

ChinaNet Online Holdings, Inc.  
Form 10-Q  
August 16, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

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

Commission File Number: 000-52672

ChinaNet Online Holdings, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

20-4672080  
(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)

+86-10-51600828  
(Registrant's telephone number, including area code)

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(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).\*

Yes  No

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\*The registrant has not yet been phased into the Interactive Data requirements.

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 13, 2010 the registrant had 16,931,320 shares of common stock outstanding.

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## TABLE OF CONTENTS

	PAGE
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
Consolidated Balance Sheets	1-2
Consolidated Statements of Income and Comprehensive Income	3-4
Consolidated Statements of Cash Flows	5-6
Notes to Consolidated Financial Statements	7-35
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>36-58</b>
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	<b>59</b>
<b>Item 4(T). Controls and Procedures</b>	<b>59</b>
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>60</b>
<b>Item 1A. Risk Factors</b>	<b>60</b>
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>60</b>
<b>Item 3. Defaults Upon Senior Securities</b>	<b>60</b>
<b>Item 4. Submission of Matters to a Vote of Security Holders</b>	<b>60</b>
<b>Item 5. Other Information</b>	<b>60</b>
<b>Item 6. Exhibits</b>	<b>61</b>
<b>Signatures</b>	

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

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

	June 30, 2010 (US \$) (Unaudited)	December 31, 2009 (US \$)
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,848	\$ 13,917
Accounts receivable, net	4,751	3,173
Other receivables	2,570	2,636
Prepayment and deposit to suppliers	5,477	4,111
Due from related parties	485	492
Inventories	2	2
Other current assets	269	30
Total current assets	31,402	24,361
Property and equipment, net	1,307	1,355
Other long-term assets	52	48
	32,761	\$ 25,764
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 329	\$ 290
Advances from customers	948	914
Other payables	21	27
Accrued payroll and other accruals	287	191
Due to related parties	-	24
Due to Control Group	1,143	1,142
Due to director	382	-
Taxes payable	2,326	1,978
Dividends payable	510	373
Total current liabilities	5,946	4,939
Long-term borrowing from director	128	128
Warrant liabilities	-	9,564
Commitments and contingencies	-	-

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

	June 30, 2010 (US \$) (Unaudited)	December 31, 2009 (US \$)
Stockholders' equity:		
Series A convertible preferred stock (US\$0.001 par value; authorized-8,000,000 shares; issued and outstanding-3,018,600 and 4,121,600 shares at June 30, 2010 and December 31, 2009 respectively; Liquidation preference of \$2.5 per share and the accrued but unpaid dividends of \$510 and \$373, at June 30, 2010 and December 31, 2009, respectively)	3	4
Common stock (US\$0.001 par value; authorized-50,000,000 shares; issued and outstanding-16,931,320 shares and 15,828,320 shares at June 30, 2010 and December 31, 2009 respectively)	17	16
Additional paid-in capital	18,398	10,574
Statutory reserves	372	372
Retained earnings	7,636	50
Accumulated other comprehensive income	194	117
Total ChinaNet's Online Holdings, Inc.'s stockholders' equity	26,620	11,133
Noncontrolling interest	67	-
Total stockholders' equity	26,687	11,133
	\$ 32,761	\$ 25,764

See notes to the consolidated financial statements

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

	For the six months ended June 30,		For the three months ended June 30,	
	2010 (US \$) (Unaudited)	2009 (US \$) (Unaudited)	2010 (US \$) (Unaudited)	2009 (US \$) (Unaudited)
<b>Sales</b>				
To unrelated parties	\$ 21,660	\$ 17,715	\$ 11,627	\$ 8,412
To related parties	607	1,463	413	969
	22,267	19,178	12,040	9,381
Cost of sales	12,663	11,889	5,936	5,611
Gross margin	9,604	7,289	6,104	3,770
<b>Operating expenses</b>				
Selling expenses	1,337	2,629	911	1,166
General and administrative expenses	1,595	916	801	568
Research and development expenses	330	214	196	164
	3,262	3,759	1,908	1,898
Income from operations	6,342	3,530	4,196	1,872
<b>Other income (expenses):</b>				
Changes in fair value of warrants	1,861	-	-	-
Interest income	4	5	2	2
Other income	4	6	4	2
Other expenses	(1)	-	(1)	-
	1,868	11	5	4
Income before income tax expense and noncontrolling interest	8,210	3,541	4,201	1,876
Income tax expense	279	957	65	571
Net income	7,931	2,584	4,136	1,305
Net loss attributable to noncontrolling interest	77	-	77	-
Net income attributable to ChinaNet Online Holdings, Inc.	8,008	2,584	4,213	1,305
<b>Other comprehensive income</b>				
Foreign currency translation gain	77	6	74	-
Comprehensive income	\$ 8,008	\$ 2,590	\$ 4,210	\$ 1,305

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

	For the six months ended		For the three months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(US \$)	(US \$)	(US \$)	(US \$)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income attributable to ChinaNet Online Holdings, Inc.	\$ 8,008	\$ 2,584	\$ 4,213	\$ 1,305
Dividend of Series A convertible preferred stock	(422)	-	(193)	-
Net income attributable to common shareholders of ChinaNet Online Holdings, Inc.	\$ 7,586	\$ 2,584	\$ 4,020	\$ 1,305