Property and equipment, net	1,057	1,636

Depreciation expenses in the aggregate for the years ended December 31, 2013 and 2012 were approximately US$561,000 and US$591,000, respectively.

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11. Intangible assets, net

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Intangible assets not subject to amortization:		
Trade name	-	309
Domain name	1,580	1,529
Intangible assets subject to amortization:		
Contract backlog	203	196
Customer relationship	3,548	3,434
Non-compete agreements	1,403	1,358
Software technologies	335	325
Cloud-computing based software platforms	1,518	1,470
Other computer software	78	76
Intangible assets, cost	8,665	8,697
Less: accumulated amortization	(2,650)	(1,530)
Intangible assets, net	6,015	7,167

Amortization expenses in aggregate for the years ended December 31, 2013 and 2012 were approximately US$1,056,000 and US$1,046,000, respectively.

The Company disposed its trade name of approximately US$319,000 upon disposal of 100% of equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013.

Based on the carrying value of the finite-lived intangible assets recorded as of December 31, 2013, and assuming no subsequent impairment of the underlying intangible assets, the estimated future amortization expenses is approximately US$1,056,000 per annual for the years ended December 31, 2014 and 2015, approximately US$1,015,000 for the year ended December 31, 2016, approximately US$512,000 for the year ended December 31, 2017 and approximately US$312,000 for the year ended December 31, 2018.

12. Deposit for purchasing of software technology

Deposit for purchasing of software technology: for further development of comprehensive value-added services to its customers, which are mostly small and medium enterprises in China ("SMEs"), the Company made a deposit to an unrelated technical consulting entity of RMB15,000,000 (approximately US$2,453,386) for the purchasing of software technology related to operation management applications for SMEs. As of the date that the financial statements are issued, the Company is trial testing these software applications, and is in the process of negotiations and determination of the transaction details. The Company expects to consummate the transaction in 2014.

13. Goodwill

	Amount
	US$('000)
Balance as of December 31, 2011	10,999
Exchange translation adjustment	84

Balance as of December 31, 2012	11,083
Exchange translation adjustment	367
Balance as of December 31, 2013	11,450

The Company’s goodwill arose as a result of various business combinations consummated in 2011. The Company performed annual impairment test on goodwill in accordance with ASC 350 “Intangibles-Goodwill and Others?? subtopic 20 and determined no impairment losses associated with goodwill need to be recognized for the years ended December 31, 2013 and 2012.

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14. Short-term bank loan

Short-term bank loan as of December 31, 2013 represented a short-term bank loan of approximately RMB5.0 million (approximately US$0.82 million) borrowed by one of the Company's VIEs from a major financial institution of China to supplement its short-term working capital needs. The interest rate of the short-term bank loan is a floating lending rate, which is 30% over the benchmark rate of the People's Bank of China (the "PBOC"). As of December 31, 2013, the interest rate of the short-term loan is 7.8%. The short-term bank loan will mature on July 31, 2014.

15. Accrued payroll and other accruals

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Accrued payroll and staff welfare	382	538
Accrued operating expenses	294	366
	676	904

16. Payable for acquisition

Payable for acquisition as of December 31, 2012 represented the outstanding balance payment of approximately RMB8.0 million for the acquisitions of the 49% equity interest in Sou Yi Lian Mei that were consummated in September 2012. The outstanding balances were paid to the former shareholder Sou Yi Lian Mei in January 2013.

17. Taxation

1) Income tax

The entities within the Company file separate tax returns in the respective tax jurisdictions in which they operate.

i). The Company is incorporated in the state of Nevada. Under the current law of Nevada, the Company is not subject to state corporate income tax. Following the Share Exchange, the Company became a holding company and does not conduct any substantial operations of its own. No provision for federal corporate income tax has been made in the financial statements as the Company has no assessable profits for the year ended December 31, 2013, or any prior periods. The Company does not provide for U.S. taxes or foreign withholding taxes on undistributed earnings from its non-U.S. subsidiaries because such earnings are intended to be reinvested indefinitely. If undistributed earnings were distributed, foreign tax credits could become available under current law to reduce the resulting U.S. income tax liability.

ii). China Net BVI was incorporated in the British Virgin Islands ("BVI"). Under the current law of the BVI, China Net BVI is not subject to tax on income or capital gains. Additionally, upon payments of dividends by China Net BVI to its shareholders, no BVI withholding tax will be imposed.

iii). China Net HK was incorporated in Hong Kong and does not conduct any substantial operations of its own. No provision for Hong Kong profits tax has been made in the financial statements as China Net HK has no assessable profits for the year ended December 31, 2013 or any prior periods. Additionally, upon payments of dividends by China Net HK to its shareholders, no Hong Kong withholding tax will be imposed.

iv). The Company's PRC operating subsidiary and VIEs, being incorporated in the PRC, are governed by the income tax law of the PRC and is subject to PRC enterprise income tax ("EIT"). The EIT rate of PRC is 25%, which applies to both domestic and foreign invested enterprises.

- Rise King WFOE is a software company qualified by the related PRC governmental authorities and was approved by the local tax authorities of Beijing, the PRC, to be entitled to a two-year EIT exemption from its first profitable year and a 50% reduction of its applicable EIT rate, which is 25% to 12.5% of its taxable income for the succeeding three years. Rise King WFOE had a net loss for the year ended December 31, 2008 and its first profitable year was fiscal year 2009 which has been verified by the local tax bureau by accepting the application filed by the Company. Therefore, it was approved to be entitled to a two-year EIT exemption for fiscal year 2009 through fiscal year 2010 and a 50% reduction of its applicable EIT rate which is 25% to 12.5% for fiscal year 2011 through fiscal year 2013. Therefore, for the years ended December 31, 2013 and 2012, the applicable income tax rate for Rise King WFOE was both 12.5%. After fiscal year 2013, the applicable income tax rate for Rise King WFOE will be 25% under the current EIT law of PRC.

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- Business Opportunity Online was approved by the related PRC governmental authorities as a High and New Technology Enterprise under the current EIT law, and was approved by the local tax authorities of Beijing, the PRC, to be entitled to a favorable statutory tax rate of 15% until December 31, 2014. Therefore, for the years ended December 31, 2013 and 2012, the applicable income tax rate of Business Opportunity Online was both 15%. After fiscal year 2014, the applicable income tax rate for Business Opportunity Online will be 25% under the current EIT law of PRC unless the entity regains the qualification as a High and New Technology Enterprise in fiscal 2015. The Company believes that more likely than not Business Opportunity Online will be able to regain its qualification as a High and New Technology Enterprise and continue to enjoy the favorable statutory tax rate of 15% after fiscal 2014.

- Business Opportunity Online Hubei was incorporated in Xiaotian Industrial Park of Xiaogan Economic Development Zone in Xiaogan City, Hubei province of the PRC in 2011. On June 15, 2012, Business Opportunity Online Hubei was approved by the related PRC governmental authorities to be qualified as a software company and was approved by the local tax authorities of Xiaogan City, Hubei province, the PRC, to be entitled to a two-year EIT exemption from its first profitable year, and a 50% reduction of its applicable EIT rate which is 25% to 12.5% of its taxable income for the succeeding three years. Based on the previous communication between the entity and the local tax authorities of Xiaogan Economic Development Zone, the entity is entitled to a two-year EIT exemption for fiscal 2012 and 2013, and a 50% reduction of its applicable EIT rate which is 25% to 12.5% of its taxable income for the succeeding three years until December 31, 2016. However, during the periodic administrative review conducted by local tax authorities of Xiaogan Economic Development Zone in early August 2013, the local tax authorities determined that the first profitable year of the entity was fiscal 2011 instead of fiscal 2012, despite the fact that a deemed income tax computation method was adopted by the entity as approved by the local tax authorities previously. The deemed income tax computation method is considered as a special tax computation and collection method as compared to the regular actual income/loss method. Although there is no definite guidance set forth in the current EIT law regard this issue, we believe it may have a favorable impact of the determination of the entity's first profitable year. Based on the current circumstances, we believe that more likely than not the local tax authorities will determine the first profitable year of Business Opportunity Online Hubei as fiscal 2011, which may result in the increase of the entity's applicable income tax rate for its fiscal year 2013 to 12.5%. Therefore, the entity accrued its income tax expense based on a 12.5% income tax rate for the year ended December 31, 2013. For the year ended December 31, 2012, the applicable income tax rate of Business Opportunity Online Hubei was nil%. After fiscal 2015, the applicable income tax rate for Business Opportunity Online Hubei will be 25% under the current EIT law of PRC.

- The applicable income tax rate for other PRC operating entities of the Company is 25% for the years ended December 31, 2013 and 2012.

- The current EIT law also imposed a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% withholding tax rate. Rise King WFOE is invested by immediate holding company in Hong Kong and will be entitled to the 5% preferential withholding tax rate upon distribution of the dividends to its immediate holding company.

For the years ended December 31, 2013 and 2012, all of the preferential income tax treatments enjoyed by the Company's PRC subsidiary and VIEs were based on the current applicable laws and regulations of the PRC and approved by the related government regulatory authorities and local tax authorities where the Company's respective PRC subsidiary and VIEs operate in. Rise King WFOE, Business Opportunity Online and Business Opportunity Online Hubei were most affected by these preferential income tax treatments within the structure of the Company.

The preferential income tax treatments are subject to change in accordance with the PRC government economic development policies and regulations. These preferential income tax treatments are primarily determined by the regulation and policies of the PRC government in the context of the overall economic policy and strategy. As a result, the uncertainty of theses preferential income tax treatments are subject to, but not limited to, the PRC government policy on supporting any specific industry's development under the outlook and strategy of overall macroeconomic development.

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2) Turnover taxes and the relevant surcharges

From January 1, 2012 through August 31, 2012 (for the Company's PRC operating entities incorporated in Beijing) or October 31, 2012 (for the Company's PRC operating entities incorporated in Fujian province) or November 30, 2012 (for the Company's PRC operating entities incorporated in Hubei province), revenue from advertising services is subject to 5.6%-5.7% business tax (including surcharges), depending on which tax jurisdiction the Company's PRC operating subsidiary and VIE operate in, and 3% cultural industry development surcharge of the net service income after deducting amount paid to ending media promulgators. Revenue from internet technical services was subjected to 5.6%-5.7% business tax (including surcharges), depending on which tax jurisdiction the Company's PRC operating subsidiary and VIE operate in.

On July 31, 2012, the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC jointly promulgated a "Circular on Launching the Pilot Collection of Value Added Tax in lieu of Business Tax in Transportation and Certain Areas of Modern Services Industries in Eight Provinces and Municipalities Including Beijing" ("Circular Cai Shui [2012] No. 71"), pursuant to which a business tax to value added tax (the "VAT") transformation pilot program was launched. The implementation date for Beijing is September 1, 2012, for Fujian province, November 1, 2012, and for Hubei province, December 1, 2012. Other circulars such as "Circular on Carrying out the Pilot Collection of Value Added Tax in Lieu of Business Tax to be imposed on Transportation Industry and Part of Modern Services Industry in Shanghai" ("Circular Cai Shui [2011] No. 111") jointly promulgated by the MOF and the SAT on November 16, 2011 which contains detailed implementation measures for such VAT pilot program apply to the locations including Beijing, Fujian province and Hubei province. In accordance with the Circular Cai Shui [2011] No. 111, the VAT rate for provision of modern services (other than lease of corporeal movables) is 6% and for small scale taxpayer, 3%. Therefore, beginning on September 1, 2012, for the Company's PRC operating subsidiary and VIEs incorporated in Beijing, November 1, 2012, for the Company's PRC operating VIEs incorporated in Fujian province, and December 1, 2012, for the Company's PRC operating VIEs incorporated in Hubei province, service revenues are subject to VAT at a rate of 6%, after deducting the VAT paid for the services purchased from suppliers, or at a rate of 3% without any deduction of VAT paid for the services purchased from suppliers. The surcharges of the VAT is 12%-14% of the VAT, depending on which tax jurisdiction the Company's PRC operating subsidiary and VIE operate in.

Business tax is a price including tax in the PRC turnover tax system, which is calculated based on the revenue inclusive of turnover tax. Therefore, revenues achieved by the Company which are subject to business tax are presented on a gross basis inclusive of business tax, because the Company is considered to serve as the primary obligor, and on the other hand, business tax was included in cost of revenues upon recognition of business tax payable simultaneously with the recognition of revenue. Contrastively, VAT is a price excluding tax in the PRC turnover tax system, which is calculated based on the revenue exclusive of turnover tax. Therefore, revenues achieved by the Company which are subject to VAT are presented on a net basis exclusive of VAT, because customers who purchase the services from the Company is considered to serve as the primary obligor, and VAT received from customers excluded from revenue is recognized as the output VAT upon recognition of revenue. VAT payable on taxable services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the balance of input VAT (VAT paid for the services purchased from suppliers). Hence, the amount of VAT payable does not result directly from output VAT generated from taxable services provided.

As of December 31, 2013 and 2012, taxes payable consists of:

	As of December 31,	
	2013	2012

	US$('000)	US$('000)
Turnover tax and surcharge payable	2,343	2,609
Enterprise income tax payable	4,686	4,074
	7,029	6,683

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A reconciliation of the provision for income tax expense determined at the U.S. federal corporate income tax rate to the Company's effective income tax expense is as follows:

	Year Ended December 31,			
	2013 US$('000)		2012 US$('000)	
Pre-tax income	716		4,386	
U.S. federal rate	35	%	35	%
Income tax expense computed at U.S. federal rate	251		1,535	
Reconciling items:				
Rate differential for domestic earnings	(119)		(537)	
Preferential tax treatments and tax holiday effects	(754)		(1,039)	
Change in tax rate for loss recognized as deferred tax assets	(144)		-	
Valuation allowance on deferred tax assets	1,426		512	
Loss not recognized as deferred tax assets	2		3	
Non-deductible expenses and non-taxable income	154		55	
Effective income tax expense	816		529	

For the years ended December 31, 2013 and 2012, the Company's income tax benefit / (expense) consisted of:

	Year Ended December 31,			
	2013 US$('000)		2012 US$('000)	
Current-PRC	(1,302)		(1,357)	
Deferred-PRC	486		828	
	(816)		(529)	

The Company's deferred tax liabilities at December 31, 2013 and changes for the two years then ended were as follows:

	Amount US$('000)
Balance as of December 31, 2011	1,893
Reversal during the period	(219)
Exchange translation adjustment	15
Balance as of December 31, 2012	1,689
Reversal during the period	(306)
Exchange translation adjustment	56
Balance as of December 31, 2013	1,439

Deferred tax liabilities arose on the recognition of the identifiable intangible assets acquired from acquisition transactions and deconsolidation of subsidiaries consummated in 2011. Reversal for the years ended December 31, 2013 and 2012 of approximately US$226,000 and US$219,000, respectively, was due to amortization of the acquired intangible assets. Additional reversal of approximately US$80,000 was due to disposal of trade name upon disposal of

the 100% equity interest in Quanzhou Zhi Yuan and Quanzhou Tian Xi Shun He in November 2013.

The Company's deferred tax assets at December 31, 2013 and December 31, 2012 were as follows:

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Tax effect of net operating losses carried forward	3,899	2,929
Bad debts provision	1,594	824
Valuation allowance	(4,581)	(3,051)
	912	702

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	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Deferred tax assets reclassified as current asset	153	50
Deferred tax assets reclassified as non-current asset	759	652
	912	702

The net operating losses carried forward incurred by the Company (excluding its PRC operating subsidiary and VIEs) were approximately US$6,840,000 and US$6,363,000 at December 31, 2013 and 2012, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2033. A full valuation allowance has been recorded because it is considered more likely than not that the deferred tax assets will not be realized through sufficient future earnings of the entity to which the operating losses relate.

The net operating losses carried forward (excluding bad debts provision and non-deductible expenses) incurred by the Company's PRC subsidiary and VIEs were approximately US$7,253,000 and US$4,093,000 at December 31, 2013 and 2012, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2018. The related deferred tax assets was calculated based on the respective net operating losses incurred by each of the PRC subsidiary and VIEs and the respective corresponding enacted tax rate that will be in effect in the period in which the losses are expected to be utilized. The Company recorded approximately US$585,000 and US$nil valuation allowance for the years ended December 31, 2013 and 2012, respectively, because it is considered more likely than not that this portion of the deferred tax assets will not be realized through sufficient future earnings of the entities to which the operating losses relate.

Full valuation allowance to bad debts provision related deferred tax assets were recorded because it is considered more likely than not that this portion of deferred tax assets will not be realized through bad debts verification by the local tax authorities where the PRC subsidiary and VIEs operate in.

The Company's non-current portion of deferred tax assets and deferred tax liabilities were attributable to different tax-paying components of the entity, which were under different tax jurisdictions. Therefore, in accordance with ASC Topic 740 "Income taxes", the non-current portion of deferred tax assets and deferred tax liabilities were presented separately in the Company's balance sheets.

The tax authority of the PRC government conducts periodic and ad hoc tax filing reviews on business enterprises operating in the PRC after those enterprises had completed their relevant tax filings, hence the Company's tax filings may not be finalized. It is therefore uncertain as to whether the PRC tax authority may take different views about the Company's tax filings which may lead to additional tax liabilities.

18. Long-term borrowing from director

	As of December 31,	
	2013	2012
	US$('000)	US$('000)
Long-term borrowing from director	143	139

Long-term borrowing from director is a non-interest bearing loan from a director of the Company relating to the original paid-in capital contribution in the Company's wholly-owned subsidiary Rise King WFOE, which is not expected to be repaid within one year.

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19. Warrants

In the Company's August 2009 Financing, the Company issued to its investors (i) Series A-1 Warrant to purchase 2,060,800 shares of common stock at an exercise price of US$3.00 per share with a three-year term, and (ii) Series A-2 Warrants to purchase 2,060,800 shares of common stock at an exercise price of US$3.75 with a five-year term. The Company also issued to its placement agent warrants to purchase up to 329,728 shares of common stock at an exercise price of US$2.50, 164,864 shares at an exercise price of US$3.00 and 164,864 shares at an exercise price of US$3.75 respectively, with a five-year term ("Placement agent warrants" and together with the Series A-1 Warrant and Series A-2 Warrant, the "Warrants").

On December 1, 2011, the Company initiated an exchange offer (the "Offer") pursuant to which holders of certain of the Company's outstanding warrants (the "Warrants") to purchase an aggregate of 4,121,600 shares of the Company's common stock had the opportunity to acquire shares of the Company's common stock (the "Shares") through a warrant for share exchange. The Company issued the Shares in exchange for the Warrants in accordance with the following exchange ratios: (A) with respect to any Series A-1 Warrant, one (1) Share in exchange for every twenty (20) Shares for which such Series A-1 Warrant was exercisable, and (B) with respect to any Series A-2 Warrant, one (1) Share in exchange for every ten (10) Shares for which such Series A-2 Warrant was exercisable; provided that each holder must have exchanged all its Series A-1 Warrants and/or all its Series A-2 Warrants pursuant to the terms and conditions thereof. The Offer continued for a period of twenty (20) business days from December 1, 2011 and expired on December 30, 2011, at 5:00 p.m., Eastern Time. Based on information provided by Empire Stock Transfer Inc., the Company's stock transfer agent, and pursuant to the terms of the Offer, 1,418,800 Series A-1 Warrants were tendered in exchange for approximately 70,940 Shares and 356,800 Series A-2 Warrants were tendered in exchange for approximately 35,680 Shares, for a total of 1,775,600 Warrants exchanged for approximately 106,620 Shares. The Company had accepted for exchange all of the Warrants validly tendered and not withdrawn.

On August 20, 2012, Series A-1 warrants to purchase up to 642,000 shares of the Company's common stock issued on August 21, 2009 expired. The remaining Series A-2 warrants to purchase up to 1,704,000 shares of the Company's common stock and placement agent warrants to purchase up to 659,456 shares of the Company's common stock will expire on August 20, 2014.

Warrants issued and outstanding at December 31, 2013 and changes for the two years then ended are as follows:

	Warrants Outstanding			Warrants Exercisable		
	Number of underlying shares	Weighted Average Exercise Price	Average Remaining Contractual Life (years)	Number of underlying shares	Weighted Average Exercise Price	Average Remaining Contractual Life (years)
Balance, December 31, 2011	3,005,456	$3.41	2.21	3,005,456	$3.41	2.21
Expired	(642,000)	$3.00		(642,000)	$3.00	
Balance, December 31, 2012	2,363,456	$3.52	1.63	2,363,456	$3.52	1.63
Granted / Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Expired	-			-		
Balance, December 31, 2013	2,363,456	$3.52	0.63	2,363,456	$3.52	0.63

20. Restricted Net Assets

As most of the Company's operations are conducted through its PRC subsidiary and VIEs, the Company's ability to pay dividends is primarily dependent on receiving distributions of funds from its PRC subsidiary and VIEs. Relevant PRC statutory laws and regulations permit payments of dividends by its PRC subsidiary and VIEs only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations and after it has met the PRC requirements for appropriation to statutory reserves. Paid in capital of the PRC subsidiary and VIEs included in the Company's consolidated net assets are also non-distributable for dividend purposes.

In accordance with the PRC regulations on Enterprises with Foreign Investment, a WFOE established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A WFOE is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Rise King WFOE is subject to the above mandated restrictions on distributable profits. Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide a statutory common reserve of at least 10% of its annual after-tax profit until such reserve has reached 50% of its registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for a discretionary surplus reserve, at the discretion of the board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. All of the Company's PRC VIEs are subject to the above mandated restrictions on distributable profits.

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As a result of these PRC laws and regulations, the Company's PRC subsidiary and VIEs are restricted in their ability to transfer a portion of their net assets to the Company. As of December 31, 2013 and 2012, net assets restricted in the aggregate, which include paid-in capital and statutory reserve funds of the Company's PRC subsidiary and VIEs that are included in the Company's consolidated net assets, was approximately US$7.3 million and US$5.5 million, respectively.

The current PRC Enterprise Income Tax ("EIT") Law also imposed a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% withholding tax rate. Rise King WFOE is invested by its immediate holding company in Hong Kong and will be entitled to the 5% preferential withholding tax rate upon distribution of the dividends to its immediate holding company.

The ability of the Company's PRC subsidiary and VIEs to make dividends and other payments to the Company may also be restricted by changes in applicable foreign exchange and other laws and regulations.

Foreign currency exchange regulation in China is primarily governed by the following rules:

l Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules;
lAdministration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Currently, under the Administration Rules, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foerign Exchange (the "SAFE") is obtained and prior registration with the SAFE is made. Foreign-invested enterprises like Rise King WFOE that need foreign exchange for the distribution of profits to its shareholders may effect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

Although the current Exchange Rules allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. The Company cannot be sure that it will be able to obtain all required conversion approvals for its operations or the Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese Renminbi in the future. Currently, most of the Company's retained earnings are generated in Renminbi. Any future restrictions on currency exchanges may limit the Company's ability to use its retained earnings generated in Renminbi to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

As of December 31, 2013 and 2012, there was approximately US$39.3 million and US$38.1 million retained earnings in the aggregate, respectively, which was generated by the Company's PRC subsidiary and VIEs in Renminbi included in the Company's consolidated net assets, aside from US$2.8 million and US$2.4 million statutory reserve funds as of December 31, 2013 and 2012, respectively, that may be affected by increased restrictions on currency exchanges in

the future and accordingly may further limit the Company's PRC subsidiary's and VIEs' ability to make dividends or other payments in U.S. dollars to the Company, in addition to the approximately US$7.3 million and US$5.5 million restricted net assets as of December 31, 2013 and December 31, 2012, respectively, as discussed above.

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21. Related party transactions

Revenue from related parties:

	Year Ended December 31,	
	2013 US$('000)	2012 US$('000)
-Beijing Saimeiwei Food Equipment Technology Co., Ltd,	239	123
-Beijing Fengshangyinli Technology Co., Ltd.	7	2
-Beijing Telijie Century Environmental Technology Co., Ltd.	115	72
	361	197

22. Employee defined contribution plan

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the PRC subsidiaries of the Company make contributions to the government for these benefits based on certain percentages of the employees' salaries. The employee benefits were expensed as incurred. The Company has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits were approximately US$477,000 and US$451,000 for the years ended December 31, 2013 and 2012, respectively.

23. Concentration of risk

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, other receivables and prepayments and deposits to suppliers. As of December 31, 2013 and December 31, 2012, substantially all of the Company's cash and cash equivalents were held by major financial institutions located in Mainland China and Hong Kong Special Administrative Region of the PRC, which management believes are of high credit quality.

Risk arising from operations in foreign countries

All of the Company's operations are conducted within the PRC. The Company's operations in the PRC are subject to various political, economic, and other risks and uncertainties inherent in the PRC. Among other risks, the Company's operations in the PRC are subject to the risks of restrictions on transfer of funds, changing taxation policies, foreign exchange restrictions; and political conditions and governmental regulations.

Currency convertibility risk

Significant part of the Company's businesses is transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a

payment application form together with suppliers' invoices and signed contracts. These exchange control measures imposed by the PRC government authorities may restrict the ability of the Company's PRC subsidiary and VIEs to transfer its net assets, which to the Company through loans, advances or cash dividends.

Concentration of customers

There was no single customer who accounted for more than 10% of the Company's sales for the years ended December 31, 2013 and 2012, respectively.

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As of December 31, 2013, three customers individually accounted for 13%, 12% and 10% of the Company's accounts receivables, respectively. As of December 31, 2012, one customer accounted for 10% of the Company's accounts receivables. Except for the aforementioned, there was no other single customer who accounted for more than 10% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively.

Concentration of suppliers

For the year ended December 31, 2013, three suppliers individually accounted for 35%, 20% and 18% of the Company's cost of sales, respectively. For the year ended December 31, 2012, three suppliers accounted for 52%, 15% and 11% of the Company's cost of sales, respectively. Except for the afore-mentioned, there was no other single supplier who accounted for more than 10% of the Company's cost of sales for the years ended December 31, 2013 and 2012, respectively.

24. Commitments and contingencies

The following table sets forth the Company's operating lease commitment as of December 31, 2013:

	Office Rental US$('000)
Year ending December 31,	
-2014	361
-2015	307
-2016	76
Total	744

For the years ended December 31, 2013 and 2012, rental expenses under operating leases were approximately US$512,000 and US$440,000, respectively.

In October 2013, the Company entered into a contract to engage an unrelated third party to develop several software systems related to internet environment monitoring and system optimization to enhance the overall safety and efficiency of the Company's network system. The total contract amount was RMB13 million (approximately US$2.1 million) and a first installment of RMB5.2 million (approximately US$0.85 million) was paid in the first fiscal quarter of 2014. The transaction as contemplated under the contract is expected to be consummated in 2014 and the remaining unpaid contract amount is expected to be paid in 2014.

Legal Proceedings

Business Opportunity Online, one of the indirect wholly owned VIEs of the Company, Handong Cheng, Chairman and CEO of the Company, and Jinbo Yao, Legal Representative of Beijing 58 Information Technology Co., Ltd. (the "Beijing 58") have been named as defendants in a civil lawsuit filed in the PRC. The action was filed by Xuanfu Liu, an approximate 34% shareholder of the Company, on October 19, 2013, in the Xiaogan City Xiaonan District People's Court in Hubei Province, China. The complaint alleges that Mr. Cheng abused operation and management rights and that Mr. Cheng's disposition of equity interests that Business Opportunity Online held in Beijing 58 (the "Equity Interests"), without the consent of the plaintiff, was an act of infringement and in violation of the articles of association of Business Opportunity Online and Chinese corporate law. The complaint seeks a court order to declare the contract allegedly entered into by and between Mr. Cheng, on behalf of Business Opportunity Online, and Mr. Yao, null and void. The Company denies all of the allegations against the Company and intends to defend vigorously against the lawsuit. During the course of the civil litigation, Jinbo Yao, the defendant, filed an objection to remove this case from the Xiaogan City Xiaonan District People's Court to a Beijing court. Xiaogan City Xiaonan District People's Court denied the defendant's objection to remove the case. Jinbo Yao then filed an appeal of that decision to the Intermediate People's Court of Xiaogan. On March 10, 2014, the Intermediate People's Court of Xiaogan rendered a final ruling holding that the dispute shall be transferred and heard by the Haidian District People's Court of Beijing. Business Opportunity Online is awaiting a hearing date from the Haidian District People's Court of

Beijing. The Company currently cannot estimate the amount or range of possible losses from this litigation.

Rise King WFOE, the indirectly wholly owned subsidiary of the Company, Handong Cheng, Chairman and CEO of the Company, Zhige Zhang, CFO of the Company and Xuanfu Liu, have been named as defendants in a civil lawsuit filed in the PRC. The action was filed by Shanghai Pan Gu Investment Management Co., Ltd. (the "Shanghai Pan Gu"), on December 17, 2013, in the Haidian District People's Court of Beijing, China. The complaint alleges that the defendants breached a consulting agreement entered into on April 22, 2011 by and among Shanghai Pan Gu and the defendants. The complaint seeks a court order for liquidated damages in the amount of RMB0.56 million (equal to approximately US$92,100) under the consulting agreement. The Company denies all of the allegations against it and intends to defend vigorously against the lawsuit. The Company currently cannot estimate the amount or range of possible losses from this litigation.

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25. Segment reporting

The Company follows ASC Topic 280 “Segment Reporting”, which requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and evaluating their performance. Reportable operating segments include components of an entity about which separate financial information is available and which operating results are regularly reviewed by the chief operating decision maker (“CODM”) to make decisions about resources to be allocated to the segment and assess each operating segment’s performance.

Year Ended December 31, 2013

	Internet Ad. US$ (‘000)	TV Ad. US$ (‘000)	Bank kiosk US$ (‘000)	Brand management and sales channel building US$ (‘000)	Others US$ (‘000)	Inter-segment and reconciling item US$ (‘000)	Total US$ (‘000)
Revenue	20,672	6,801	251	2,569	-	-	30,293
Cost of sales	8,643	6,463	1	1,456	-	-	16,563
Total operating expenses	8,452	1,216	192	1,078	1,322 *	-	12,260
Depreciation and amortization expense included in total operating expenses	1,024	42	192	217	142	-	1,617
Operating income (loss)	3,577	(878)	58	35	(1,322)	-	1,470
Loss on disposal of subsidiaries	-	-	-	(543)	-	-	(543)
Loss on disposal of intangible asset	-	-	-	(315)	-	-	(315)
Share of losses in equity investment affiliates	-	-	-	(143)	(40)	-	(183)
Expenditure for long-term assets	2,486	-	-	2	11	-	2,499
Net income (loss)	2,638	(881)	57	(899)	(1,198)	-	(283)
Total assets – December 31, 2013	51,324	17,022	420	4,524	7,065	(23,521)	56,834

*Including approximately US$125,000 share-based compensation expenses.

Year Ended December 31, 2012

				Brand management		Inter-	

	Internet Ad.	TV Ad.	Bank Kiosk	and sales channel building	Others	segment and reconciling item	Total
	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)
Revenue	21,366	20,682	282	4,498	40	(268)	46,600
Cost of sales	9,790	20,450	18	1,528	-	(228)	31,558
Total operating expenses	7,005	338	210	1,205	1,774 *	-	10,532
Depreciation and amortization expense included in total operating expenses	1,053	60	210	215	99	-	1,637
Operating income (loss)	4,571	(106)	54	1,765	(1,734)	(40)	4,510
Changes in fair value of contingent consideration receivables	(160)	-	-	-	-	-	(160)
Share of losses in equity investment affiliates	-	-	-	(340)	(109)	-	(449)
Expenditure for long-term assets	306	8	-	-	-	-	314
Net income (loss)	4,181	(64)	54	982	(1,705)	(40)	3,408
Total assets – December 31, 2012	38,215	16,628	596	8,965	15,338	(22,824)	56,918

*Including approximately US$48,000 share-based compensation expenses.

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26. Earnings per share

Basic and diluted earnings per share for each of the periods presented are calculated as follows (All amounts, except number of shares and per share data, are presented in thousands of U.S. dollars):

	Year Ended December 31,	
	2013 US$('000)	2012 US$('000)
Net loss/income attributable to ChinaNet Online Holdings, Inc. (numerator for basic and diluted earnings per share)	$(234)	$2,996
Weighted average number of common shares outstanding – Basic	22,284,485	22,185,556
Effect of diluted securities:		
Warrants and options	-	-
Weighted average number of common shares outstanding – Diluted	22,284,485	22,185,556
Loss/earnings per share-Basic	$(0.01)	$0.14
Loss/earnings per share-Diluted	$(0.01)	$0.14

For the year ended December 31, 2013, the diluted loss per share calculation did not include the warrants and options to purchase up to 2,363,456 and 939,440 shares of common stock, respectively, because these warrants and options were out-of-the-money, that if included would be anti-dilutive.

For the year ended December 31, 2012, the diluted earnings per share calculation did not include the warrants and options to purchase up to 2,772,161 and 939,440 shares of common stock, respectively, because these warrants and options were out-of-the-money, that if included would be anti-dilutive.

27. Share-based compensation expenses

On July 5, 2013, the Company granted 150,000 shares of the Company's restricted common stock to a technical service provider, in relation to its service provided to the Company. These shares were valued at US$0.55 per share, the closing bid price of the Company's common stock on the date of grant. Total compensation expenses recognized for the year ended December 31, 2013 was US$82,500.

On January 1, 2012, the Company granted 80,000 shares of the Company's restricted common stock to an investor relations service provider, in relation to its service provided to the Company for a 24-month period. These shares were valued at US$1.05 per share, the closing bid price of the Company's common stock on the date of grant. The related compensation expenses were amortized over the requisite service period. Total compensation expenses recognized for the years ended December 31, 2013 and 2012 was both US$42,000.

On November 30, 2011, under the Company's 2011 Omnibus Securities and Incentive Plan, the Company issued its management, employees and directors in the aggregate of 885,440 options to purchase up the same number of the company's common stock at an exercise price of US$1.20 per share. These options were fully vested and exercisable upon issuance and subject to forfeiture upon an employee's cessation of employment at the discretion of the Company. Unexercised options will expire on November 29, 2021.

On November 30, 2009, the Company granted 5-year options to each of its three independent directors, Mr. Douglas MacLellan, Mr. Mototaka Watanabe and Mr. Zhiqing Chen, to purchase in the aggregate 54,000 shares of the Company's common stock at an exercise price of US$5.00 per share, in consideration of their services to the Company. These options vest quarterly at the end of each 3-month period, in equal installments over the 24-month period from the date of grant. Unexercised options will expire on November 29, 2014.

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Options issued and outstanding at December 31, 2013 and their movements for the two years then ended are as follows:

	Option Outstanding			Option Exercisable		
	Number of underlying shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of underlying shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Balance, December 31, 2011	939,440	9.51	$1.42	939,440	9.51	$1.42
Granted/Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Balance, December 31, 2012	939,440	8.51	$1.42	939,440	8.51	$1.42
Granted/Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Balance, December 31, 2013	939,440	7.51	$1.42	939,440	7.51	$1.42

The aggregate unrecognized share-based compensation expenses as of December 31, 2013 and 2012 is approximately US$nil and US$42,000, respectively.

28. Subsequent event

In the first quarter of 2014, the Company made payment for software system development in accordance with the contract entered into before the balance sheet date as disclosed in Note 24.

The Company entered into resources purchase framework agreements with each of two major internet resources suppliers of the Company, pursuant to which the Company agreed to purchase Internet resources from each supplier of RMB35 million (approximately US$5.7 million) and RMB180 million (approximately US$29.4 million), respectively, for a one-year period commencing on January 1, 2014 and April 1, 2014, respectively. The Company made an aggregate of approximately RMB11 million (approximately US$1.8 million) deposit pursuant to these agreements in February 2014 and April 2014.

In mid-April 2014, the Company incorporated two majority-owned entities, which were Beijing Chuang Shi Xin Qi Advertising Media Co., Ltd. (“Beijing Chuang Shi Xin Qi”) and Beijing Hong Da Shi Xing Network Technology Co., Ltd. (“Beijing Hong Da Shi Xing”) with two individuals who were not affiliated with the Company, respectively. In mid-May 2014, the Company acquired the noncontrolling interests in these two entities and became the sole shareholder of these subsidiaries. In May 2014, the Company incorporated a wholly-owned subsidiary, Beijing Shi Ji Cheng Yuan Advertising Media Co., Ltd. (“Beijing Shi Ji Cheng Yuan”). Beijing Chuang Shi Xin Qi, Beijing Hong Da Shi Xing and Beijing Shi Ji Cheng Yuan are all dormant since incorporation.

Business Opportunity Online has been named as a defendant in another civil lawsuit filed in the PRC. The action was filed by Haifeng Wang in the Haidian District People’s Court, Beijing, PRC, on April 29, 2014. The complaint alleges that the plaintiff neither attended any shareholders meeting in respect of the transfer of the plaintiff’s investment in

Business Opportunity Online to another party, nor executed any written shareholders resolutions approving such transfer. The complaint seeks a court order to declare such shareholders resolutions null and void. The Company denies all of the allegations against it and intends to defend vigorously against the lawsuit. The Company currently cannot estimate the amount or range of possible losses from this litigation.