ChinaNet Online Holdings, Inc.
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from ____ to _____

Commission File Number: 001-34647

ChinaNet Online Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

No. 3 Min Zhuang Road, Building 6,

Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195

(Address of principal executive offices) (Zip Code)

+86-10-5160-0828

(Registrant’s telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company x

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

As of August 14, 2015, the registrant had 29,580,130 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Interim Financial Statements

CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2015 (US $) (Unaudited)	December 31, 2014 (US $)
Assets		
Current assets:		
Cash and cash equivalents	$ 4,645	$ 5,037
Term deposit	3,468	3,465
Accounts receivable, net	4,109	2,407
Other receivables, net	6,538	8,392
Prepayment and deposit to suppliers	6,860	8,092
Due from related parties	108	51
Other current assets	133	61
Deferred tax assets-current	355	176
Total current assets	26,216	27,681
Long-term investments	1,098	909
Property and equipment, net	790	943
Intangible assets, net	8,531	9,238
Deposit and prepayment for purchasing of software technology	851	850
Goodwill	6,778	6,772
Deferred tax assets-non current	1,112	1,037
Total Assets	$ 45,376	$ 47,430
Liabilities and Equity		
Current liabilities:		
Short-term bank loan *	$ 818	$ 817
Accounts payable *	510	782
Advances from customers *	2,325	832
Accrued payroll and other accruals *	612	585
Due to noncontrolling interest of VIE *	557	638
Payable for purchasing of software technology *	865	2,826
Guarantee payment and prepayment from new investors	1,003	-
Taxes payable *	3,226	3,332
Other payables *	597	602

Total current liabilities	10,513	10,414

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CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except for number of shares and per share data)

	June 30, 2015 (US $) (Unaudited)	December 31, 2014 (US $)
Long-term liabilities:		
Deferred tax liability-non current *	887	964
Long-term borrowing from director	143	143
Total Liabilities	11,543	11,521
Commitments and contingencies		
Equity:		
ChinaNet Online Holdings, Inc.’s stockholders’ equity		
Common stock (US$0.001 par value; authorized 50,000,000 shares; issued and outstanding 29,580,130 shares and 29,030,130 shares at June 30, 2015 and December 31, 2014, respectively)	30	29
Additional paid-in capital	25,658	24,703
Statutory reserves	2,607	2,607
Retained earnings	2,225	5,222
Accumulated other comprehensive income	3,648	3,625
Total ChinaNet Online Holdings, Inc.’s stockholders’ equity	34,168	36,186
Noncontrolling interests	(335)	(277)
Total equity	33,833	35,909
Total Liabilities and Equity	$ 45,376	$ 47,430

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

See notes to condensed consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015 (US $) (Unaudited)	2014 (US $) (Unaudited)	2015 (US $) (Unaudited)	2014 (US $) (Unaudited)
Sales				
From unrelated parties	$ 15,002	$ 15,361	$ 9,217	$ 10,179
From related parties	468	183	405	182
	15,470	15,544	9,622	10,361
Cost of sales	12,291	12,487	7,345	8,665
Gross profit	3,179	3,057	2,277	1,696
Operating expenses				
Sales and marketing expenses	2,250	2,095	1,047	1,506
General and administrative expenses	3,307	2,009	2,005	1,022
Research and development expenses	1,063	892	573	442
	6,620	4,996	3,625	2,970
Loss from operations	(3,441)	(1,939)	(1,348)	(1,274)
Other income (expenses)				
Interest income	63	60	34	29
Interest expense	(34)	(32)	(17)	(16)
Other income/(expenses)	31	(3)	(1)	(2)
	60	25	16	11
Loss before income tax expense, equity method investments and noncontrolling interests	(3,381)	(1,914)	(1,332)	(1,263)
Income tax benefit/(expense)	324	(120)	98	(72)
Loss before equity method investments and noncontrolling interests	(3,057)	(2,034)	(1,234)	(1,335)
Share of income/(losses) in equity investment affiliates	2	(58)	1	(43)
Net loss	(3,055)	(2,092)	(1,233)	(1,378)
Net loss attributable to noncontrolling interests	58	93	24	47
Net loss attributable to ChinaNet Online Holdings, Inc.	$ (2,997)	$ (1,999)	$ (1,209)	$ (1,331)

CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (CONTINUED)

(In thousands, except for number of shares and per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015 (US $) (Unaudited)	2014 (US $) (Unaudited)	2015 (US $) (Unaudited)	2014 (US $) (Unaudited)
Net loss	(3,055)	(2,092)	(1,233)	(1,378)
Foreign currency translation gain/(loss)	23	(281)	143	43
Comprehensive Loss	$(3,032)	$(2,373)	$(1,090)	$(1,335)
Comprehensive loss attributable to noncontrolling interests	58	92	25	47
Comprehensive loss attributable to ChinaNet Online Holdings, Inc.	$(2,974)	$(2,281)	$(1,065)	$(1,288)
Loss per share				
Loss per common share				
Basic and diluted	$(0.11)	$(0.09)	$(0.05)	$(0.06)
Weighted average number of common shares outstanding:				
Basic and diluted	26,572,856	22,376,540	26,776,650	22,376,540

See notes to condensed consolidated financial statements

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CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2015 (US $) (Unaudited)	2014 (US $) (Unaudited)
Cash flows from operating activities		
Net loss	$ (3,055)	$ (2,092)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities		
Depreciation and amortization	888	715
Share-based compensation expenses	956	17
Reverse of allowances for doubtful accounts	(77)	(30)
Share of (income)/losses in equity investment affiliates	(2)	58
Deferred taxes	(328)	(257)
Changes in operating assets and liabilities		
Accounts receivable	(1,619)	2,484
Other receivables	1,856	1,285
Prepayment and deposit to suppliers	1,236	(3,460)
Due from related parties	(56)	86
Other current assets	(75)	(62)
Accounts payable	(273)	(6)
Advances from customers	1,490	24
Accrued payroll and other accruals	26	(151)
Other payables	(8)	271
Taxes payable	(109)	174
Net cash provided by/(used in) operating activities	850	(944)
Cash flows from investing activities		
Purchases of vehicles and office equipment	(20)	(15)
Payment for purchasing of software technology	(1,958)	(846)
Repayment of short-term loan from unrelated entities	-	390
Long-term investment in cost/equity method investees	(186)	-
Net cash used in investing activities	(2,164)	(471)

CHINANET ONLINE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Six Months Ended June 30,	
	2015	2014
	(US $)	(US $)
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Short-term loan from noncontrolling interest of VIE	-	717
Repayment of short-term loan to noncontrolling interest of VIE	(82)	-
Guarantee payment and prepayment from new investors	1,000	-
Net cash provided by financing activities	918	717
Effect of exchange rate fluctuation on cash and cash equivalents	4	(21)
Net decrease in cash and cash equivalents	(392)	(719)
Cash and cash equivalents at beginning of the period	5,037	3,442
Cash and cash equivalents at end of the period	$ 4,645	$ 2,723
Supplemental disclosure of cash flow information		
Income taxes paid	$ 134	$ 204
Interest expense paid	$ 34	$ 32

See notes to condensed consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and nature of operations

ChinaNet Online Holdings, Inc. (the "Company") was incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. On June 26, 2009, the Company 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 the Company and the Company is now a holding company, which, through certain contractual arrangements with operating companies in the People's Republic of China (the "PRC"), is engaged in providing advertising, marketing, brand management and online-to-offline (O2O) sales channel building services for small and medium-sized enterprises (SMEs) and entrepreneurial management and networking services for entrepreneurs in the PRC.

The Company's wholly owned subsidiary, China Net BVI was incorporated in the British Virgin Islands. China Net BVI is the parent holding company of CNET Online Technology Limited, a Hong Kong company ("China Net HK"), which established and is the parent company of Rise King Century Technology Development (Beijing) Co., Ltd., a wholly foreign-owned enterprise ("WFOE") established in the PRC ("Rise King WFOE").

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through its Variable Interest Entities ("VIEs"). Through a series of contractual agreements between Rise King WFOE and Business Opportunity Online (Beijing) Network Technology Co., Ltd. ("Business Opportunity Online"), Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online") and Rise King (Shanghai) Advertisement Media Co., Ltd. ("Shanghai Jing Yang") (collectively the "PRC Operating Entities" or the "VIEs"), the Company, through the WFOE, secures significant rights to influence the PRC Operating Entities' business operations, policies and management, approve all matters requiring shareholder approval, and the right to receive 100% of the income earned by the VIEs. Pursuant to the contractual agreements, all of the equity owners' rights and obligations of the VIEs were assigned to Rise King WFOE, which resulted in the equity owners lacking the ability to make decisions that have a significant effect on the VIEs, Rise King WFOE's ability to extract the profits from the operation of the VIEs and assume the residual benefits of the VIEs. Due to the fact that Rise King WFOE and its indirect parent are the sole interest holders of the VIEs, the Company included the assets, liabilities, revenues and expenses of the VIEs in its consolidated financial statements, which is consistent with the provisions of FASB Accounting Standards Codification ("ASC") Topic 810 "Consolidation", subtopic 10.

Beijing CNET Online is a 51% shareholder of Shanghai Borongdingsi Computer Technology Co., Ltd. ("Shanghai Borongdingsi") and a 10% shareholder of Beijing Saturday Education Technology Co., Ltd. ("Beijing Saturday"). Business Opportunity Online is a 51% shareholder of Beijing Chuang Fu Tian Xia Network Technology Co., Ltd. ("Beijing Chuang Fu Tian Xia"), the sole shareholder of Business Opportunity Online (Hubei) Network Technology Co., Ltd. ("Business Opportunity Online Hubei"), the sole shareholder of Quanzhou City Zhilang Network Technology

Co., Ltd. ("Quanzhou Zhi Lang"), the sole shareholder of Beijing Chuang Shi Xin Qi Advertising Media Co., Ltd. ("Beijing Chuang Shi Xin Qi"), the sole shareholder of Beijing Hong Da Shi Xing Network Technology Co., Ltd. ("Beijing Hong Da Shi Xing"), the sole shareholder of Beijing Shi Ji Cheng Yuan Advertising Media Co., Ltd. ("Beijing Shi Ji Cheng Yuan") and a 23.18% shareholder of Shenzhen City Mingshan Network Technology Co., Ltd. ("Shenzhen Mingshan"). Business Opportunity Online Hubei is the sole shareholder of Hubei CNET Advertising Media Co., Ltd. ("Hubei CNET"), the sole shareholder of Sheng Tian Network Technology (Hubei) Co., Ltd. ("Sheng Tian Hubei") and a 25.5% shareholder of Zhao Shang Ke Network Technology (Hubei) Co., Ltd. ("Zhao Shang Ke Hubei").

In January 2015, the Company through its wholly-owned subsidiary, China Net BVI incorporated a new wholly-owned BVI company named ChinaNet Investment Holding Ltd. ("ChinaNet Investment BVI"). In March 2015, ChinaNet Investment BVI together with three individuals who were not affiliated with the Company, established ChinaNet Online Holdings Korea ("ChinaNet Korea"), an entity incorporated in the Republic of Korea. ChinaNet Investment BVI invested US$20,000 cash and beneficially own 40% of the equity interest in ChinaNet Korea.

In January 2015, the Company through one of its VIEs, Beijing CNET Online made an investment of RMB1,000,000 (approximately US$0.16 million) to Chuangshi Meiwei Food and Beverage Investment Management (Beijing) Co., Ltd. ("Chuangshi Meiwei" or "O'Yummy"). The Company beneficially owns 10% of the equity interest in Chuangshi Meiwei.

In April 2015, the Company made an investment of RMB0.02 million (approximately US$0.003 million) to Guohua Shiji (Beijing) Communication Co., Ltd. ("Guohua Shiji") and obtained 19% equity interest in Guohua Shiji.

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company operated its business primarily in China through its PRC subsidiary and PRC operating entities, or VIEs as discussed above.

2. Variable Interest Entities

Summarized below is the information related to the consolidated VIEs' assets and liabilities as of June 30, 2015 and December 31, 2014, respectively:

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,613	$ 4,239
Term deposit	3,468	3,465
Accounts receivable, net	3,954	2,407
Other receivables, net	6,520	8,349
Prepayment and deposit to suppliers	6,859	8,091
Due from related parties	56	-
Other current assets	43	58
Deferred tax assets-current	285	107
Total current assets	24,798	26,716
Long-term investments	1,034	865
Property and equipment, net	723	869
Intangible assets, net	8,531	9,238
Deposit and prepayment for purchasing of software technology	851	850
Goodwill	6,778	6,772
Deferred tax assets-non current	869	795
Total Assets	$ 43,584	$ 46,105
Liabilities		
Current liabilities:		
Short-term bank loan	$ 818	$ 817
Accounts payable	510	782
Advances from customers	2,325	832
Accrued payroll and other accruals	330	357

Due to Control Group	11	11
Due to noncontrolling interest of VIE	557	638
Payable for purchasing of software technology	865	2,826
Taxes payable	2,744	2,846
Other payables	556	580
Total current liabilities	8,716	9,689
Deferred tax Liabilities-non current	887	964
Total Liabilities	$ 9,603	$ 10,653

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.

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2015, the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive loss includes sales of approximately US$15,244,000, cost of sales of approximately US$12,291,000, operating expenses of approximately US$5,049,000 and net loss before allocation to noncontrolling interests of approximately US$1,710,000.

For the three months ended June 30, 2015, the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive loss includes sales of approximately US$9,500,000, cost of sales of approximately US$7,345,000, operating expenses of approximately US$2,772,000 and net loss before allocation to noncontrolling interests of approximately US$502,000.

For the six months ended June 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$15,307,000, cost of sales of approximately US$12,486,000, operating expenses of approximately US$4,337,000 and net loss before allocation to noncontrolling interests of approximately US$1,668,000.

For the three months ended June 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$10,208,000, cost of sales of approximately US$8,664,000, operating expenses of approximately US$2,725,000 and net loss before allocation to noncontrolling interests of approximately US$1,283,000.

3. Summary of significant accounting policies

a) Basis of presentation

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

The condensed consolidated interim financial information as of June 30, 2015 and for the six and three months ended June 30, 2015 and 2014 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 condensed consolidated interim 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, 2014, previously filed with the SEC (the "2014 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 June 30, 2015, its consolidated results of operations for the six and three months ended June 30, 2015 and 2014, and its consolidated cash flows for the six months ended June 30, 2015 and 2014, 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 condensed consolidated interim 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 condensed 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.

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

d) Foreign currency translation

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

	June 30, 2015	December 31, 2014
Balance sheet items, except for equity accounts	6.1136	6.1190

	Six Months Ended June 30,	
	2015	2014
Items in the statements of income and comprehensive income, and statements of cash flows	6.1288	6.1441

	Three Months Ended June 30,	
	2015	2014
Items in the statements of income and comprehensive income, and statements of cash flows	6.1203	6.1681

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. For the six months ended June 30, 2015 and 2014, advertising expenses for the Company's own brand building were approximately US$1,220,000 and US$973,000, respectively. For the three months ended June 30, 2015 and 2014, advertising expenses for the Company's own brand building were approximately US$572,000 and US$942,000, 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 six months ended June 30, 2015 and 2014 were approximately US$1,063,000 and US$892,000, respectively. Expenses for research and development for the three months ended June 30, 2015 and 2014 were approximately US$573,000 and US$442,000, respectively.

4. Term deposit

Term deposit as of June 30, 2015 and December 31, 2014 represented the amount of cash placed as a term deposit by one of the Company’s operating VIEs in a major financial institution in China, which management believes is of high credit quality. The term deposit matured on July 7, 2015 and was extended to July 7, 2016 with an interest rate of 2.925% per annual.

5. Accounts receivable, net

	June 30, 2015 US$(’000) (Unaudited)	December 31, 2014 US$(’000)
Accounts receivable	7,056	5,429
Allowance for doubtful accounts	(2,947)	(3,022)
Accounts receivable, net	4,109	2,407

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CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

All of the accounts receivable are non-interest bearing. Based on the assessment of the collectability of the accounts receivable as of June 30, 2015 and December 31, 2014, the Company provided approximately US$2,947,000 and US$3,022,000 allowance for doubtful accounts, which were primarily related to the accounts receivable of the Company's internet advertising and TV advertising business segment with an aging over six months. For the six months ended June 30, 2015, approximately US$77,000 allowance for doubtful accounts was reversed. For the three months ended June 30, 2015, approximately US$143,000 allowance for doubtful accounts was provided. For the six and three months ended June 30, 2014, the Company reversed approximately US$30,000 of allowance for doubtful accounts.

6. Other receivables, net

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Short-term loan made for marketing campaign	-	65
Term deposit interest receivable	114	56
Staff advances for normal business purpose	52	73
TV advertisement deposit and prepayment receivable	6,209	8,034
Overdue deposits	1,020	1,020
Allowance for doubtful accounts	(857)	(856)
Other receivables, net	6,538	8,392

TV advertisement deposit and prepayment receivable represented deposit and prepayment made to an agent of one of the provincial satellite TV stations partnered with the Company. The Company had decided to terminate its cooperation with this TV station and its agent upon expiration of the 2014 contract on December 31, 2014. In accordance with the agreement between the Company and the agent, the amount will be refunded to the Company within 2015. For the six and three months ended June 30, 2015, the Company collected RMB11.2 million (approximately US$1.8 million) and RMB10 million (approximately US$1.6 million) of this amount, respectively.

For advertising resources purchase contracts signed by the Company and its resources 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 June 30, 2015 and December 31, 2014, the Company provided approximately US$857,000 and US$856,000 allowance for doubtful accounts, respectively, which was related to the deposits of its internet advertising and TV advertising business segment. For the six and three months ended June 30, 2015 and 2014, no allowance for doubtful accounts was provided or reversed.

7. Prepayments and deposit to suppliers

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Deposits to TV advertisement and internet resources providers	1,479	3,575
Prepayments to TV advertisement and internet resources providers	5,326	4,451
Other deposits and prepayments	55	66
	6,860	8,092

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In order to provide advertising and marketing services, the Company partners with TV stations or its agents to obtain time slots for resale through broadcast advertisements to advertise brands, business information, products and services of its clients. 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 clients.

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

As of June 30, 2015, deposit to suppliers primarily consisted of the contractual deposits of approximately US$0.7 million to two of the Company's largest internet resources suppliers and the contractual deposits of approximately US$0.8 million for the purchasing of TV advertising time slots.

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 June 30, 2015, prepayment to suppliers primarily consisted of approximately US$3.3 million prepayments to the Company's internet resources suppliers and approximately US$2.0 million prepayment for the purchasing of TV advertising time slots. This US$2.0 million advanced payment was carried forward from previous years and was paid to a TV station which had been partnered with the Company for over five years. In response to the restrictions on TV shopping infomercial implemented by the related government authorities, which resulted in the decrease in the Company's TV advertisement revenue, 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. In August 2015, the Company collected approximately US$0.40 million of this amount. The Company expects that the remaining advanced payment balance will be fully utilized within 2015.

8. Due from related parties

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Beijing Saimeiwei Food Equipment Technology Co., Ltd.	59	51
Chuangshi Meiwei Food and Beverage Investment Management (Beijing) Co., Ltd.	49	-
	108	51

Related parties of the Company represented direct or indirect unconsolidated investees of the Company or entities that 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 and marketing services to these related parties in its normal course of business on the same terms as those provided to its unrelated clients. Due from related parties represented the outstanding receivables for the advertising and marketing services that the Company provided to these related parties as of each reporting date.

9. Long-term investments

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Equity method investments:		
Investment in equity method investees	829	806
Advance to equity method investees	85	85
	914	891
Cost method investments:		
Investment in cost method investees	184	18
Total long-term investments	1,098	909

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As of June 30, 2015, the Company beneficially owned 40%, 23.18% and 25.5% equity interest in ChinaNet Korea, Shenzhen Mingshan and Zhao Shang Ke Hubei, respectively. The Company accounts for its investments in these entities under equity method of accounting. The following table summarizes the movement of the investment in and advance to equity investment affiliates for the six months ended June 30, 2015:

	ChinaNet Korea US$('000)	Shenzhen Mingshan US$('000)	Zhao Shang Ke Hubei US$('000)	Total US$('000)
Balance as of December 31, 2014 (audited)	-	461	430	891
Share of income in equity investment affiliates	-	2	-	2
Investment in equity investment affiliates	20	-	-	20
Exchange translation adjustment	-	1	-	1
Balance as of June 30, 2015 (unaudited)	20	464	430	914

ChinaNet Korea is a new entity incorporated in March 2015 by ChinaNet Investment BVI and three other unaffiliated individuals in the Republic of Korea. The Company made an investment of US$20,000 and obtained 40% of the equity interest in ChinaNet Korea.

For the six and three months ended June 30, 2015, the Company recognized its pro-rata shares of income in Shenzhen Mingshan of approximately US$2,000 and US$1,000, respectively. For the six and three months ended June 30, 2014, the Company recognized its pro-rata shares of loss in Shenzhen Mingshan of approximately US$2,000 and US$nil, respectively. For the six and three months ended June 30, 2015, the Company did not recognized any of its pro-rata shares of income in Zhao Shang Ke Hubei, as the amounts were immaterial. For the six and three months ended June 30, 2014, the Company recognized its pro-rata shares of loss in Zhao Shang Ke Hubei of approximately US$56,000 and US$43,000, respectively.

In January 2015, the Company through one of its VIEs, Beijing CNET Online made an investment of RMB1,000,000 (approximately US$0.16 million) to Chuangshi Meiwei and obtained 10% equity interest in Chuangshi Meiwei. In April 2015, the Company made an investment of RMB0.02 million (approximately US$0.003 million) to Guohua Shiji (Beijing) Communication Co., Ltd. ("Guohua Shiji") and obtained 19% equity interest in Guohua Shiji.

As of June 30, 2015, the Company beneficially owns 19%, 10% and 10% equity interest in Guohua Shijie, Chuangshi Meiwei and Beijing Saturday. The Company accounts for these investments under cost method. For the six and three months ended June 30, 2015, the Company did not receive any distribution of earnings from these entities.

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10. Property and equipment, net

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Leasehold improvement	181	180
Vehicles	891	890
Office equipment	1,437	1,415
Electronic devices	1,244	1,244
Property and equipment, cost	3,753	3,729
Less: accumulated depreciation	(2,963)	(2,786)
Property and equipment, net	790	943

Depreciation expenses in the aggregate for the six months ended June 30, 2015 and 2014 were approximately US$174,000 and $189,000, respectively.

Depreciation expenses in the aggregate for the three months ended June 30, 2015 and 2014 were approximately US$87,000 and $93,000, respectively.

11. Intangible assets, net

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Intangible assets not subject to amortization:		
Domain name	1,580	1,579
Intangible assets subject to amortization:		
Contract backlog	203	202
Customer relationship	3,548	3,545
Non-compete agreements	1,404	1,402
Software technologies	335	335
SMEs operation management applications	5,282	5,277
Cloud-computing based software platforms	1,518	1,517
Other computer software	78	78

Intangible assets, cost	13,948	13,935
Less: accumulated amortization	(4,423)	(3,704)
Less: accumulated impairment losses	(994)	(993)
Intangible assets, net	8,531	9,238

Amortization expenses in aggregate for the six months ended June 30, 2015 and 2014 were approximately US$714,000 and US$526,000, respectively.

Amortization expenses in aggregate for the three months June 30, 2015 and 2014 were approximately US$357,000 and US$262,000, respectively.

Based on the carrying value of the finite-lived intangible assets recorded as of June 30, 2015, and assuming no subsequent impairment of the underlying intangible assets, the estimated future amortization expenses is approximately US$715,000 for the six months ended December 31, 2015, approximately US$1,424,000 for the year ended December 31, 2016, approximately US$921,000 for the year ended December 31, 2017, approximately US$869,000 for the year ended December 31, 2018 and approximately US$812,000 for the year ended December 31, 2019.

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12. Deposit for purchasing of software technology

The Company entered into a contract to engage an unrelated third party to develop several software systems related to internet environment monitoring, network security 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 million). The Company has paid a first installment of RMB5.2 million (approximately US$0.85 million). As of the date hereof, the Company is trial testing these software applications. The transaction as contemplated under the contract is expected to be consummated within 2015.

13. Goodwill

	Amount US$('000)
Balance as of December 31, 2014 (audited)	6,772
Exchange translation adjustment	6
Balance as of June 30, 2015 (unaudited)	6,778

14. Short-term bank loan

Short-term bank loan as of June 30, 2015 and December 31, 2014 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 in China to supplement its short-term working capital needs. The short-term loan will mature on September 29, 2015. The interest rate of the 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 June 30, 2015 and December 31, 2014, the interest rate of the short-term loan was 8.4%.

15. Accrued payroll and other accruals

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Accrued payroll and staff welfare	364	388

Accrued operating expenses	248	197
	612	585

16. Due to noncontrolling interest of VIE

As of June 30, 2015 and December 31, 2014, due to noncontrolling interest of VIE represented the outstanding balance of the short-term loan borrowed by one of the Company’s VIEs, Chuang Fu Tian Xia, from its noncontrolling interest to supplement the short-term working capital needs of Chuang Fu Tian Xia. The short-term loan is unsecured, interest free and is payable on demand.

In July 2015, as approved by the shareholders of Chuang Fu Tian Xia, the majority interest shareholder and noncontrolling interest shareholder, on a pro-rata basis, converted RMB2.04 million (approximately US$0.33 million) and RMB1.96 million (approximately US$0.32 million) of its amount due from Chuang Fu Tian Xia into the registered and paid-in capital of Chuang Fu Tian Xia, respectively. Accordingly, the registered and paid-in capital of Chuang Fu Tian Xia increased from RMB1 million to RMB5 million.

The Company expects to repay the remaining balance of the amount due to noncontrolling interest of Chuang Fu Tian Xia of approximately US$0.24 million within fiscal 2015.

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17. Payable for purchasing of software technology

Payable for purchasing of software technology as of June 30, 2015 represented the outstanding balance payment of approximately RMB5.29 million (approximately US$0.87 million) for purchasing of software technology, which transaction consummated in December 2014. As of the date hereof, the Company has fully settled the remaining balance with the counter party.

18. Guarantee payment and prepayment from new investors

On May 5, 2015, the Company entered into a Securities Purchase Agreement with Beijing Jinrun Fangzhou Science & Technology Co, Ltd. ("Jinrun Fangzhou"), a public company listed on the National Equities Exchange and Quotations of the PRC (the"NEEQ"), pursuant to which Jinrun Fangzhou agreed to purchase 2,800,000 shares of common stock of the Company for an aggregate purchase price of US$3,500,000. On May 26, 2015, the Company entered into another Securities Purchase Agreement with Dongsys Innovation (Beijing) Technology Development Co., Ltd. ("Dongsys Innovation"), a public company listed on the NEEQ, pursuant to which Dongsys Innovation agreed to purchase 1,000,000 shares of common stock of the Company for an aggregate purchase price of US$1,250,000.

In accordance with the Securities Purchase Agreements described above, Jinrun Fangzhou and Dongsys Innovation were required to pay 10% of its respective total purchase price as guarantee payments, which was US$350,000 and US$125,000, respectively, within five days of the date the agreements were signed, and pay an additional 15% of its respective total purchase price, which was US$525,000 and US$187,500, respectively, within thirty days of the date of the agreements were signed.

As of June 30, 2015, the Company has received the 10% guarantee payment and 15% prepayment in an aggregate amount equal to US$875,000 from Jinrun Fangzhou, and the 10% guarantee payment in an amount equal to US$125,000 from Dongsys Innovation, respectively.

In accordance with the Securities Purchase Agreements, Jinrun Fangzhou and Dongsys Innovation shall pay the remaining 75% of its respective purchase price at the closing which shall take place on the date mutually agreed to by the parties.

19. 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 six and three months ended June 30, 2015, 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 six and three months ended June 30, 2015 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.

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- 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. 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 is currently in the process of applying for the High and New Technology Enterprise qualification with the related government authorities and 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. Therefore, for the six and three months ended June 30, 2015 and 2014, the Company used 15% as the applicable income tax rate for Business Opportunity Online.

- 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 both 12.5% for the six and three months ended June 30, 2015 and 2014. After fiscal 2015, the applicable income tax rate for Business Opportunity Online Hubei will be 25% under the current EIT law of PRC.

- The applicable income tax rate for other PRC operating entities of the Company was 25% for the six and three months ended June 30, 2015 and 2014.

- 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.

For the six and three months ended June 30, 2015 and 2014, all of the preferential income tax treatments enjoyed by the Company’s PRC 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 VIEs operate in. 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 six and three months ended June 30, 2015 and 2014, 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 June 30, 2015 and December 31, 2014, taxes payable consists of:

	June 30, 2015 US$(’000) (Unaudited)	December 31, 2014 US$(’000)
Turnover tax and surcharge payable	1,196	1,173
Enterprise income tax payable	2,030	2,159
	3,226	3,332

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For the six and three months ended June 30, 2015 and 2014, the Company’s income tax benefit/(expense) consisted of:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
	US$(’000)	US$(’000)	US$(’000)	US$(’000)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current-PRC	(4)	(377)	(4)	(197)
Deferred-PRC	328	257	102	125
	324	(120)	98	(72)

The Company’s deferred tax liabilities at June 30, 2015 and changes for the six months then ended were as follows:

	Amount US$(’000)
Balance as of December 31, 2014 (audited)	964
Reversal during the period	(77)
Exchange translation adjustment	-
Balance as of June 30, 2015 (unaudited)	887

Deferred tax liabilities arose on the recognition of the identifiable intangible assets acquired from acquisition transactions and deconsolidation of VIEs consummated in previous years. Reversal for the six months ended June 30, 2015 of approximately US$77,000 was due to amortization of the acquired intangible assets.

The Company’s deferred tax assets at June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015 US$(’000) (Unaudited)	December 31, 2014 US$(’000)
Tax effect of net operating losses carried forward	7,407	6,655
Bad debts provision	922	943

Valuation allowance	(6,862)	(6,385)
	1,467	1,213

	June 30, 2015 US$('000) (Unaudited)	December 31, 2014 US$('000)
Deferred tax assets reclassified as current asset	355	176
Deferred tax assets reclassified as non-current asset	1,112	1,037
	1,467	1,213

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The net operating losses carried forward incurred by the Company (excluding its PRC operating subsidiary and VIEs) were approximately US$13,309,000 and US$12,161,000 at June 30, 2015 and December 31, 2014, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2035. A full valuation allowance has been recorded because it is considered more likely than not that the deferred tax assets will not be realized through sufficient future earnings of the entity to which the operating losses relate.

The net operating losses carried forward (excluding bad debts provision, amortization of intangible assets acquired from business combinations and non-deductible expenses) incurred by the Company's PRC subsidiary and VIEs were approximately US$14,426,000 and US$12,401,000 at June 30, 2015 and December 31, 2014, respectively, which loss carry forwards gradually expire over time, the last of which expires in 2020. 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$96,000 and US$572,000 valuation allowance for the six months ended June 30, 2015 and 2014, respectively, and recorded approximately US$16,000 and US$333,000 valuation allowance for the three months ended June 30, 2015 and 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.

20. Long-term borrowing from director

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.

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.

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As a result of these PRC laws and regulations, the Company’s PRC subsidiary and VIEs are restricted in their ability to transfer a portion of their net assets to the Company. As of June 30, 2015 and December 31, 2014, 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:

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

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

Although the current Exchange Rules allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. 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 June 30, 2015 and December 31, 2014, there was approximately US$29.0 million and US$30.8 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 June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014, as discussed above.

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22. Related party transactions

Revenue from related parties:

	Six Months Ended June 30, 2015 US$('000) (Unaudited)	2014 US$('000) (Unaudited)
-Chuangshi Meiwei Food and Beverage Investment Management (Beijing) Co., Ltd.	349	-
-Beijing Saimeiwei Food Equipment Technology Co., Ltd,	58	182
-Beijing Fengshangyinli Technology Co., Ltd.	-	1
-Beijing Saturday Education Technology Co., Ltd.	61	-
	468	183

	Three Months Ended June 30, 2015 US$('000) (Unaudited)	2014 US$('000) (Unaudited)
-Chuangshi Meiwei Food and Beverage Investment Management (Beijing) Co., Ltd.	349	-
-Beijing Saimeiwei Food Equipment Technology Co., Ltd.	21	182
-Beijing Fengshangyinli Technology Co., Ltd.	-	-
- Beijing Saturday Education Technology Co., Ltd.	35	-
	405	182

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$279,000 and US$265,000 for the six months ended June 30, 2015 and 2014, respectively. The total amounts for such employee benefits were approximately US$135,000 and US$136,000 for the three months ended June 30, 2015 and 2014, respectively.

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 June 30, 2015 and December 31, 2014, substantially all of the Company’s cash and cash equivalents were held by major financial institutions located in Mainland China, 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.

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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 six months ended June 30, 2015, two customers individually accounted for 17% and 14% of the Company's sales, respectively. For the three months ended June 30, 2015, one of the two customers individually accounted for 11% of the Company's sales. Except for the aforementioned customers, there was no other single customer who accounted for more than 10% of the Company's sales for the six or three months ended June 30, 2015.

For the six months ended June 30, 2014, two customers individually accounted for 20% and 19% of the Company's sales, respectively. For the three months ended June 30, 2014, the same two customers individually accounted for 30% and 17% 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 six or three months ended June 30, 2014.

As of June 30, 2015, one customer individually accounted for 21% of the Company's accounts receivable. As of December 31, 2014, the same one customer individually accounted for 18% of the Company's accounts receivable, another one customer individually accounted for 19% of the Company's accounts receivable. 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 June 30, 2015 or December 31, 2014.

Concentration of suppliers

For the six months ended June 30, 2015, two suppliers individually accounted for 50% and 32% of the Company's cost of sales, respectively. For the three months ended June 30, 2015, the same two suppliers individually accounted for 28% and 48% 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 six or three months ended June 30, 2015.

For the six months ended June 30, 2014, two suppliers individually accounted for 64% and 22% of the Company's cost of sales, respectively. For the three months ended June 30, 2014, the same two suppliers individually accounted for 71% and 19% 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 six or three months ended June 30, 2014.

25. Commitments

The following table sets forth the Company's operating lease commitment as of June 30, 2015:

	Office Rental US$('000) (Unaudited)
Six months ending December 31, -2015	191
Year ending December 31, -2016	135
Total	326

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2015 and 2014, rental expenses under operating leases were approximately US$222,000 and US$261,000, respectively. For the three months ended June 30, 2015 and 2014, rental expenses under operating leases were approximately US$112,000 and US$117,000, respectively.

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 during 2015 and the remaining unpaid contract amount is expected to be paid in 2015.

Legal Proceedings

Business Opportunity Online has been named as a defendant in a 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 did not attend any shareholders meeting with respect to the transfer of the plaintiff's investment in Business Opportunity Online to another party, and did not execute any written shareholders resolutions approving such transfer. The complaint seeks a court order to declare the shareholders resolutions null and void. Business Opportunity Online denied all of the allegations against it and defended vigorously against the lawsuit. On June 5, 2015, Haifeng Wang filed an application to withdraw the lawsuit in the Haidian District People's Court of Beijing. The Haidian District People's Court of Beijing rendered a ruling to permit the withdrawal of this lawsuit on the same date.

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

Six Months Ended June 30, 2015 (Unaudited)

	Internet Ad.	TV Ad.	Bank kiosk	Brand management and sales channel building	Others	Inter-segment and reconciling item	Total
	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)
Revenue	14,084	1,081	138	167	-	-	15,470
Cost of sales	11,141	1,041	5	104	-	-	12,291
Total operating expenses	4,632	220	61	188	1,519 *	-	6,620
Depreciation and amortization expense included in total operating expenses	777	2	61	32	16	-	888
Operating income (loss)	(1,689)	(180)	72	(125)	(1,519)	-	(3,441)
Share of income in equity investment affiliates	-	-	-	-	2	-	2
Expenditure for long-term assets	1,964	-	-	-	14	-	1,978
Net income (loss)	(1,331)	(171)	72	(109)	(1,516)	-	(3,055)
Total assets – June 30, 2015	41,644	10,808	236	2,820	6,874	(17,006)	45,376
Total assets – December 31, 2014	43,851	13,228	296	2,989	6,558	(19,492)	47,430

*Including approximately US$956,000 share-based compensation expenses.

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CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three Months Ended June 30, 2015 (Unaudited)

	Internet Ad.	TV Ad.	Bank kiosk	Brand management and sales channel building	Others	Inter-segment and reconciling item	Total
	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)
Revenue	8,486	1,023	69	44	-	-	9,622
Cost of sales	6,386	932	2	25	-	-	7,345
Total operating expenses	2,535	122	31	114	823 *	-	3,625
Depreciation and amortization expense included in total operating expenses	389	1	31	16	7	-	444
Operating income (loss)	(435)	(31)	36	(95)	(823)	-	(1,348)
Share of income in equity investment affiliates	-	-	-	-	1	-	1
Expenditure for long-term assets	1,638	-	-	-	14	-	1,652
Net income (loss)	(343)	(21)	36	(84)	(821)	-	(1,233)

*Including approximately US$501,000 share-based compensation expenses.

Six Months Ended June 30, 2014 (Unaudited)

	Internet Ad.	TV Ad.	Bank kiosk	Brand management and sales channel building	Others	Inter-segment and reconciling item	Total

	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)
Revenue	11,808	2,994	138	604	-	-	15,544
Cost of sales	9,395	2,772	5	315	-	-	12,487
Total operating expenses	3,850	222	63	283	578 *	-	4,996
Depreciation and amortization expense included in total operating expenses	489	22	63	100	41	-	715
Operating income (loss)	(1,437)	-	70	6	(578)	-	(1,939)
Share of losses in equity investment affiliates	-	-	-	(56)	(2)	-	(58)
Expenditure for long-term assets	850	-	-	1	12	-	863
Net income (loss)	(1,493)	(32)	70	(57)	(580)	-	(2,092)

*Including approximately US$17,000 share-based compensation expenses.

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CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three Months Ended June 30, 2014 (Unaudited)

	Internet Ad.	TV Ad.	Bank kiosk	Brand management and sales channel building	Others	Inter-segment and reconciling item	Total
	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)	US$ (‘000)
Revenue	8,228	1,812	67	254	-	-	10,361
Cost of sales	6,853	1,677	5	130	-	-	8,665
Total operating expenses	2,325	128	32	143	342 *	-	2,970
Depreciation and amortization expense included in total operating expenses	242	11	32	50	20	-	355
Operating income (loss)	(950)	7	30	(19)	(342)	-	(1,274)
Share of losses in equity investment affiliates	-	-	-	(43)	-	-	(43)
Expenditure for long-term assets	-	-	-	-	-	-	-
Net income (loss)	(994)	(10)	30	(62)	(342)	-	(1,378)

*Including approximately US$9,000 share-based compensation expenses.

27. Loss per share

Basic and diluted loss 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):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
	US$(’000)	US$(’000)	US$(’000)	US$(’000)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Net loss attributable to ChinaNet Online Holdings, Inc. (numerator for basic and diluted earnings per share)	$(2,997)	$(1,999)	$(1,209)	$(1,331)
Weighted average number of common shares outstanding - Basic	26,572,856	22,376,540	26,776,650	22,376,540
Effect of diluted securities:				
Unvested restricted common stocks	-	-	-	-
Warrants and options	-	-	-	-
Weighted average number of common shares outstanding -Diluted	26,572,856	22,376,540	26,776,650	22,376,540
Loss per share-Basic and diluted	$(0.11)	$(0.09)	$(0.05)	$(0.06)

For the six and three months ended June 30, 2015, the diluted loss per share calculation did not include the 2,666,667 shares of unvested restricted common stock and the options to purchase up to 894,940 shares of the Company's common stock, respectively, because their effect was anti-dilutive, as the Company incurred a loss during the periods.

For the six and three months ended June 30, 2014, the diluted earnings per share calculation both did not include the warrants and options to purchase up to 2,363,456 and 939,440 shares of common stock, respectively, because their effect was anti-dilutive, as the Company incurred a loss during the periods.

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

28. Share-based compensation expenses

The Company granted 50,000 shares and 40,000 shares of the Company's restricted common stock to its investor relations services provider, in exchange for its services to the Company for the years ended December 31, 2015 and 2014, respectively. These shares were valued at US$1.20 per share and US$0.84 per share, the closing bid price of the Company's common stock on the date of grant, respectively. Total compensation expense recognized for the services was US$30,000 and US$16,800 for the six months ended June 30, 2015 and 2014, respectively. Total compensation expense recognized for the services was US$15,000 and US$8,400 for the three months ended June 30, 2015 and 2014, respectively.

The Company granted 300,000 shares of the Company's restricted common stock to a technical service provider in exchange for its services to the Company for a 12-month period commencing on August 1, 2014, of which 150,000 restricted shares was vested on August 1, 2014, and 150,000 restricted shares were vested on February 1, 2015. These shares were valued at US$0.67 per share, the closing bid price of the Company's common stock on the date of grant. Total compensation expense recognized for the six and three months ended June 30, 2015 was US$100,500 and US$50,250, respectively.

The Company granted 350,000 shares of the Company restricted common stock to a management consulting service provider in exchange for its services to the Company for a 24-month period commencing on May 1, 2015. These shares were valued at US$1.57 per share, the closing bid price of the Company's common stock on the date of grant. Total compensation expense recognized for the six and three months ended June 30, 2015 was both approximately US$45,800.

On December 30, 2014, the Company granted 4,200,000 shares of the Company's restricted common stock to its executive officers, of which 1,533,333 restricted shares was vested upon issuance, 1,333,333 restricted shares will be vested on December 30, 2015 and the remaining 1,333,334 restricted shares will be vested on December 30, 2016. The restricted stock was valued at $1.17 per share, the closing bid price of the Company's common stock on the date of grant. Total compensation cost recognized for the six and three months ended June 30, 2015 was US$780,000 and US$390,000, respectively.

Under the Company's 2011 Omnibus Securities and Incentive Plan, the Company granted common stock purchase options to its management, employees and directors.

Options issued and outstanding at June 30, 2015 and their movements during the six 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, 2014 (audited)	894,940	6.48	$ 1.21	894,940	6.48	$ 1.21
Granted/Vested	-			-		
Forfeited	-			-		
Exercised	-			-		
Balance, June 30, 2015 (unaudited)	894,940	5.99	$ 1.21	894,940	5.99	$ 1.21

The aggregate unrecognized share-based compensation expenses as of June 30, 2015 and 2014 was approximately US$2,890,000 and US$17,000, respectively.

29. Subsequent events

The Company has performed an evaluation of subsequent events through the date the financial statements were issued.

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, 2014. 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, brand management and online-to-offline (O2O) sales channel building services for SMEs and entrepreneurial management and networking services for entrepreneurs in the PRC.

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

Basis of presentation, management estimates and critical accounting policies

Our unaudited condensed consolidated interim 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 condensed consolidated interim 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 2014 Form 10-K.

A. RESULTS OF OPERATIONS FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2015 AND 2014

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.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
	US$	US$	US$	US$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales				
From unrelated parties	$15,002	$15,361	$9,217	$10,179
From related parties	468	183	405	182
	15,470	15,544	9,622	10,361
Cost of sales	12,291	12,487	7,345	8,665
Gross profit	3,179	3,057	2,277	1,696
Operating expenses				
Sales and marketing expenses	2,250	2,095	1,047	1,506
General and administrative expenses	3,307	2,009	2,005	1,022
Research and development expenses	1,063	892	573	442
	6,620	4,996	3,625	2,970
Loss from operations	(3,441)	(1,939)	(1,348)	(1,274)
Other income (expenses)				
Interest income	63	60	34	29
Interest expense	(34)	(32)	(17)	(16)
Other income/(expenses)	31	(3)	(1)	(2)
	60	25	16	11
Loss before income tax expense, equity method investments and noncontrolling interests	(3,381)	(1,914)	(1,332)	(1,263)
Income tax benefit/(expense)	324	(120)	98	(72)
Loss before equity method investments and noncontrolling interests	(3,057)	(2,034)	(1,234)	(1,335)
Share of income/(losses) in equity investment affiliates	2	(58)	1	(43)
Net loss	(3,055)	(2,092)	(1,233)	(1,378)
Net loss attributable to noncontrolling interests	58	93	24	47
Net loss attributable to ChinaNet Online Holdings, Inc.	$(2,997)	$(1,999)	$(1,209)	$(1,331)
Loss per share				
Loss per common share				
Basic and diluted	$(0.11)	$(0.09)	$(0.05)	$(0.06)

Weighted average number of common shares outstanding:				
Basic and diluted	26,572,856	22,376,540	26,776,650	22,376,540

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Revenue

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

	Six Months Ended June 30,					
	2015			2014		
Revenue type	(Amounts expressed in thousands of US dollars, except percentages)					
-Internet advertisement	$ 8,215	53.1	%	$ 8,454	54.4	%
-Technical services	226	1.4	%	237	1.5	%
-Search engine marketing service	5,643	36.5	%	3,117	20.0	%
Internet advertisement and related services	14,084	91.0	%	11,808	75.9	%
TV advertisement	1,081	7.0	%	2,994	19.3	%
Bank kiosk	138	0.9	%	138	0.9	%
Brand management and sales channel building	167	1.1	%	604	3.9	%
Total	$ 15,470	100	%	$ 15,544	100	%

	Three Months Ended June 30,					
	2015			2014		
Revenue type	(Amounts expressed in thousands of US dollars, except percentages)					
-Internet advertisement	$ 5,768	60.0	%	$ 4,958	47.9	%
-Technical services	122	1.2	%	153	1.5	%
-Search engine marketing service	2,596	27.0	%	3,117	30.0	%
Internet advertisement and related services	8,486	88.2	%	8,228	79.4	%
TV advertisement	1,023	10.6	%	1,812	17.5	%
Bank kiosks	69	0.7	%	67	0.6	%
Brand management and sales channel building	44	0.5	%	254	2.5	%
Total	$ 9,622	100	%	$ 10,361	100	%

Total Revenues: For the six months ended June 30, 2015 and 2014, our total revenues were both approximately US$15.5 million. For the three months ended June 30, 2015 and 2014, our total revenues were US$9.62 million and US$10.36 million, respectively.

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 clients. We also derive revenue from the sale of advertising time purchased from different provincial satellite TV stations. Our advertising and marketing services to related parties were provided in the ordinary course of business on the same terms as those provided to our unrelated clients. For the six and three months ended June 30, 2015 and 2014, our service revenue from related parties in the aggregate was less than 5% 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. Revenue from SEM services is recognized on a monthly basis based on the direct cost consumed through search engines for providing such services with a premium. We recognize this revenue on a gross basic, as we believe that we act as the primary obligor of this transaction, which is considered the most important factor for a gross revenue recognition in accordance with ASC Topic 605, subtopic 45. We also sell effective sales lead information to our clients, which is recognized based on fixed price per sales lead when information is delivered and accepted by clients.

The tables below summarize the revenues, cost of sales, gross margin and net loss generated from each of our VIEs and subsidiaries for the six and three months ended June 30, 2015 and 2014, respectively, with inter-company transactions eliminated:

For the six months ended June 30, 2015:

Name of subsidiary or VIE	Revenue from unrelated parties ($'000)	Revenue from related parties ($'000)	Total ($'000)
Rise King WFOE	226	-	226
Business Opportunity Online and subsidiaries	14,637	468	15,105
Beijing CNET Online and subsidiaries	139	-	139
Total revenue	15,002	468	15,470

For the three months ended June 30, 2015:

Name of subsidiary or VIE	Revenue from unrelated parties ($'000)	Revenue from related parties ($'000)	Total ($'000)
Rise King WFOE	122	-	122
Business Opportunity Online and subsidiaries	9,025	405	9,430
Beijing CNET Online and subsidiaries	70	-	70
Total revenue	9,217	405	9,622

For the six months ended June 30, 2015:

Name of subsidiary or VIE	Cost of Sales ($'000)	Gross Margin ($'000)
Rise King WFOE	-	226
Business Opportunity Online and subsidiaries	12,286	2,819

Beijing CNET Online and subsidiaries	5