Qumu Corp
Form EFFECT
April 18, 2018

oman; FONT-SIZE: 10pt">Due to former VIE 1,400 -

Taxes payable	3,018	6,542
Other payables	504	142
Total current liabilities	8,618	9,208
Deferred tax Liabilities-non current	1,261	1,439
Total Liabilities	$9,879	$10,647

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 nine months ended September 30, 2014, the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive loss includes sales of approximately US$27,049,000, cost of sales of approximately US$22,481,000, operating expenses of approximately US$7,294,000 and net loss before allocation to noncontrolling interests of approximately US$2,331,000.

For the three months ended September 30, 2014, the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive loss includes sales of approximately US$11,742,000, cost of sales of approximately US$9,995,000, operating expenses of approximately US$2,957,000 and net loss before allocation to noncontrolling interests of approximately US$663,000.

For the nine months ended September 30, 2013, the financial performance of the VIEs reported in the Company's consolidated statements of income and comprehensive income includes sales of approximately US$23,120,000, cost of sales of approximately US$13,121,000, operating expenses of approximately US$6,482,000 and net income before allocation to noncontrolling interests of approximately US$2,824,000.

For the three months ended September 30, 2013, the financial performance of the VIEs reported in the Company's consolidated statements of income and comprehensive income includes sales of approximately US$7,380,000, cost of sales of approximately US$3,365,000, operating expenses of approximately US$2,160,000 and net income before allocation to noncontrolling interests of approximately US$1,579,000.

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3. Summary of significant accounting policies

a) Basis of presentation

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

The interim consolidated financial information as of September 30, 2014 and for the nine and three months ended September 30, 2014 and 2013 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, have been omitted pursuant to those rules and regulations. The interim consolidated financial information should be read in conjunction with the financial statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, previously filed with the SEC (the "2013 Form 10-K").

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of September 30, 2014, its consolidated results of operations for the nine and three months ended September 30, 2014 and 2013, and its consolidated cash flows for the nine months ended September 30, 2014 and 2013, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

b) Principles of consolidation

The interim 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.

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 believes 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

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

	September 30, 2014	December 31, 2013
Balance sheet items, except for equity accounts	6.1560	6.1140

	Nine Months Ended September 30,	
	2014	2013
Items in the statements of income and comprehensive income, and statements of cash flows	6.1502	6.2215

	Three Months Ended September 30,	
	2014	2013
Items in the statements of income and comprehensive income, and statements of cash flows	6.1623	6.1695

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

e) 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 "sales and marketing expenses" in the statements of operations and comprehensive (loss)/income. For the nine months ended September 30, 2014 and 2013, advertising expenses for the Company's own brand building were approximately US$2,412,000 and US$292,000, respectively. For the three months ended September 30, 2014 and 2013, advertising expenses for the Company's own brand building were approximately US$1,439,000 and US$148,000, respectively.

f) 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 nine months ended September 30, 2014 and 2013 were approximately US$1,417,000 and US$1,490,000, respectively. Expenses for research and development for the three months ended September 30, 2014 and 2013 were approximately US$525,000 and US$578,000, respectively.

g) Transaction between entities under common control

The Company integrated and merged all business activities and resources (excluding tangible assets and liabilities incurred) of its former VIE, Sou Yi Lian Mei Network Technology (Beijing) Co., Ltd. ("Sou Yi Lian Mei") and its sole wholly-owned subsidiary, Jin Du Ya He (Beijing) Network Technology Co., Ltd. ("Jin Du Ya He") to the Company's other internet advertising and marketing companies for continued operation. Sou Yi Lian Mei and its subsidiary Jin Du Ya He were subsequently disposed by the Company in late August 2014.

The Company considered the integration and merger 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.

h) Recent accounting standards

In April 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. 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 May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605-Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities (nonpublic entities), the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

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In June 2014, the FASB issued ASU No. 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period". This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. For all entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Earlier 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 September 30, 2014 and December 31, 2013 represented 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 interest rate of the term deposit is 3.3% per annual. The term deposit matured on July 5, 2014 and was extended to July 7, 2015.

5. Accounts receivable, net

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Accounts receivable	6,519	13,358
Allowance for doubtful accounts	(3,905)	(5,685)
Accounts receivable, net	2,614	7,673

All of the accounts receivable are non-interest bearing. Based on the assessment of the collectability of the accounts receivable as of September 30, 2014, the Company provided approximately US$3,905,000 allowance for doubtful accounts, 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 nine and three months ended September 30, 2014, the Company reversed approximately US$120,000 and US$90,000 of allowance for doubtful accounts, respectively. For the nine and three months ended September 30, 2013, approximately US$233,000 allowance for doubtful debts was provided. For the nine and three months ended September 30, 2014, the decrease in accounts receivable and the related allowance of approximately US$2.7 million and US$1.6 million, respectively, was due to disposal of a VIE during the period.

6. Other receivables, net

	September 30, 2014	December 31, 2013

	US$('000) (Unaudited)	US$('000)
Short-term loan made for marketing campaign	697	1,636
Short-term loans to unrelated entities	120	790
Term deposit interest receivable	28	57
Receivable on disposal of fixed assets	97	98
Receivable on disposal of VIEs	699	1,611
Staff advances for normal business purpose	125	107
Overdue deposits	688	968
Allowance for doubtful accounts	(688)	(968)
Other receivables, net	1,766	4,299

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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$4,060,000) 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. 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. For the nine months ended September 30, 2014 and the subsequent period through the date hereof, the borrower repaid RMB5,710,000 (approximately US$928,000) and RMB3,890,000 (approximately US$632,000) of this debt, respectively. 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.

Receivable on disposal of fixed assets was subsequently settled in October 2014.

Receivables on disposal of VIEs represented the cash consideration to be received from the successors of shareholders of the Company’s two former VIEs, which were disposed in November 2013. As of the date hereof, the Company has collected RMB5,550,000 (approximately US$902,000) of this receivable in the aggregate, the remaining balance will be collected within fiscal 2014.

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 September 30, 2014 and December 31, 2013, the Company provided full allowance for doubtful accounts against these balances, which was related to the deposits of its internet advertising and TV advertising business segment. For the nine and three months ended September 30, 2014, no additional allowance for doubtful accounts was provided. For the nine and three months ended September 30, 2013, approximately US$791,000 allowance for doubtful accounts was provided. For the nine and three months ended September 30, 2014, the decrease in overdue deposits and the related allowance was due to disposal of a VIE during the period.

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7. Prepayments and deposit to suppliers

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Deposits to TV advertisement and internet resources providers	11,182	8,907
Prepayments to TV advertisement and internet resources providers	8,212	5,292
Other deposits and prepayments	380	493
	19,774	14,692

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").

Deposits to TV advertisement and internet resources providers are paid as contractual deposits to the Company's resources and services suppliers.

As of September 30, 2014, 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 over 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 September 30, 2014, the Company also had advanced payment carried forward from prior years 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. In response to the 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 utilized within fiscal 2014. As of the date hereof, the Company has utilized RMB12.88 million (approximately US$2.1 million) of this advanced payment through an unrelated third party.

As of September 30, 2014, the increase in deposit to resources suppliers primarily consisted of an approximately US$2.2 million contractual deposit to the Company’s largest internet resources supplier, as compared to that as of December 31, 2013.

As of September 30, 2014, the increase in the prepayments primarily consisted of an approximately US$3 million prepayment to three of the Company’s major internet resources suppliers and an approximately US$0.6 million prepayment to one of the TV stations that provides TV advertising slots to the Company, as compared to that as of December 31, 2013.

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8. Due from related parties

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Beijing Fengshangyinli Technology Co., Ltd.	-	36
Beijing Saimeiwei Food Equipment Technology Co., Ltd.	51	295
Beijing Telijie Century Environmental Technology Co., Ltd.	53	171
	104	502

These related parties are directly or indirectly owned by Mr. Handong Cheng or Mr. Xuanfu Liu, 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

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Investment in equity investment affiliates	803	760
Advance to equity investment affiliates	85	85
	888	845

The following table summarizes the movement of the investment in and advance to equity investment affiliates for the nine months ended September 30, 2014:

	Shenzhen Mingshan US$('000)	Zhao Shang Ke Hubei US$('000)	Total US$('000)
Balance as of December 31, 2013 (audited)	466	379	845
Share of (loss)/gain in equity investment affiliates	(2)	51	49
Exchange translation adjustment	(3)	(3)	(6)
Balance as of September 30, 2014 (unaudited)	461	427	888

For the nine months ended September 30, 2014 and 2013, the Company recognized its pro-rata shares of loss in Shenzhen Mingshan of approximately US$2,000 and US$41,000, respectively. For the three months ended September 30, 2014 and 2013, the Company recognized its pro-rata shares of loss in Shenzhen Mingshan of approximately US$nil and US$6,000, respectively.

For the nine and three months ended September 30, 2014, the Company recognized its pro-rata share of gain in Zhao Shang Ke Hubei of approximately US$51,000 and US$107,000, respectively. For the nine and three months ended September 30, 2013, the Company recognized its pro-rata share of loss in Zhao Shang Ke Hubei of approximately US$129,000 and US$39,000, respectively.

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10. Property and equipment, net

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Leasehold improvement	179	-
Vehicles	883	865
Office equipment	1,372	1,433
Electronic devices	1,236	1,245
Property and equipment, cost	3,670	3,543
Less: accumulated depreciation	(2,676)	(2,486)
Property and equipment, net	994	1,057

Depreciation expenses in the aggregate for the nine months ended September 30, 2014 and 2013 were approximately US$291,000 and $461,000, respectively.

Depreciation expenses in the aggregate for the three months ended September 30, 2014 and 2013 were approximately US$102,000 and $150,000, respectively.

11. Intangible assets, net

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Intangible assets not subject to amortization:		
Domain name	1,569	1,580
Intangible assets subject to amortization:		
Contract backlog	201	203
Customer relationship	3,523	3,548
Non-compete agreements	1,394	1,403
Software technologies	333	335
Cloud-computing based software platforms	1,508	1,518
Other computer software	79	78
Intangible assets, cost	8,607	8,665
Less: accumulated amortization	(3,420)	(2,650)
Intangible assets, net	5,187	6,015

Amortization expenses in aggregate for the nine months ended September 30, 2014 and 2013 were approximately US$788,000 and US$791,000, respectively.

Amortization expenses in aggregate for the three months September 30, 2014 and 2013 were both approximately US$262,000.

Based on the carrying value of the finite-lived intangible assets recorded as of September 30, 2014, and assuming no subsequent impairment of the underlying intangible assets, the estimated future amortization expenses is approximately US$262,000 for the three months ended December 31, 2014, approximately US$1,048,000 for the year ended December 31, 2015, approximately US$1,008,000 for the year ended December 31, 2016, approximately US$508,000 for the year ended December 31, 2017 and approximately US$310,000 for the year ended December 31, 2018.

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12. Deposit for purchasing of software technology

For further development of comprehensive value-added services to its customers, which are mostly SMEs, the Company made a deposit to an unrelated technical consulting entity of RMB15 million (approximately US$2.44 million) for the purchasing of software technology related to operation management applications for SMEs. As of the date hereof, 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 complete the trial testing of the software by the end of fiscal 2014 and consummate the transaction in March 2015.

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$2.11 million). The Company has paid the first installment of RMB5.2 million (approximately US$0.84 million). The transaction as contemplated under the contract is expected to be consummated in the first fiscal quarter of 2015.

13. Goodwill

	Amount US$('000)
Balance as of December 31, 2013 (audited)	11,450
Exchange translation adjustment	(79)
Balance as of September 30, 2014 (unaudited)	11,371

14. Short-term bank loan

Short-term bank loan as of September 30, 2014 and December 31, 2013 represented a short-term bank loan of approximately RMB5.0 million (approximately US$0.8 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 short-term loan as of December 31, 2013 matured on July 31, 2014 and was renewed on September 30, 2014, which will mature on September 29, 2015. The interest rate of the current short-term bank loan is a floating lending rate, which is 40% over the benchmark rate of the People's Bank of China (the "PBOC"). As of September 30, 2014, the interest rate of the short-term loan was 8.4%.

15. Accrued payroll and other accruals

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Accrued payroll and staff welfare	398	382
Accrued operating expenses	52	294
	450	676

16. Due to noncontrolling interest of VIE

As of September 30, 2014, due to noncontrolling interest of VIE represented the outstanding balance of the short-term loan borrowed by one of the Company's VIEs from its noncontrolling interest to supplement the short-term working capital needs of this VIE. The short-term loan is unsecured, interest free and is payable on demand.

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17. Due to former VIE

As of September 30, 2014, due to former VIE represented the outstanding balance of the former inter-company loan borrowed from the Company's former VIE, which was disposed in late August 2014. This loan is unsecured, interest free and is required to be fully settled before June 30, 2015.

18. 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 nine and three months ended September 30, 2014, 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 nine and three months ended September 30, 2014 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.

l Rise King WFOE was 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 for fiscal 2009 and 2010, and a 50% reduction of its applicable EIT rate, which was 25% to 12.5% of its taxable income for the succeeding three years through fiscal 2013. The applicable income tax rate for Rise King WFOE is 25% after fiscal 2013. Therefore, for the nine and three months ended September 30, 2014, the applicable income tax rate for Rise King WFOE was 25%, for the nine and three months ended September 30, 2013, the applicable income tax rate for Rise King WFOE was 12.5%.

l In July 2012, 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, the applicable income tax rate of Business Opportunity Online was 15% for the nine and three months ended September 30, 2014 and 2013. 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.

l 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 EIT exemption for fiscal 2012, as its first profitable year was determined as fiscal 2011 instead of fiscal 2012 in August 2013 by the local tax authorities of Xiaogan City, Hubei province, and a 50% reduction of its applicable EIT rate which is 25% to 12.5% of its taxable income for the succeeding three years through fiscal 2015. Therefore, the applicable income tax rate for Business Opportunity Online Hubei was 12.5% for the nine and three months ended September 30, 2014 and 2013. After fiscal 2015, the applicable income tax rate for Business Opportunity Online Hubei will be 25% under the current EIT law of PRC.

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- The applicable income tax rate for other PRC operating entities of the Company was 25% for the nine and three months ended September 30, 2014 and 2013.

- 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 nine and three months ended September 30, 2014 and 2013, 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.

2) Turnover taxes and the relevant surcharges

Service revenues provided by the Company's PRC operating subsidiary and VIEs were subject to Value Added Tax ("VAT"). VAT rate for provision of modern services (other than lease of corporeal movables) is 6% and for small scale taxpayer, 3%. Therefore, for the nine and three months ended September 30, 2014 and 2013, the Company's 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.

As of September 30, 2014 and December 31, 2013, taxes payable consists of:

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Turnover tax and surcharge payable	1,174	2,343
Enterprise income tax payable	2,328	4,686
	3,502	7,029

For the nine and three months ended September 30, 2014, the decrease in taxes payable was primarily due to disposal of a VIE during the period.

For the nine and three months ended September 30, 2014 and 2013, the Company's income tax benefit/(expense) consisted of:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)
Current-PRC	(380)	(1,165)	(3)	(460)
Deferred-PRC	419	696	162	259
	39	(469)	159	(201)

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The Company’s deferred tax liabilities at September 30, 2014 and changes for the nine months then ended were as follows:

	Amount US$(’000)
Balance as of December 31, 2013 (audited)	1,439
Reversal during the period	(168)
Exchange translation adjustment	(10)
Balance as of September 30, 2014 (unaudited)	1,261

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 nine and three months ended September 30, 2014 of approximately US$168,000 and US$56,000, respectively, was due to amortization of the acquired intangible assets.

The Company’s deferred tax assets at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014 US$(’000) (Unaudited)	December 31, 2013 US$(’000)
Tax effect of net operating losses carried forward	4,849	3,899
Bad debts provision	1,119	1,594
Valuation allowance	(4,888)	(4,581)
	1,080	912

	September 30, 2014 US$(’000) (Unaudited)	December 31, 2013 US$(’000)
Deferred tax assets reclassified as current asset	179	153
Deferred tax assets reclassified as non-current asset	901	759
	1,080	912

The net operating losses carried forward incurred by the Company (excluding its PRC operating subsidiary and VIEs) were approximately US$7,095,000 and US$6,840,000 at September 30, 2014 and December 31, 2013, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2034. 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.

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The net operating losses carried forward (excluding bad debts provision, amortization of intangible assets acquired from business combinations and non-deductible expenses) incurred by the Company's PRC subsidiary and VIEs were approximately US$12,103,000 and US$7,253,000 at September 30, 2014 and December 31, 2013, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2019. 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$697,000 and US$125,000 valuation allowance for the nine and three months ended September 30, 2014, 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.

19. Long-term borrowing from director

	September 30, 2014 US$('000) (Unaudited)	December 31, 2013 US$('000)
Long-term borrowing from director	142	143

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.

20. Warrants

The Company issued warrants in its August 2009 Financing. The changes of the warrants during the nine months ended September 30, 2014 are as follows:

Warrants Outstanding			Warrants Exercisable		
Number of	Weighted	Average	Number of	Weighted	Average

	underlying shares	Average Exercise Price	Remaining Contractual Life (years)	underlying shares	Average Exercise Price	Remaining Contractual Life (years)
Balance, December 31, 2013 (audited)	2,363,456	$3.52	0.63	2,363,456	$3.52	0.63
Granted / Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Expired	(2,363,456)			(2,363,456)		
Balance, September 30, 2014 (unaudited)	-			-		

All warrants outstanding as of December 31, 2013 expired on August 20, 2014.

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21. 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.

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 September 30, 2014 and December 31, 2013, 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 both approximately US$7.3 million.

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% 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;
l 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.

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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 September 30, 2014 and December 31, 2013, there was approximately US$36.4 million and US$39.3 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 statutory reserve funds as of September 30, 2014 and December 31, 2013, 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 restricted net assets as of September 30, 2014 and December 31, 2013, as discussed above.

22. Related party transactions

Revenue from related parties:

	Nine Months Ended September 30,	
	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)
-Beijing Saimeiwei Food Equipment Technology Co., Ltd.	239	213
-Beijing Fengshangyinli Technology Co., Ltd.	1	7
-Beijing Telijie Century Environmental Technology Co., Ltd.	-	94
	240	314

	Three Months Ended September 30,	
	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)
-Beijing Saimeiwei Food Equipment Technology Co., Ltd.	57	91
-Beijing Fengshangyinli Technology Co., Ltd.	-	1
-Beijing Telijie Century Environmental Technology Co., Ltd.	-	48
	57	140

23. 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$424,000 and US$352,000 for the nine months ended September 30, 2014 and 2013, respectively. The total amounts for such employee benefits were approximately US$159,000 and US$121,000 for the three months ended September 30, 2014 and 2013, respectively.

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24. 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 September 30, 2014 and December 31, 2013, 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

For the nine months ended September 30, 2014, two customers individually accounted for 29% and 17% of the Company's sales, respectively. Except for the aforementioned customers, there was no other single customer who accounted for more than 10% of the Company's sales for the nine months ended September 30, 2014 and 2013, respectively.

For the three months ended September 30, 2014, the same two customers individually accounted for 42% and 15% of the Company's sales, respectively. Except for the aforementioned customer, there was no other single customer who accounted for more than 10% of the Company's sales for the three months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, two customers individually accounted for 18% and 10% of the Company's accounts receivables, respectively. As of December 31, 2013, three customers individually accounted for 13%, 12% and 10% of the Company's accounts receivables, respectively. Except for the afore-mentioned, there was no other single customer who accounted for more than 10% of the Company's accounts receivable as of September 30, 2014 and December 31, 2013, respectively.

Concentration of suppliers

For the nine months ended September 30, 2014, two suppliers individually accounted for 69% and 20% of the Company's cost of sales, respectively. For the three months ended September 30, 2014, the same two suppliers individually accounted for 75% and 17% 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 nine and three months ended September 30, 2014, respectively.

For the nine months ended September 30, 2013, three suppliers individually accounted for 34%, 26% and 14% of the Company's cost of sales, respectively. For the three months ended September 30, 2013, two suppliers individually accounted for 47% and 14% 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 nine and three months ended September 30, 2013, respectively.

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25. Commitments

The following table sets forth the Company's operating lease commitment as of September 30, 2014:

	Office Rental US$('000) (Unaudited)
Three months ending December 31,	
-2014	83
Year ending December 31,	
-2015	343
-2016	83
Total	509

For the nine months ended September 30, 2014 and 2013, rental expenses under operating leases were approximately US$393,000 and US$379,000, respectively. For the three months ended September 30, 2014 and 2013, rental expenses under operating leases were approximately US$132,000 and US$130,000, 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$2.11 million) and the first installment of RMB5.2 million (approximately US$0.84 million) was paid in the first fiscal quarter of 2014. The transaction as contemplated under the contract is expected to be consummated in the first fiscal quarter of 2015 and the remaining unpaid contract amount is expected to be paid in the first fiscal quarter of 2015.

Legal Proceedings

Business Opportunity Online, 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 denied 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.

Rise King WFOE, Handong Cheng, 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.

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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 the litigations described above.

26. 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 Company's Chief Executive Officer, who is the chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess each operating segment's performance.

Nine Months Ended September 30, 2014 (Unaudited)

	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	21,777	4,806	207	821	-	-	27,611
Cost of sales	17,562	4,467	8	446	-	-	22,483
Total operating expenses	6,744	345	93	442	908 *	-	8,532
Depreciation and amortization expense included in total operating expenses	743	31	93	151	61	-	1,079
Operating income (loss)	(2,529)	(6)	106	(67)	(908)	-	(3,404)
Share of gain/(loss) in equity investment affiliates	-	-	-	51	(2)	-	49
Gain on disposal of VIE	266	-	-	-	-	-	266
Expenditure for long-term assets	1,072	-	-	3	12	-	1,087
Net income (loss)	(2,133)	(57)	106	(15)	(910)	-	(3,009)
Total assets – September 30, 2014	47,551	15,411	325	4,522	6,324	(21,659)	52,474
Total assets – December 31, 2013	51,324	17,022	420	4,524	7,065	(23,521)	56,834

*Including approximately US$25,000 share-based compensation expenses.

Three Months Ended September 30, 2014 (Unaudited)

	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	9,969	1,812	69	217	-	-	12,067
Cost of sales	8,167	1,695	3	131	-	-	9,996
Total operating expenses	2,894	123	30	159	330 *	-	3,536
Depreciation and amortization expense included in total operating expenses	254	9	30	51	20	-	364
Operating income (loss)	(1,092)	(6)	36	(73)	(330)	-	(1,465)
Share of gain/(loss) in equity investment affiliates	-	-	-	107	-	-	107
Gain on disposal of VIE	266	-	-	-	-	-	266
Expenditure for long-term assets	222	-	-	2	-	-	224
Net income (loss)	(640)	(25)	36	42	(330)	-	(917)

*Including approximately US$8,000 share-based compensation expenses.

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Nine Months Ended September 30, 2013 (Unaudited)

	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	15,318	5,687	211	2,206	-	-	23,422
Cost of sales	6,670	5,246	1	1,206	-	-	13,123
Total operating expenses	5,003	1,012	161	880	1,131 *	-	8,187
Depreciation and amortization expense included in total operating expenses	777	32	161	163	119	-	1,252
Operating income (loss)	3,645	(571)	49	120	(1,131)	-	2,112
Share of losses in equity investment affiliates	-	-	-	(129)	(41)	-	(170)
Expenditure for long-term assets	2,464	-	-	2	10	-	2,476
Net income (loss)	3,204	(616)	49	(44)	(1,048)	-	1,545

*Including approximately US$114,000 share-based compensation expenses.

Three Months Ended September 30, 2013 (Unaudited)

	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	6,071	560	71	779	-	-	7,481
Cost of sales	2,406	503	1	456	-	-	3,366
Total operating expenses	1,729	257	56	329	368 *	-	2,739
Depreciation and amortization expense included in total operating expenses	261	7	56	54	34	-	412
Operating income (loss)	1,936	(200)	14	(6)	(368)	-	1,376
Share of losses in equity investment affiliates	-	-	-	(39)	(6)	-	(45)
Expenditure for long-term assets	1,611	-	-	2	3	-	1,616
Net income (loss)	1,694	(185)	14	(49)	(334)	-	1,140

*Including approximately US$94,000 share-based compensation expenses.

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27. 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):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)	2014 US$('000) (Unaudited)	2013 US$('000) (Unaudited)
Net (loss)/income attributable to ChinaNet Online Holdings, Inc. (numerator for basic and diluted earnings per share)	$ (2,906)	$ 1,623	$ (907)	$ 1,159
Weighted average number of common shares outstanding - Basic	22,385,478	22,253,463	22,403,062	22,371,649
Effect of diluted securities:				
Warrants and options	-	-	-	-
Weighted average number of common shares outstanding -Diluted	22,385,478	22,253,463	22,403,062	22,371,649
(Loss)/earnings per share-Basic	$ (0.13)	$ 0.07	$ (0.04)	$ 0.05
(Loss)/earnings per share-Diluted	$ (0.13)	$ 0.07	$ (0.04)	$ 0.05

For the nine and three months ended September 30, 2014, the diluted earnings per share calculation did not include the warrants and options outstanding during the periods, because their effect was anti-dilutive, as the Company incurred losses during the periods.

For the nine and three months ended September 30, 2013, the diluted earnings per share calculation did not include the warrants and options outstanding during the periods, because these warrants and options were out-of-the-money, that if included would be anti-dilutive.

28. Share-based compensation expenses

The Company renewed its engagement with MZHCI, LLP ("MZ-HCI") to provide investor relations services for a twelve-month period commencing on January 1, 2014. As additional compensation, the Company granted 40,000 restricted shares of the Company's common stock to MZ-HCI. These shares were valued at $0.84 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 services provided by MZ-HCI was US$25,200 and US$31,500 for the nine months ended September 30, 2014 and 2013, respectively. Total compensation expenses recognized for the services provided by MZ-HCI was US$8,400 and US$10,500 for the three months ended September 30, 2014 and 2013, respectively.

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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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 to 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.

Options issued and outstanding at September 30, 2014 and their movements during the nine months 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, 2013 (audited)	939,440	7.51	$ 1.42	939,440	7.51	$ 1.42
Granted/Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Balance, September 30, 2014 (unaudited)	939,440	6.76	$ 1.42	939,440	6.76	$ 1.42

The aggregate unrecognized share-based compensation expenses as of September 30, 2014 and 2013 is approximately US$9,000 and US$11,000, respectively.

Item 2 Management'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 consolidated financial statements and the related notes included elsewhere in this interim report. Our consolidated financial statements have been prepared in accordance with U.S. GAAP. 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" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Readers are cautioned not to place undue reliance on these forward-looking statements.

Overview

We were incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. On June 26, 2009, we consummated a share exchange transaction with China Net Online Media Group Limited (the "Share Exchange"), a company organized under the laws of British Virgin Islands ("China Net BVI"). As a result of the Share Exchange, China Net BVI became a wholly owned subsidiary of us and we are now a holding company, which, through certain contractual arrangements with operating entities in the PRC, is engaged in providing advertising, marketing, communication and brand management and sales channel building services to SMEs in China.

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 expansion 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, management estimates and critical accounting policies

Our unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as promulgated by the SEC, 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. In order to understand the significant accounting policies that we adopted for the preparation of our interim consolidated financial statements, you should refer to the information set forth in Note 3 “Summary of significant accounting policies” to our audited financial statements in our 2013 Form 10-K.

Recent Accounting Standards

In April 2014, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.” The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU supercedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605-Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities (nonpublic entities), the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on our consolidated financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period”. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. For all entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Earlier 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 our consolidated financial statements upon adoption.

A. RESULTS OF OPERATIONS FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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 U.S. dollars.

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014 US$ (Unaudited)	2013 US$ (Unaudited)	2014 US$ (Unaudited)	2013 US$ (Unaudited)
Sales				
From unrelated parties	$27,371	$23,108	$12,010	$7,341
From related parties	240	314	57	140
	27,611	23,422	12,067	7,481
Cost of sales	22,483	13,123	9,996	3,366
Gross margin	5,128	10,299	2,071	4,115
Operating expenses				
Sales and marketing expenses	4,092	2,007	1,997	617
General and administrative expenses	3,023	4,690	1,014	1,544
Research and development expenses	1,417	1,490	525	578
	8,532	8,187	3,536	2,739
(Loss)/income from operations	(3,404)	2,112	(1,465)	1,376
Other income (expenses)				
Interest income	91	94	31	30
Interest expense	(38)	(10)	(6)	(10)
Gain on disposal of VIE	266	-	266	-
Other expenses	(12)	(12)	(9)	(10)
	307	72	282	10
(Loss)/income before income tax expense, equity method investments and noncontrolling interests	(3,097)	2,184	(1,183)	1,386
Income tax benefit/(expense)	39	(469)	159	(201)
(Loss)/income before equity method investments and noncontrolling interests	(3,058)	1,715	(1,024)	1,185
Share of gain/(loss) in equity investment affiliates	49	(170)	107	(45)
Net (loss)/income	(3,009)	1,545	(917)	1,140
Net loss attributable to noncontrolling interests	103	78	10	19
Net (loss)/income attributable to ChinaNet Online Holdings, Inc.	$(2,906)	$1,623	$(907)	$1,159
(Loss)/earnings per share				
(Loss)/earnings per common share				
Basic	$(0.13)	$0.07	$(0.04)	$0.05
Diluted	$(0.13)	$0.07	$(0.04)	$0.05

Weighted average number of common shares outstanding:				
Basic	22,385,478	22,253,463	22,403,062	22,371,649
Diluted	22,385,478	22,253,463	22,403,062	22,371,649

Revenue

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

	Nine Months Ended September 30,							
	2014				2013			
	(Amounts expressed in thousands of US dollars, except percentages)							
Revenue type								
Internet advertisement and related services	$	21,777	78.9	%	$	15,318	65.4	%
-Internet advertisement		13,073	47.3	%		15,015	64.1	%
-Technical services		562	2.1	%		303	1.3	%
-Search engine marketing service		8,142	29.5	%		-	-	
TV advertisement		4,806	17.4	%		5,687	24.3	%
Bank kiosks		207	0.7	%		211	0.9	%
Brand management and sales channel building		821	3.0	%		2,206	9.4	%
Total	$	27,611	100	%	$	23,422	100	%

Revenue type	Three Months Ended September 30, 2014		2013	
	(Amounts expressed in thousands of US dollars, except percentages)			
Internet advertisement and related services	$ 9,969	82.6 %	$ 6,071	81.2 %
-Internet advertisement	4,619	38.3 %	5,969	79.8 %
-Technical services	325	2.7 %	102	1.4 %
-Search engine marketing service	5,025	41.6 %	-	-
TV advertisement	1,812	15.0 %	560	7.5 %
Bank kiosks	69	0.6 %	71	0.9 %
Brand management and sales channel building	217	1.8 %	779	10.4 %
Total	$ 12,067	100 %	$ 7,481	100 %

Total Revenues: For the nine months ended September 30, 2014, our total revenues increased to US$27.61 million from US$23.42 million for the nine months ended September 30, 2013. For the three months ended September 30, 2014, our total revenues increased to US$12.07 million from US$7.48 million for the three months ended September 30, 2013. The increase in our total revenues for the nine and three months ended September 30, 2014 was primarily due to the increase in our search engine marketing service revenue during the periods, which is discussed in detail in our revenue analysis section below.

We derive the majority of our advertising service revenues from the sale of advertising space on our internet portals and from providing the related value-added technical support and services, internet marketing service and content management services to unrelated third parties and to certain related parties. Beginning in the second fiscal quarter of 2014, we elaborated an existing stream of internet marketing service by providing enhanced third-party search engine marketing ("SEM") services to the SMEs as a strategic supplement to the internet advertising services provided to our customers. We also derive revenue from the sale of advertising time purchased from different provincial satellite TV stations. 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 nine and three months ended September 30, 2014 and 2013, our service revenue from related parties in the aggregate was less than 2% of the total revenue 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. For advertising services, 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. For SEM services, we charge certain percentage of service fees to our customers based on the internet resources cost consumed for their SEM services.

The tables below summarize the revenues, cost of sales, gross margin and net (loss)/income generated from each of our VIEs and subsidiaries for the nine and three months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014:

	Revenue from	Revenue	Revenue	Total

Name of subsidiary or VIE	unrelated parties ($'000)	from related parties ($'000)	from inter-company ($'000)	($'000)
Rise King WFOE	562	-	-	562
Business Opportunity Online and subsidiaries	26,602	240	-	26,842
Beijing CNET Online and subsidiaries	207	-	-	207
Total revenue	27,371	240	-	27,611

For the three months ended September 30, 2014:

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	325	-	-	325
Business Opportunity Online and subsidiaries	11,616	57	-	11,673
Beijing CNET Online and subsidiaries	69	-	-	69
Total revenue	12,010	57	-	12,067

For the nine months ended September 30, 2014:

Name of subsidiary or VIE	Cost of Sales ($'000)	Gross Margin ($'000)
Rise King WFOE	2	560
Business Opportunity Online and subsidiaries	22,473	4,369
Beijing CNET Online and subsidiaries	8	199
Total	22,483	5,128

For the three months ended September 30, 2014:

Name of subsidiary or VIE	Cost of Sales ($'000)	Gross Margin ($'000)
Rise King WFOE	1	324
Business Opportunity Online and subsidiaries	9,992	1,681
Beijing CNET Online and subsidiaries	3	66
Total	9,996	2,071

For the nine months ended September 30, 2014:

Name of subsidiary or VIE	Net Loss ($'000)
Rise King WFOE	(423)
Business Opportunity Online and subsidiaries	(2,215)
Beijing CNET Online and subsidiaries	(81)
Shanghai Jing Yang	(35)
ChinaNet Online Holdings, Inc.	(255)
Total net loss before allocation to the noncontrolling interest	(3,009)

For the three months ended September 30, 2014:

Name of subsidiary or VIE	Net Loss ($'000)

Rise King WFOE	(132)
Business Opportunity Online and subsidiaries	(616)
Beijing CNET Online and subsidiaries	(31)
Shanghai Jing Yang	(16)
ChinaNet Online Holdings, Inc.	(122)
Total net loss before allocation to the noncontrolling interest	(917)

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For the nine months ended September 30, 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	160	143	-	303
Business Opportunity Online and subsidiaries	17,262	171	-	17,433
Beijing CNET Online and subsidiaries	5,686	-	-	5,686
Total revenue	23,108	314	-	23,422

For the three months ended September 30, 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	54	48	-	102
Business Opportunity Online and subsidiaries	6,722	92	-	6,814
Beijing CNET Online and subsidiaries	565	-	-	565
Total revenue	7,341	140	-	7,481

For the nine months ended September 30, 2013:

Name of subsidiary or VIE	Cost of Sales ($'000)	Gross Margin ($'000)
Rise King WFOE	2	301
Business Opportunity Online and subsidiaries	8,713	8,720
Beijing CNET Online and subsidiaries	4,408	1,278
Total	13,123	10,299

For the three months ended September 30, 2013:

Name of subsidiary or VIE	Cost of Sales ($'000)	Gross Margin ($'000)
Rise King WFOE	2	100
Business Opportunity Online and subsidiaries	3,071	3,743
Beijing CNET Online and subsidiaries	293	272
Total	3,366	4,115

For the nine months ended September 30, 2013:

Name of subsidiary or VIE	Net (Loss)/Income

	($'000)
Rise King WFOE	(873)
Business Opportunity Online and subsidiaries	3,091
Beijing CNET Online and subsidiaries	(262)
Shanghai Jing Yang	(4)
ChinaNet Online Holdings, Inc.	(407)
Total net income before allocation to the noncontrolling interest	1,545

For the three months ended September 30, 2013:

Name of subsidiary or VIE	Net (Loss)/Income ($'000)
Rise King WFOE	(280)
Business Opportunity Online and subsidiaries	1,750
Beijing CNET Online and subsidiaries	(169)
Shanghai Jing Yang	(2)
ChinaNet Online Holdings, Inc.	(159)
Total net income before allocation to the noncontrolling interest	1,140

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

- Internet advertising revenues for the nine months ended September 30, 2014 were approximately US$13.07 million as compared to approximately US$15.02 million for the same period in 2013, representing a 13% decrease. For the three months ended September 30, 2014 and 2013, internet advertising revenue was approximately US$4.62 million and US$5.97 million, respectively, representing a 23% decrease. The decrease in internet advertising revenue for the nine and three months ended September 30, 2014 was primarily due to a decrease in number of customers during the periods as compared to the same periods last year. The decrease in number of customers for the nine and three months ended September 30, 2014 was primarily due to the fact that (1) we have placed persistent efforts in integrating and upgrading our internet advertising and marketing services to our SME customers, and during the process, we have gradually eliminated some smaller customers with insufficient spending on our services and concentrated our resources on increasing the cooperation with larger SME customers who have better brand awareness. As a result, despite the decrease in our total number of customers as compared to the same periods of last year, the number of larger customers served by liansuo.com, our premium advertising and marketing web portal continued to increase since established; (2) we are still in the recovery phase from the internal technical management deficiency detected in the fourth fiscal quarter of 2013- 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. As a result, the confidence of some of our customers relating to the effectiveness of our online advertising portals was also harmed; and (3) experienced intensified competition in the industry and customers' hesitation on investing in advertising and marketing expenses. In response to this situation, we increased our investment in brand building and new marketing service activities, and expanded our existing stream of internet marketing services by providing enhanced search engine marketing services to our customers, which as an important strategic supplement, will direct our customers to use our internet advertising and marketing services through various platforms, thereby increasing our recurring revenues and number of customers in the future.

- Revenues generated from technical services provided by Rise King WFOE were US$0.56 million for the nine months ended September 30, 2014 as compared to US$0.30 million for the same period in 2013. For the three months ended September 30, 2014 and 2013, revenues generated from technical services were approximately US$0.33 million and US$0.10 million, respectively. Due to unexpected economic difficulties and the overall economic downturn in China from the second half of 2011, with no significant improvement afterwards, many of our clients, including our branded clients, who are mostly SMEs, reduced their advertising spending significantly. A majority of our clients cancelled the subscription of these services and only continued their basic internet advertising service, which was recorded as internet advertising revenue discussed above. As there was no significant improvement in the overall economic in China for the past three years, our technical services revenue generated by Rise King WFOE was insignificant for the nine and three months ended September 30, 2014 and 2013.

- Revenue generated from search engine marketing services for the nine and three months ended September 30, 2014 was approximately US$8.14 million and US$5.03 million, respectively. This enhanced third-party search engine marketing service is designed to help our customers select the most effective key words and to prioritize the ranking of the anticipated search engine results on selected key words in order to increase the sales lead conversion rate for our customers' business promotion on both mobile and PC searches. Management believes this service will be an effective supplement to the internet advertising services provided to our customers, and will help increase overall customer satisfaction, thereby increasing recurring revenues and number of customers from online advertising and marketing in the future.

- Our TV advertising revenue decreased to US$4.81 million for the nine months ended September 30, 2014 from US$5.69 million for the same period in 2013. For the three months ended September 30, 2014, our TV advertising revenue increased to US$1.81 million from US$0.56 million for the same period in 2013. The decrease in TV advertising revenue for the nine months ended September 30, 2014 was primarily due to the adoption of a restriction notice to TV shopping infomercials broadcasted in provincial satellite television station, issued by SARFT in October 2013, which further restricts the content, air time and duration of these infomercials. The increase in TV advertising revenue for the three months ended September 30, 2014 as compared to that for the same period in 2013 reflected the effective efforts made by the management in response to the adverse effects of the restriction notice adopted as discussed above. This restriction notice has had and may continue to have adverse impacts on the demands of our TV advertising service. 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 clients raise their brand and product awareness, and to develop non-TV shopping advertising customers. We will continue to monitor our customers' needs for TV advertising services in order to improve the profitability of this business segment in future periods.

l For the nine months ended September 30, 2014 and 2013, we earned both US$0.21 million of revenue from our bank kiosk business segment. For the three months ended September 30, 2014 and 2013, we earned approximately US$0.07 million of revenue from our bank kiosk business segment. The bank kiosk advertising business is not intended to expand at the moment as management's primary focus is expanding our internet business. It was not a significant contributor to revenue for the nine and three months ended September 30, 2014 or 2013. Management currently maintains this business without any expansion plans and some of the technology used in this business unit will need to be fully integrated into the overall advertising and marketing platform.

l For the nine months ended September 30, 2014, we achieved approximately US$0.82 million service revenue from our brand management and sales channel building segment as compared to US$2.21 million service revenue generated in the same period of 2013. For the three months ended September 30, 2014, we achieved approximately US$0.22 million service revenue from this segment as compared to US$0.78 million service revenue generated in the same period of 2013. Due to the slow recovery of economy in 2014 and tightening of our customers' advertising budget, we do not expect prompt recovery in this business segment in 2014.

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 six segments, by amount and gross profit ratio for the periods indicated, with inter-segment transactions eliminated:

	Nine Months Ended September 30,					
	2014			2013		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Revenue	Cost	GP ratio	Revenue	Cost	GP ratio
Internet advertisement and related services	$21,777	$17,562	19 %	$15,318	$6,670	56 %
-Internet advertisement	13,073	9,655	26 %	15,015	6,668	56 %
-Technical services	562	2	100 %	303	2	99 %
-Search engine marketing service	8,142	7,905	3 %	-	-	-
TV advertisement	4,806	4,467	7 %	5,687	5,246	8 %
Bank kiosk	207	8	96 %	211	1	100 %
Brand management and sales channel building	821	446	46 %	2,206	1,206	45 %
Total	$27,611	$22,483	19 %	$23,422	$13,123	44 %

	Three Months Ended September 30,					
	2014			2013		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Revenue	Cost	GP ratio	Revenue	Cost	GP ratio
Internet advertisement and related services	$9,969	$8,167	18 %	$6,071	$2,406	60 %
-Internet advertisement	4,619	3,287	29 %	5,969	2,404	60 %
-Technical services	325	1	100 %	102	2	98 %
-Search engine marketing service	5,025	4,879	3 %	-	-	-
TV advertisement	1,812	1,695	6 %	560	503	10 %
Bank kiosk	69	3	96 %	71	1	99 %
Brand management and sales channel building	217	131	40 %	779	456	41 %

Total	$12,067	$9,996	17	%	$7,481	$3,366	55	%

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Cost of revenues: Our total cost of revenues increased to US$22.48 million for the nine months ended September 30, 2014 from US$13.12 million for the same period in 2013. For the three months ended September 30, 2014, our total cost of revenues increased to US$10.00 million from US$3.37 million for the same period in 2013. Our cost of revenues related to our advertising and marketing services primarily consists of internet resources purchased from key search engines and technical services providers related to lead generation, sponsored search, TV advertisement time costs purchased from TV stations and 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 over 80% of our total internet advertisement cost of sales. We purchased these internet resources from other well-known search engines and portal websites in China, such as: Baidu, Qihu 360 and Sohu (Sogou). The purchase of these internet resources in large volumes allowed us to negotiate discounts with our suppliers. For the nine months ended September 30, 2014 and 2013, our total cost of sales for internet advertising was US$9.66 million and US$6.67 million, respectively. For the three months ended September 30, 2014 and 2013, our total cost of sales for internet advertising was US$3.29 million and US$2.40 million, respectively. The increase in our internet advertising cost for the nine and three months ended September 30, 2014 was primarily due to (1) continuously increasing internet advertising resources costs at a rate of 5%-15% per annum due to the overall decrease in demand of TV advertising and other traditional advertising media and stronger bargaining power of key search engines in China; and (2) intensified competition in the industry, which resulted in the increased costs. As a result, our gross profit ratio for internet advertising revenue decreased to 26% and 29% for the nine and three months ended September 30, 2014, respectively, compared to 56% and 60% for the same periods last year, respectively.

- Costs for search engine marketing services were direct internet resource costs consumed for search engine marketing services provided to customers as described above. We normally charge our customers service fees for this service as a certain percentage of the related direct cost consumed. Gross margin of this service for the nine and three months ended September 30, 2014 was approximately 3%.

- TV advertisement time cost is the largest component of cost of revenue for TV advertisement revenue. We purchase TV advertisement time from provincial satellite TV stations in China and resell it to our TV advertisement clients. Our TV advertisement time cost was approximately US$4.47 million and US$5.25 million for the nine months ended September 30, 2014 and 2013, respectively. For the three months ended September 30, 2014 and 2013, our TV advertisement time cost was approximately US$1.70 million and US$0.50 million, respectively. The fluctuations of our total TV advertisement time cost were consistent with the fluctuations of our TV advertising revenue for the nine and three months ended September 30, 2014, compared to that in the same periods of 2014, as discussed above. Gross margin of this business segment was 7% and 6% for the nine and three months ended September 30, 2014, respectively, compared to 8% and 10% for the nine and three months ended September 30, 2013, respectively.

- Cost recognized for our brand management and sales channel building business segment mainly consisted of director labor cost for providing these services to our customers.

Gross Profit

As a result of the foregoing, our gross profit was US$5.13million and US$10.30 million for the nine months ended September 30, 2014 and 2013, respectively. For the three months ended September 30, 2014 and 2013, our gross profit was US$2.07 million and US$4.12 million, respectively. Our overall gross margin decreased to 19% and 17% for the nine and three months ended September 30, 2014, respectively, compared to 44% and 55% for the same periods in 2013, respectively. The decrease was a direct result of the decrease in the gross margin of our internet advertising segment to 26% and 29% for the nine and three months ended September 30, 2014, compared to 56% and 60% for the same periods of last year, respectively, which was primarily due to the decrease in sales and increase in the related cost of sales of this business during the periods, as discussed above.

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Operating Expenses and Net (Loss)/Income

Our operating expenses consist of sales and marketing 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.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Amount	% of total revenue		Amount	% of total revenue	
Total Revenue	$ 27,611	100	%	$ 23,422	100	%
Gross Profit	5,128	19	%	10,299	44	%
Sales and marketing expenses	4,092	15	%	2,007	9	%
General and administrative expenses	3,023	11	%	4,690	20	%
Research and development expenses	1,417	5	%	1,490	6	%
Total operating expenses	$ 8,532	31	%	$ 8,187	35	%

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	(Amounts expressed in thousands of US dollars, except percentages)					
	Amount	% of total revenue		Amount	% of total revenue	
Total Revenue	$ 12,067	100	%	$ 7,481	100	%
Gross Profit	2,071	17	%	4,115	55	%
Sales and marketing expenses	1,997	17	%	617	8	%
General and administrative expenses	1,014	8	%	1,544	21	%
Research and development expenses	525	4	%	578	8	%
Total operating expenses	$ 3,536	29	%	$ 2,739	37	%

Operating Expenses: Our operating expenses increased to US$8.53 million for the nine months ended September 30, 2014 from US$8.19 million for the same period of 2013. For the three months ended September 30, 2014, our operating expenses increased to US$3.54 million from US$2.74 million for the same period of 2013.

- Sales and marketing expenses: Sales and marketing expenses increased to US$4.10 million for the nine months ended September 30, 2014 from US$2.01 million for the same period of 2013. For the three months ended September 30, 2014, sales and marketing expense increased to US$2.00 million, compared to US$0.62 million for the same period last year. Our sales and marketing expenses primarily consist of advertising expenses for brand development that we pay to different 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 nine months ended September 30, 2014, the change in our selling expenses was primarily due to the following reasons: (1) the increase 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$0.08 million due to a new office established; (2) the decrease in website server hosting and broadband leasing expense of approximately US$0.12 million due to more favorable contract terms negotiated with the service provider; and (3) the increase in our brand marketing expenses of approximately US$2.12 million. During the nine and three months ended September 30, 2014, the increase in our brand marketing expense was paid to search engines for the promotion of our websites and new services. Due to increasing competition in the industry and in order to strengthen our brand image and awareness, management considered it to be necessary to increase brand building expenses for our operating websites, as well as new services introduced to our customers. Through the SEM technology, we bid on various key words to direct more internet traffic to our main business portals such as 28.com and Liansuo.com. We will also continue to actively participate in both domestic and international SME exhibitions and in government supported employment promotion programs, which are considered cost-effective ways to build our brand. For the three months ended September 30, 2014, the reason for the increase in our selling expenses was primarily due to the increase in brand marketing expense as discussed above.

l General and administrative expenses: General and administrative expenses decreased to US$3.02 million for the nine months ended September 30, 2014 from US$4.69 million for the same period in 2013. For the three months ended September 30, 2014, our general and administrative expenses decreased to US$1.01 million from US$1.54 million for the same period last year. 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 nine months ended September 30, 2014, the change in our general and administrative expenses was primarily due to the following reasons: (1) the decrease in general administrative expenses, such as: salary and staff benefits, office supplies, travelling expenses and entertainment expenses of approximately US$0.28 million, due to the cost reduction plan executed by management; and (2) the decrease in allowance for doubtful accounts of approximately US$1.14 million; and (3) the decrease in professional service (such as: investor relations, legal, etc.) charges of approximately US$0.25 million, primarily due to decrease in the related services required from these parties as compared to the same period last year. For the three months ended September 30, 2014, the reasons for the decrease in our general and administrative expenses were similar to those discussed for the nine months ended September 30, 2014.

l Research and development expenses: Research and development expenses were US$1.42 million and US$1.49 million for the nine months ended September 30, 2014 and 2013, respectively. For the three months ended September 30, 2014 and 2013, research and development expenses were US$0.53 million and US$0.58 million, respectively. 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.

(Loss)/income from operations: As a result of the foregoing, for the nine and three months ended September 30, 2014, our net loss from operations was approximately US$3.40 million and US$1.47 million, respectively. Our income from operations was approximately US$2.11 million and US$1.38 million for the nine and three months ended September 30, 2013, respectively.

Interest income: For the nine and three months ended September 30, 2014 and 2013, interests income earned was primarily contributed from the approximately US$3.4 million of term deposit we placed in a major financial institution in the PRC.

Interest expense: For the nine and three months ended September 30, 2014 and 2013, interests expenses we paid were primarily related to the approximately US$0.8 million of short-term bank loan we borrowed from a major financial institution in the PRC to supplement our short-term working capital needs.

Gain on disposal of VIE: In late August 2014, upon completion of the integration of our former VIE, Sou Yi Lian Mei's operations by transferring all of its business activities and resources of into other internet advertising and marketing companies of us (excluding tangible assets and liabilities incurred), we disposed Sou Yi Lian Mei accordingly. We recognized an approximately US$0.27 million of gain on disposal of this VIE, which reflected the difference between the fair value of consideration and the carrying amount of the former VIE's tangible assets and liabilities that were not retained as of the date of disposal.

(Loss)/income before income tax expense, equity method investments and noncontrolling interests: As a result of the foregoing, for the nine and three months ended September 30, 2014, our loss before income tax expense, equity method investments and noncontrolling interests was approximately US$3.10 million and US$1.18 million respectively. Our income before income tax expense, equity method investments and noncontrolling interests was approximately US$2.18 million and US$1.39 million for the nine and three months ended September 30, 2013, respectively.

Income Tax benefit/(expense): We recognized a net income tax benefit of approximately US$0.04 million and US$0.16 million for the nine and three months ended September 30, 2014, respectively. For the nine and three months ended September 30, 2014, current income tax expense was approximately US$0.38 million and US$0.003 million, respectively. For the nine months ended September 30, 2014, our net income tax benefit included an approximately US$0.42 million deferred income tax benefit, of which approximately US$0.17 million was in relation to the amortization expenses of the intangible assets identified in the acquisition transactions consummated in 2011 and approximately US$0.25 million was in relation to the net operating loss incurred by our PRC operating VIEs for the period, which we consider likely to be able to be utilized with respect to future earnings of the entities to which the operating losses relate. For the three months ended September 30, 2014, our net income tax benefit also included an approximately US$0.16 million deferred income tax benefit, of which approximately US$0.06 million was in relation to the amortization expenses of the intangible assets identified in the acquisition transactions consummated in 2011 and approximately US$0.10 million was in relation to the net operating loss 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.

We recognized a net income tax expense of approximately US$0.47 million and US$0.20 million for the nine and three months ended September 30, 2013, respectively. For the nine and three months ended September 30, 2013, current income tax expense was approximately US$1.17 million and US$0.46 million, respectively. For the nine months ended September 30, 2013, our net income tax expense also included an approximately US$0.70 million deferred income tax benefit, of which approximately US$0.17 million was in relation to the amortization expenses of the intangible assets identified in the acquisition transactions consummated in 2011 and approximately US$0.53 million was in relation to the net operating loss 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 reversals resulted from net income generated during the period. For the three months ended September 30, 2013, our net income tax expense also included an approximately US$0.26 million deferred income tax benefit, of which approximately US$0.06 million was in relation to the amortization expenses of the intangible assets identified in the acquisition transactions consummated in 2011 and approximately US$0.20 million was in relation to the net operating loss 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.

(Loss)/income before equity method investments and noncontrolling interests: As a result of the foregoing, our loss before equity method investments and noncontrolling interests was approximately US$3.06 million and US$1.02 million for the nine and three months ended September 30, 2014, respectively. Our income before equity method investments and noncontrolling interests was approximately US$1.72 million US$1.19 million for the nine and three months ended September 30, 2013, respectively.

Share of gain/(loss) in equity investment affiliates: For the nine and three months ended September 30, 2014 and 2013, we beneficially own 23.18% and 25.5% equity interest in Shenzhen Mingshan and Zhao Shang Ke Hubei, respectively. Accordingly, for the nine and three months ended September 30, 2014, we recognized our pro-rata share of gain in Zhao Shang Ke Hubei of approximately US$0.05 million and US$0.11 million, respectively, and recognized our pro-rata share of loss in Shenzhen Mingshan of approximately US$0.002 and US$nil, respectively. Given the foregoing, net amount of gain in equity investment affiliates recognized was US$0.05 million and US$0.11 million for the nine and three months ended September 30, 2014, respectively. For the nine and three months ended September 30, 2013, we recognized our pro-rata share of losses in these two affiliates of approximately US$0.17 million and US$0.05 million, respectively.

Net (loss)/income: As a result of the foregoing, our net loss for the nine and three months ended September 30, 2014 was approximately US$3.01 million and US$0.92 million, respectively. Our net income for the nine and three months ended September 30, 2013 was approximately US$1.55 million and US$1.14 million, respectively.

Net loss attributable to noncontrolling interests: Beijing Chuang Fu Tian Xia and Sheng Tian Hubei were 51% owned by Business Opportunity Online and Business Opportunity Online Hubei, respectively, upon incorporation. In September 2013, we acquired the remaining 49% equity interest in Sheng Tian Hubei and Sheng Tian Hubei became a wholly-owned VIE of ours accordingly. For the nine and three months ended September 30, 2014, net loss allocated to the noncontrolling interests of Beijing Chuang Fu Tian Xia was approximately US$0.10 million and US$0.01 million, respectively. For the nine and three months ended September 30, 2013, the aggregate net loss allocated to the noncontrolling interests of Beijing Chuang Fu Tian Xia and Sheng Tian Hubei was approximately US$0.08 million and US$0.02 million, respectively.

Net (loss)/income attributable to ChinaNet Online Holdings, Inc.: Total net (loss)/income as adjusted by the net loss attributable to the noncontrolling interest as discussed above yields the net (loss)/income attributable to ChinaNet Online Holdings, Inc. Net loss attributable to ChinaNet Online Holdings, Inc. was approximately US$2.91 million and US$0.91 million for the nine and three months ended September 30, 2014, respectively. For the nine and three months ended September 30, 2013, net income attributable to ChinaNet Online Holdings, Inc. was approximately US$1.62 million and US$1.16 million, respectively.

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 September 30, 2014, we had cash and cash equivalents of approximately US$1.90 million and we also have approximately US$3.44 million of term deposit placed in one of the major financial institutions in China which will expire in July 2015.

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 payments 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 our general network securities, 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 12 months.

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

	Nine Months Ended September 30,	
	2014	2013
	Amounts in thousands of US dollars	
Net cash (used in)/provided by operating activities	(958)	2,812
Net cash used in investing activities	(775)	(4,276)
Net cash provided by financing activities	212	804
Effect of foreign currency exchange rate changes on cash	(23)	110
Net decrease in cash and cash equivalents	(1,544)	(550)

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

For the nine months ended September 30, 2014, our net cash used in operating activities of approximately US$0.96 million were primarily attributable to:

(1) net loss excluding an approximately US$0.42 million net deferred income tax benefit, a US$1.06 million non-cash expenses of depreciation, amortizations, share-based compensation and our share of gain in equity investment affiliates, a US$0.27 million gain on disposal of VIE and a reversal of approximately US$0.12 million allowance for doubtful accounts, of approximately US$2.76 million;

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

- accounts receivable and due from related parties for the advertising services provided decreased by approximately US$4.49 million;

- other receivable decreased by approximately US$1.84 million, primarily due to the partial collection of the marketing-related loan made for the production of the TV series “Xiao Zhan Feng Yun”, loan to unrelated entities and receivables on disposal of VIEs;

- accounts payable and other payables increased by approximately US$0.39 million;

- advance from customers increased by approximately US$0.46 million and

- taxes payable increased by approximately US$0.11 million.

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

- deposit and prepayment to suppliers increased by approximately US$5.25 million for the purchasing of internet resources and TV advertising slots;

- accruals decreased by approximately US$0.19 million, and

- other current assets increased by approximately US$0.06 million.

For the nine months ended September 30, 2013, our net cash provided by operating activities of approximately US$2.81 million were primarily attributable to:

(1) net income excluding an approximately US$0.70 million net deferred income tax benefit, a US$1.54 million non-cash expenses of depreciation, amortizations, share-based compensation and our share of losses in equity investment affiliates, and a US$1.02 million of allowances for doubtful debts of approximately US$3.41 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 primarily due to the collection of loan made to “Xiao Zhan Feng Yun” project;
- other current assets decreased by approximately US$0.09 million;
- accounts payable increased by approximately US$0.28 million;
- advances from customers increased by approximately US$0.39 million; and
- taxes payable increased by approximately US$1.31 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$2.49 million;
- prepayment to suppliers increased by approximately US$0.13 million; and
- accrued expense and other payables decreased by approximately US$0.15 million.

Net cash used in investing activities:

For the nine months ended September 30, 2014, our cash used in investing activities included the following transactions: (1) we spent approximately US$0.24 million for purchase of general office equipment and decoration of a new established office; (2) we prepaid approximately US$0.85 million for the development of software systems related to internet environment monitoring and system optimization to enhance the overall safety and efficiency of our network system; (3) we collected approximately US$0.67 million of short-term loan that we lent to an unrelated entity in last year; and (4) the cash effect of deconsolidation of a VIE in late August 2014 of approximately US$0.36 million. In the aggregate, these transactions resulted in a net cash outflow from investing activities of approximately US$0.78 million for the nine months ended September 30, 2014.

For the nine months ended September 30, 2013, our cash used in investing activities included the following transactions: (1) we spent approximately US$0.1 million for purchasing of general office equipment; (2) for further development of comprehensive value-added services to our customers, which are mostly SMEs in China, we made a deposit to an unrelated technical consulting entity of approximately US$2.41 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 complete the trial testing of the software by the end of fiscal 2014 and consummate this transaction in March 2015; and (3) we paid approximately US$1.77 million to settle the outstanding payment for the acquisition equity interests in VIEs. In the aggregate, these transactions resulted in a net cash outflow from investing activities of approximately US$4.28 million for the nine months ended September 30, 2013.

Net cash provided by financing activities:

For the nine months ended September 30, 2014, our cash provided by financing activities included the following transactions: (1) we repaid our short-term bank loan of approximately US$0.81 million that matured on July 31, 2014; (2) we renew the short-term bank loan of approximately US$0.81 million on September 30, 2014, which will expire on September 29, 2015; (3) we borrowed approximately US$0.72 million from the noncontrolling interest of one of our VIEs to supplement the short-term working capital needs of this VIE; (4) we repaid approximately US$0.02 million during the period to this noncontrolling interest of our VIE; and (5) we repaid approximately US$0.49 million of the former inter-company loan to our former VIE, which was disposed in late August 2014. In the aggregate, these transactions resulted in a net cash inflow from financing activities of approximately US$0.21 million for the nine months ended September 30, 2014.

For the nine months ended September 30, 2013, our cash provided by financing activities of approximately US$0.80 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 three months ended September 30, 2013.

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 September 30, 2014 and December 31, 2013, 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 both approximately US$7.3 million.

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% 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:

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 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 September 30, 2014 and December 31, 2013, there were approximately US$36.4 million and US$39.3 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 statutory reserve funds as of September 30, 2014 and December 31, 2013, that may be affected by increased restrictions on currency exchanges in the future and accordingly may further limit our PRC subsidiary's or VIEs' ability to make dividends or other payments in U.S. dollars to us, in addition to the approximately US$7.3 million restricted net assets as of September 30, 2014 and December 31, 2013, as discussed above.

C. OFF-BALANCE SHEET ARRANGEMENTS

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2014, the end of the period covered by this report, our management, including our Chief Executive Officer and our Chief Financial Officer, reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Such disclosure controls and procedures are designed to ensure that material information we must disclose in this report is recorded, processed, summarized and filed or submitted on a timely basis. Based upon that evaluation our management, Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2014.

Changes in Internal Control over Financial Reporting

As reported in Item 4 of our Quarterly Report on Form 10-Q filed with the SEC on August 19, 2014, we determined that the following material weaknesses in internal control over financial reporting existed as of June 30, 2014:

We were unable to timely file our periodic reports with the SEC due to the fact that we failed to maintain a well-established contingency plan to promptly react to the absence of a primary member of management responsible for the organization, coordination and supervision of our external reporting processes.

During the nine months ended September 30, 2014, we implemented the following measures to strengthen our internal controls:

- we developed a contingency plan to react to unexpected situations that may result in the absence of management members who have a significant role in our internal control over financial reporting to ensure that material information we must disclose in our periodic reports is recorded, processed, summarized and filed or submitted on a timely basis;

- we arranged for additional experienced staff members to join our external reporting team to ensure a timely, accurate and adequate disclosure in our periodic reports; and

- we also provided training to our accounting team and other relevant personnel on various relevant topics that relate to U.S. GAAP accounting and reporting guidance applicable to our financial statements and implementation of our internal control over financial reporting.

Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with the Audit Committee of our Board of Directors, Chief Executive Officer and Chief Financial Officer, consider necessary.

Other than the changes discussed above, there have been no changes in our internal control over financial reporting occurred that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. Our management has discussed these issues and remediation efforts in detail with the Audit Committee of our Board of Directors.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any legal proceedings other than the following:

Business Opportunity Online, 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, Handong Cheng, 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 1A. Risk Factors

This information has been omitted based on the Company's status as a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

The exhibits listed on the Exhibit Index below are provided as part of this report.

Exhibit No.	Document Description
31.1	Certification of the Principal Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Accounting and Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer and of the Principal Accounting and Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101	Interactive Data Files

SIGNATURES

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

CHINANET ONLINE HOLDINGS, INC.

Date: November 19, 2014	By:	/s/ Handong Cheng Name: Handong Cheng Title: Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Zhige Zhang Name: Zhige Zhang Title: Chief Financial Officer (Principal Accounting and Financial Officer)