

China Finance Online Co. LTD
Form 20-F
April 27, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 000-50975

CHINA FINANCE ONLINE CO. LIMITED
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Hong Kong
(Jurisdiction of incorporation or organization)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

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Title of each class
None

Name of each exchange on which registered
None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

American Depositary Shares, each representing 5 ordinary shares*

(Title of Class)

*Not for trading, but only in connection with the listing on the NASDAQ Global Market of American Depositary Shares each representing 5 ordinary shares pursuant to the requirements of the Securities and Exchange Commission

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 112,417,933 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in the filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board
 Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

CHINA FINANCE ONLINE CO. LIMITED

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INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

- “we”, “us”, “our Company”, “the Company”, “our”, refer to China Finance Online Co. Limited, or CFO Hong Kong and subsidiaries, and, in the context of describing our operations include consolidated affiliates in China, Hong Kong or British Virgin Islands;
- “shares” and “ordinary shares” refer to our ordinary shares, “preferred shares” refers to our preferred shares, all of which were converted into our ordinary shares upon the completion of our initial public offering on October 20, 2004. “ADSs” refers to our American depository shares, each of which represents five ordinary shares, and “ADRs” refers to the American depository receipts which evidence our ADSs;
- “China” or “PRC” refers to the People’s Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;
- “Hong Kong” or “H.K.” refers to the Hong Kong Special Administrative Region of the People’s Republic of China;
 - “U.S. GAAP” refers to generally accepted accounting principles in the United States; and
- all references to “Renminbi”, “RMB” or “yuan” are to the legal currency of China, all references to “U.S. dollars”, “dollars” or “US\$” are to the legal currency of the United States and all references to “Hong Kong dollars” or “HK\$” are to the legal currency of Hong Kong. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We and certain selling shareholders of our company completed the initial public offering of 6,200,000 American depository shares, each representing five of our ordinary shares, on October 20, 2004. On October 15, 2004, we listed our ADSs on the NASDAQ Global Market (known as the Nasdaq National Market prior to July 1, 2006), or NASDAQ, under the symbol “JRJC”. Effective from January 3, 2011, our ADSs were elevated to trade on the NASDAQ Global Select Market.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “believe”, “is /are likely to” or similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and new strategies, including how we effect our goals and new strategies;
- our future business developments, business prospects, financial condition and results of operations;
 - our future pricing strategies or policies;
- our plans to expand our service offerings and upgrade our business strategies;

- our plans to use acquisitions and investments as part of our corporate strategy;
 - our strategic transformation initiative;
- cost-cutting initiatives and their effect on efficiency and operational performance;
- competition in the PRC financial data and information services industry, securities investment advisory, wealth management and financial services industry;
 - the market prospect of the online financial data and information services market;
 - the market prospect of the securities investment advisory and wealth management services markets;
- the market prospect and competition in other business areas that we have expanded or ventured into, including without limitation, futures contracts brokerage business and precious metals trading business;
 - performance of China’s securities markets, Hong Kong’s securities markets and global financial markets;
 - global macroeconomic uncertainties;
 - wavering investor confidence that could impact our business;
 - our ability to retain key personnel and attract new talents;
- possible non-cash goodwill, intangible assets and investment impairment may adversely affect our net income;
 - PRC and Hong Kong governmental policies relating to taxes and how they will impact our business;
 - PRC governmental policies relating to the Internet and Internet content providers;
- PRC governmental policies relating to securities investment advisory companies to provide advisory services on securities and related products;
- PRC governmental policies relating to wealth management services and our precious metals trading business;
- PRC governmental policies relating to the distribution of content, especially the distribution of financial content over the Internet; and
 - PRC governmental policies relating to mobile value-added services.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure investors that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D of this annual report, “Key Information — Risk factors” and elsewhere in this annual report.

The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our ADSs. In addition, the relatively new and rapidly changing nature of the online financial data and information services industry, securities investment advisory, wealth management and financial services industry subjects any projections or estimates relating to the growth prospects or future condition of our markets to significant uncertainties. Furthermore, if any one or more of the assumptions underlying the market data turn out to be incorrect, actual results may differ from the projections based on these assumptions.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. You should not place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3.D of this annual report, “Key Information — Risk factors”. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected financial data.

The selected historical consolidated financial statement of operations data for the years ended December 31, 2012, 2013 and 2014 and the selected historical consolidated balance sheet data as of December 31, 2013 and 2014 set forth below are derived from our audited historical consolidated financial statements included elsewhere in this annual report. The selected historical consolidated statement of operations data for the years ended December 31, 2010 and 2011 and the selected historical consolidated balance sheet data as of December 31, 2010, 2011 and 2012 set forth below are derived from our audited historical consolidated financial statements, which are not included in this annual report. This data may not be indicative of our future condition or results of operations and should be read in conjunction with “Operating and Financial Review and Prospects” and the consolidated financial statements and accompanying notes.

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For the year ended December 31,

(in thousands of U.S. dollars, except per share or per ADS data)

	2010	2011	2012	2013	2014
Consolidated statement of operations and comprehensive income (loss) data:					
Net revenues	\$59,716	\$53,008	\$29,599	\$52,738	\$83,696
Cost of revenues	(8,497)	(8,771)	(8,089)	(10,570)	(20,353)
Gross profit	51,219	44,237	21,510	42,168	63,343
Operating expenses:					
General and administrative	(13,208)	(11,228)	(11,387)	(15,210)	(17,592)
Product development	(13,028)	(13,314)	(10,736)	(9,033)	(11,148)
Sales and marketing	(26,991)	(21,337)	(13,072)	(30,588)	(43,761)
Loss from impairment of intangible assets	-	(4,078)	-	-	(1,802)
Loss from impairment of goodwill	-	(13,463)	-	-	(8,150)
Total operating expenses	(53,227)	(63,420)	(35,195)	(54,831)	(82,453)
Government subsidies	514	265	76	11	659
Loss from operations	(1,494)	(18,918)	(13,609)	(12,652)	(18,451)
Interest income	1,590	2,745	3,178	1,341	4,044
Interest expense	(142)	(248)	(518)	(197)	(12)
Exchange gain (loss), net	813	1,350	72	557	(112)
Gain from sale of cost method investment	-	-	-	-	4,338
Equity method investment income	-	-	-	2,774	-
Short-term investments income	1,138	1,032	435	132	58
Other income (expense), net	(7)	(7)	(634)	(29)	18
Loss from impairment of cost method investment	-	(1,480)	-	-	-
Income (loss) before income tax expense	1,898	(15,526)	(11,076)	(8,074)	(10,117)
Income tax expense	(264)	(3,938)	(884)	(100)	(514)
Net income (loss)	1,634	(19,464)	(11,960)	(8,174)	(10,631)
Less: net income (loss) attributable to the noncontrolling interests	(326)	(137)	(105)	399	(3,463)
Net income (loss) attributable to China Finance Online Co. Limited	\$1,960	\$(19,327)	\$(11,855)	\$(8,573)	\$(7,168)
Net income (loss) per share attributable to China Finance Online Co. Limited					
-basic	\$0.02	\$(0.18)	\$(0.11)	\$(0.08)	\$(0.07)
-diluted	\$0.02	\$(0.18)	\$(0.11)	\$(0.08)	\$(0.07)
Net income (loss) per ADS equivalent attributable to China Finance Online Co. Limited					
-basic (1)	\$0.09	\$(0.89)	\$(0.54)	\$(0.39)	\$(0.33)
-diluted (1)	\$0.09	\$(0.89)	\$(0.54)	\$(0.39)	\$(0.33)

(in thousands of U.S. dollars)

As of December 31,

	2010	2011	2012	2013	2014
Consolidated balance sheet data:					
Cash and cash equivalents	\$106,773	\$64,641	\$40,906	\$36,371	\$32,539
Current working capital (2)	90,146	90,098	70,360	56,677	55,771
Total assets	180,091	159,977	121,371	133,493	113,903
Short-term loan	6,424	19,171	13,546	-	-
Deferred revenue, current	32,995	17,287	7,551	6,150	4,936
Total current liabilities	60,259	61,903	36,331	39,203	36,443

Deferred revenue, non-current	13,022	7,237	3,155	1,986	1,373
Total China Finance Online Co. limited shareholders' equity	105,900	90,941	79,965	75,771	64,615

- (1) Each ADS represents five ordinary shares.
- (2) Current working capital is the difference between total current assets and total current liabilities.

Exchange Rate Information

We have published our financial statements in U.S. dollars. Our business is primarily conducted in China and is denominated in Renminbi. Periodic reports will be made to shareholders and will be expressed in U.S. dollars using the then-current exchange rates. The conversion of Renminbi into U.S. dollars in this annual report is based on the official base exchange rate published by the People's Bank of China. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at \$1.00 to RMB6.1190, which was the prevailing exchange rate on December 31, 2014. The prevailing exchange rate on April 15, 2015 was \$1.00 to RMB 6.1340. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The People's Bank of China sets and publishes a daily base exchange rate. Until July 21, 2005, the People's Bank of China set this rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. Beginning on July 21, 2005, the People's Bank of China has set this rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The People's Bank of China also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although governmental policies were introduced in the PRC in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

The following table sets forth various information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

	Average(1)	High (RMB per U.S.\$1.00)	Low	Period-end
December 31, 2010	6.7668	6.8284	6.6227	6.6227
December 31, 2011	6.4445	6.6349	6.3009	6.3009
December 31, 2012	6.3085	6.3495	6.2670	6.2855
December 31, 2013	6.1896	6.2898	6.0969	6.0969
December 31, 2014	6.1453	6.1710	6.0930	6.1190
Most recent six months:				
October 2014	6.1441	6.1493	6.1395	6.1461
November 2014	6.1432	6.1602	6.1320	6.1345
December 2014	6.1241	6.1411	6.1137	6.1190
January 2015	6.1272	6.1384	6.1188	6.1370
February 2015	6.1339	6.1475	6.1261	6.1475
March 2015	6.1507	6.1617	6.1375	6.1422
April 2015 (through 15th)	6.1368	6.1434	6.1305	6.1340

(1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and indebtedness.

Not Applicable.

C. Reasons for the offer and use of proceeds.

Not Applicable.

D. Risk factors.

Risks relating to our business

Any prolonged or substantial slowdown in the global or Chinese economy could adversely affect Chinese investors' interests and engagement in the securities market, which may in turn have a significantly negative impact on our business.

Our business can be adversely affected by the general macroeconomic environment. Global economic, securities market and financial developments all could significantly influence the overall interests and engagement of Chinese investors in the stock market. China macro-economic growth has also been slowed down due to various factors, including concerns over China's economic transformation and the bleak corporate earnings prospects and deteriorating global economic conditions. Any prolonged or substantial slowdown in the global or Chinese economy could adversely affect Chinese investors' interests and engagement in the securities market, which may in turn have a significant negative impact on our business.

Increasing challenges in China's securities markets, economic conditions, inflation, regulatory policies, interests rates, the availability of hedging instruments and other factors that could affect investors' interests in investing in China's securities markets could have an adverse effect on our business.

We believe that the level of public interest in investing in China's securities market could significantly influence the demand for market intelligence on China's securities markets and our products and services. Such demand could be affected by the level of trading activities in China's securities markets. The benchmark Shanghai Stock Exchange Composite Index, or the SSE Composite Index, surged 426.18% between the start of 2006 and the market peak in October 2007. On June 25, 2013, the SSE Composite Index plunged to a five-year low of 1,849.65 points. The SSE Composite Index picked up significantly during the past year and reached a five-year high of 3,239.36 points on December 31, 2014. However, irregular activities involving China's securities markets, including, without limitation, insider trading, large-scale selling shares by executive officers of newly listed companies, over issuance of IPOs and inadequate legal protections of individual investors, have become increasingly intense in recent years and resulted in market weakness and decreased investor confidence in China's securities markets. Any factors that lead to weakness or intensified volatility in China's securities markets in the future may diminish investors' interest in China's securities markets, and our business could be adversely affected accordingly.

The China Securities Regulatory Commission, or the CSRC, officially approved the trial margin trading and short selling rules at Shanghai and Shenzhen Stock Exchanges in late 2011, which indicates that margin trading and short selling have become the regular trading activities within China's securities market. It is possible that these hedging instruments could cause increased volatility in China's securities market, which, in turn, may have a negative impact on Chinese investors' participation in the securities market, and materially and adversely affect our business.

Downturns, disruptions and volatility in Hong Kong securities markets and global financial markets, and increasing challenges in the business, economic and market conditions that could affect investors' investments in Hong Kong securities markets and global financial markets could have a material and adverse impact on our business in the future.

We provide a diversified portfolio of brokerage and information service to our clients in connection with their investment in Hong Kong securities market and global financial markets through our subsidiaries in Hong Kong. Lower trading volumes and price levels of securities transactions in Hong Kong securities market may affect investors' participation in Hong Kong's securities markets and have a material and adverse impact on our business in the future. Historically, securities trading volume and price level in Hong Kong have fluctuated considerably. After reaching its all-time high on October 30, 2007, the Hang Seng Index (HSI) lost approximately 65.18% of its value from October 30, 2007 through October 27, 2008. In 2014, the HSI had an increase of 1.3% for the year, rising from 23,306.39 points on December 31, 2013 to 23,605.04 on December 31, 2014. Despite the gradual pick-up of the HSI, investors' confidence remains weak. As of December 31, 2014, the average daily turnover of the Hong Kong stock market was HK\$69.5 billion, representing an increase of 12% as compared with the record for year 2013, but still a decrease of about 20% compared to the record for year 2007. Continued significant fluctuations and weakness of investors' confidence in the Hong Kong securities markets may materially and adversely impact our business.

Our securities brokerage, futures trading and securities advising business in Hong Kong operate in a highly regulated industry and compliance failures could materially and adversely affect our business.

iSTAR International Securities Co. Limited, or iSTAR Securities, holds a Type 1 license and provides a diversified portfolio brokerage and other related services to our customers who invest in stocks listed on the Hong Kong Stock Exchanges and Clearing Limited, or HKEx. iSTAR International Futures Co. Limited, or iSTAR Futures, holds a Type 2 license and commences futures contract trading business in Hong Kong. iSTAR International Wealth Management Co. Limited, or iSTAR Wealth Management, holds Type 4, Type 5 and Type 9 licenses and engages in securities advising, future contracts advising and asset management activities in Hong Kong. iSTAR International Credit Co. Limited, or iSTAR Credit, holds a Money Lenders License. The securities brokerage, securities advising, futures contracts trading, and money lending business and operations in Hong Kong are subject to extensive regulations by HKEx, Hong Kong Securities and Futures Commission, or SFC, and Hong Kong Police Force, which may increase our cost of doing business and may be a limiting factor on the operations and development of such businesses. The regulation on our businesses in Hong Kong is also an ever-changing area of law and is subject to modification by government, regulatory and judicial actions. As our business has expanded into these areas in Hong Kong, we devote more time to regulatory matters. Failure to comply with any of the laws, rules, regulations, codes or guidelines applicable to our businesses in Hong Kong could lead to adverse consequences including, without limitation, investigations, fines, law suits and other penalties from regulatory agencies, which could materially and adversely affect our operation of such businesses.

We have incurred significant net losses in the past, and we may not be able to achieve or subsequently maintain profitability.

We incurred net losses attributable to the Company of \$ 11.9 million, \$8.6 million and \$7.2 million in 2012, 2013 and 2014, respectively. Our ability to achieve and/or sustain profitability depends on a lot of factors, many of which are beyond our control, such as the continuous development of securities market in China and Hong Kong, as well as the online investment services industry. We may continue to incur losses in the near future due to our continued investments in technology, research and development and our sales and marketing initiatives. Changes in macroeconomics and regulatory environment or competitive dynamics and our inability to respond to these changes in a timely and effectively manner may also impact our profitability.

We may not be able to successfully continue to innovate, improve and provide products and services to attract and retain paying subscribers and registered users, which could have a material and adverse impact on our business in the future.

In order to attract and retain users and compete against our competitors, we must continue to invest significant resources in research and development to enhance our Internet technology, improve our existing products and services and introduce additional high-quality products and services. If we are unable to anticipate user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, or if we introduce a new feature or a new research tool that is not favorably received, we may lose users. Our operating results may also suffer if our innovations do not respond to the needs of our users, are not appropriately timed with market opportunities or are not effectively brought to market. Furthermore, our research tools or features may contain errors, including without limitation, programming errors, which are not discovered by our internal testing or are discovered after the services are introduced. Our business operation and our reputation shall be damaged by those errors, and we may need to significantly modify the design of these research tools or features to correct these errors, which could result in significant cost and expense. As Internet technology and products continue to develop, our competitors may be able to offer services and products including news, data, analytics and brokerage-related services through web portals, desktop solutions and mobile handsets that are, or that are perceived to be, substantially similar to or better than those generated by our services. This may force us to expend significant resources in order to remain competitive.

Our transition to a new business model and our recently started venture into new business areas may not be successful. We cannot guarantee that each of these businesses will be profitable, which may materially and adversely affect our performance.

Beginning in April 2012, while we continue to offer basic versions of paid individual subscription services to individual investors through our flagship portal sites and accumulated paid subscribers with basic software and information services, we no longer accept new paid subscribers or renewals for our premium individual subscription services. We implemented a strategic transition of our core businesses shifting from providing premium subscription services to individual investors to developing internet-based financial services, including securities, commodities, wealth management products and investment advisory services. Beginning in 2013, as part of our transition to a new business model, we also started providing precious metals trading services. In 2014, the Company launched “Securities Master” (“Zhengquantong”), a fully integrated securities-trading platform and “Investment Masters” (“iTougu”), an investment advisory service platform.

While securities investment advisory, wealth management and precious metals trading businesses have attractive market potential in China, such businesses are relatively new and the related business models are unproven. Our limited experience in new business areas that we may venture into also gives rise to higher unpredictability to our success in these new business areas. We face a variety of risks and uncertainties during the transition and exploration of new business opportunities, many of which will be new and unexpected. In particular, volatility in precious metals trading prices may affect investors’ investment interest and sentiments towards precious metals, which may adversely affect our revenues and our results of operations. In addition, for our precious metals trading services business, we are paid commissions calculated on the basis of our customers’ trading volumes. As a result, if our customers are reluctant to trade, our revenues would be adversely affected. We are also acting as one of the market makers on the precious metals exchanges. We commit to accept all the trade executions by offering to buy or sell trading products from/to our clients. As counterparty to our clients, we may earn trading gains or incur trading losses, depending on market conditions. As a result, we may not be able to accurately forecast our revenues from our precious metals trading business and financial performance in general, which in turn may contribute to the volatility of our overall operating results.

As we make the transition into taking up precious metals trading services as our new principal businesses, our subscription revenue has started to drop. We are uncertain when, if ever, revenues from our new areas of business will compensate for this lost revenue. If we are unable to successfully and smoothly transition into the new principal businesses and implement our growth strategies, or, if we fail to generate profit in business areas other than our principal businesses in a timely and cost-effective manner, loss of profits may occur and our overall business and financial results may suffer.

Our new internet-based financial platforms “Yinglibao”, “Securities Master” and “Investment Masters” may not be successful as they may face intensive competition and future regulatory hurdles.

In August 2013, the Company launched “Yinglibao”, an internet-based financial platform that integrates cash management solutions and mutual fund distribution, for trial service. For users who maintain Yinglibao balances, their balances would be subscribed by the money market fund managed by third-party mutual fund management companies. The return rate on Yinglibao balances is higher than the comparable bank demand deposit rate. In addition, Yinglibao users have the option of purchasing mutual fund and other wealth management products directly through their accounts. We aim for Yinglibao to become a one-stop shop for investment over time. However, we are unsure if the trial run will be successful.

In 2014, the Company launched new platforms, namely “Securities Master” and “Investment Masters”. “Securities Master” has been designed as a fully integrated securities-trading platform for retail investors with a highly-intuitive user interface via computers, smartphones, tablets and over time smart TVs. By creating a simple and seamless experience for retail investors to access market information, open accounts and trade in real-time, investors are now able to manage their finances more effectively and efficiently. “Investment Masters”, our web-based mobile investment advisory service platform, facilitates securities investment advisors to communicate with their clients and followers directly in real-time and for 24 hours, allowing a large number of Chinese individual investors to obtain advice from thousands of investment advisors that was inaccessible previously.

Yinglibao, Securities Master and Investment Masters may be subject to future additional Chinese laws and regulations relating to banking, securities and wealth management businesses. In the event that any of those platforms becomes restricted or even prohibited by Chinese laws, our customers’ financial activities may be affected and there may be a material adverse impact on our new business ventures in providing users alternative investment opportunities.

Competitors with larger customer base and greater market visibility, such as Alibaba Group (“Alibaba”), Tencent Holdings Limited (“Tencent”) and Baidu, Inc. (“Baidu”), also launched their respective internet-based financial platform which provides financial services similar to that of Yinglibao. In the future, banks and fund management companies may also enter this market and offer similar services to customers. Because of such expected influx of new market entrants, competition in this industry may become more intense. Many of our new competitors, especially Alibaba, Tencent and Baidu, have greater financial and marketing resources than we do. Securities Master and Investment Masters also face intense competitions. Several financial websites in China have also launched similar services. In addition, securities brokers in China have also begun to develop their own internet-based financial service platforms. Thus, we may not be able to compete effectively or provide compelling service alternatives to potential customers. Our financial results may suffer as a result.

While we continue to innovate and develop Yinglibao, Securities Master and Investment Masters, we expect improvements to their technical and operational stability to gradually take place over time. If program errors, such as “bugs” and other undetected errors become issues of any of these platforms, there may be a negative impact on our reputation and as a result, our customer satisfaction may suffer.

Uncertain legal regulation in our new areas of business may adversely impact our business.

Laws and regulations governing the securities investment advisory and wealth management services industries in China, are developing and are subject to further changes. As a result, substantial uncertainties exist regarding the evolution of the regulatory system and the interpretation and implementation of current and any future Chinese laws and regulations applicable to such industries. In recent years, China has tightened regulations on commodities transactions in the spot market. The Ministry of Commerce, the People’s Bank of China and the CSRC jointly issued Interim Provisions on Commodities Transactions in the Spot Market, effective from January 1, 2014 (“Circular 3”). New requirements imposed by Circular 3 and the uncertainties in subsequent implementations and administration of such requirements by related agencies may negatively impact our businesses and business performance.

Our precious metals trading services business is subject to regulation by the local government presiding over the city where an exchange is situated. Each local government implements applicable rules promulgated by the Ministry of Commerce separately, resulting in substantial uncertainties for our precious metals trading services business. As the regulatory environment surrounding precious metals trading continues to evolve, we may devote more time and resources to regulatory matters, which may increase our cost of doing business and may be a limiting factor on the operations and development of such business.

We cannot guarantee you that we will be able to obtain or maintain our existing licenses and permits, renew any of them when their current terms expire, or obtain additional licenses requisite for our strategic transition and venture into new areas of business. Any changes in the regulatory landscape may materially and adversely affect our business.

We face significant competition in the securities investment advisory and wealth management services industry as we transition into the new principal businesses, and our operations and financial condition may suffer if we fail to compete effectively.

As a new market entrant competing in the highly competitive and fragmented securities investment advisory and wealth management services industries in China, we may not be able to compete effectively or provide a compelling service alternative for potential customers. Securities investment advisory and wealth management services industries in China are at their early stages of development and are highly fragmented and competitive, but they provide vast opportunities, and thus we expect competition to persist and could even intensify in the future. We face competition from independent firms providing wealth management services, securities advisory and investment corporations providing securities investment advisory services, brokerage firms providing securities investment advisory services and domestic commercial banks with in-house sales force and private banking functions, among others. Many of our competitors, especially brokerage firms and commercial banks, have greater financial and marketing resources than we do. Many brokerage firms, trust companies and commercial banks we compete with enjoy significant competitive advantages due to their nationwide distribution network, longer operational history, broader client base, and settlement capabilities. Moreover, many of the securities investment advisory and wealth management services and product providers, such as brokerage firms, commercial banks and trust companies, are also engaged in, or may in the future, engage in the distribution of wealth management products and they may benefit from the integration of wealth management products with their other services and product offerings, which may provide them competitive advantage in this market.

For our precious metals trading service business, early market entrants in exchanges, such as Haixi Commodity Exchange (“Haixi”) and Tianjin Precious Metals Exchange (“TJPME”) could own a large number of membership units and have more experience than us in this business. We also faced intense competitions in our Internet-based financial services, including Yinglibao, Securities Master and Investment Master. As a result, we may not be able to compete effectively or provide a compelling service alternative for potential customers.

Cash arrangements with brokers for the procurement of our overseas futures contract trading business expose us to third-party risk, which could in turn have a material adverse effect on our financial condition, reputation, client relationships, operations and prospects.

With respect to iSTAR Futures’ futures contract trading business, as we currently do not hold membership at overseas futures exchanges, such as the London Metal Exchange or the CME Group, we rely on third party brokers who are members of these exchanges to hold our customers’ funds and execute our customers’ trades. This business arrangement with third party brokers involves various risks, primarily, third party credit risks and default risks. In the event that one or more of these brokers become insolvent or bankrupt, we and our clients may have difficulty recovering money deposited with such broker. Although we enforce and implement strict risk management policies and procedures, such policies and procedures may not be fully effective in mitigating our clients’ risk exposure to third party insolvency or bankruptcy. If we fail to identify any material financial weakness of any of those brokers who hold our customers’ funds in a timely manner, and as a result our customers suffer financial loss or other damages resulting from such broker’s insolvency or bankruptcy, then accordingly, our financial conditions, reputation, client relationships, operations and prospects will be adversely affected.

We are subject to counterparty risk whereby defaults by parties with whom we do business can have an adverse effect on our business, financial condition and results of operations and cash flows.

iSTAR Securities' margin financing business requires a commitment of capital and involves risks of losses due to the potential failure of our customers to perform their obligations under their transactions with us. Our margin policy allows our margin clients to borrow cash from us to buy stocks listed in HKEx in amounts that may be significantly larger than their cash balances. While we closely monitor each customer's exposure, it does not guarantee our ability to eliminate negative customer account balances prior to the occurrence of adverse market changes relative to a customer's position(s). Moreover, we are exposed to debit/deficit risk with our customers. If our customers default on their obligations, we remain financially liable for such obligations, and although these obligations are collateralized, we are subject to market risk in the liquidation of customer collateral to satisfy such obligations since the value of our customers' positions are subject to fluctuation as market prices change. In addition, if an adverse market move relative to a customer's position(s) occurs and we are unable to collect a margin call in a timely manner, the customer account may incur a loss resulting in a debit balance. In light of the current turbulence in the global economy, we face increased risk of default by our customers and other counterparties. Any default by our counterparties or partners could have a material adverse effect on our business, financial condition and results of operations and cash flows.

If we are unable to hire high quality personnel for the securities investment advisory and wealth management businesses, our new business model will suffer, which may materially and adversely affect our overall business performance.

We are also facing fierce competition hiring competent licensed securities investment advisors. Highly skilled and qualified financial advisors are in high demand throughout wealth management industries in China. The total number of individuals qualified to provide securities investment advisory and wealth management services in China is limited due to the early development stage of the industry. In addition, the rate of wage inflation in most areas of the economy remains persistently high in recent years. There is no assurance that we can recruit and retain enough licensed securities investment advisors and qualified wealth management financial advisors who meet our high quality requirements to support our further growth into the new principal business, or, if we do, that the cost of doing so will permit us to realize reasonable margins. We may incur disproportional compensation, training and other administrative expenses in order to retain such recruits in light of the aggressive hiring competition from other securities investment advisory firms, brokerage firms, commercial banks and trust companies that are better situated financially for recruitment of this kind. These factors may materially and adversely affect our business and our strategy.

We may incur higher operating expenses in connection with the ongoing business transition and expansion into other new business areas.

In transitioning into precious metals business and our internet-based financial services, we are required to incur development, operation and potential acquisition costs in order to keep pace with the new market and technology needs for the industry. In the meantime, we have also ventured into other business areas aside from our principal businesses, which ventures may incur increased administrative costs and other input. As a result, our cost-cutting initiatives to increase efficiency and improve our operational performance may not prove to be effective in the short-term and we may experience losses in connection with our new businesses.

We ceased providing new subscriptions of premium individual subscription service which may have a chilling effect on our existing subscribers and result in lower than expected revenues, immediate-term cash refunds and possible losses.

We ceased providing new subscriptions of premium individual subscription service since April 2012 while continuing to provide on-going services to our existing subscribers until the applicable subscription terms expire. In light of the new direction we are taking our business, our existing subscribers of premium individual subscription service may start to lose confidence in the resources, the quality and the expertise we devote into these existing subscription services during the time in which we are developing our capacity in the securities investment advisory and over time wealth management services. Such existing subscribers may terminate their existing subscription with us. As a result, revenue and deferred revenue would be reduced if we are required to pay refunds to our existing subscribers, which will negatively impact on our financial results.

Our business could be materially and adversely affected if the stock exchanges and indexes providers from which we receive data and information fail to deliver us reliable data and price quotes or other trading related information, or if we cannot maintain our current business relationships with our historical data providers on commercially reasonable terms.

We provide real-time stock, bond, mutual fund and financial futures quotes and other trading related information from Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE), and, we also provide delayed trading related information from Hong Kong stock market indexes from Hang Seng Indexes Company Limited (HSI). We primarily rely on contractual arrangements with SSE Infonet Ltd. which is associated with SSE, SZSE, and HSI, pursuant to which we pay fixed service fees in exchange for receiving real-time or delayed price quotes and other trading related information.

We renew our agreements with each of SSE Infonet Ltd., SZSE and HSI on an annual basis, respectively. Under these agreements, each of the three data providers can terminate its respective agreement with us if we materially breach relevant terms, such as our untimely payment of, or failure to pay, fees to these providers. However, we cannot assure investors that we will be able to timely renew all of these business arrangements on commercially reasonable terms, or at all, after our current terms expire. In addition, we cannot assure investors that the three securities data providers will not change their current mode of providing stock information to us, change the packages of stock information authorized to us, change their current qualification requirements on the authorized information service provider, or charge us service fees substantially higher than the service fees we are currently paying. If they did so, our business, financial condition and results of operations could be materially and adversely affected. Even if we are able to maintain our current business arrangements for data on commercially reasonable terms, either of these four securities data providers may fail to deliver us reliable price quotes or other trading related information. And it would be difficult for us to obtain reliable price quotes and other trading related information from an alternative source, which could materially and adversely affect our business.

We rely on CFO Genius as the provider of all historical data and information on listed companies, bonds and mutual funds, any disruption to CFO Genius may have a material adverse effect on our business.

We have transferred to and made CFO Genius, which we acquired in September 2006, the primary source of historical data and information on listed companies, bonds and mutual funds. CFO Genius has become our primary provider of historical data and information, thereby mitigating our reliance on third-party backup providers of such historical data and information. Any problems arising in or any disruption to CFO Genius as the primary provider of historical data and information may have a material adverse effect on our business.

Our business would be adversely affected if we do not continue to maintain an effective telemarketing and customer support force or if our customer support staff fails to comply with applicable laws and regulations.

We market our service offerings through our websites, as well as through our telemarketing and customer service centers. In addition to sales and marketing functions, we depend on our customer support force to market our service offerings to our existing and potential customers and to resolve our subscribers' technical problems. Many of our telemarketing and customer support personnel have only worked for us for a short period of time and some of them may not have received sufficient training or gained sufficient experience to effectively serve our customers. We may not be able to hire, retain, integrate or motivate additional customer support personnel without any short-term disruptions of our operations. As a result, our business could be adversely affected if we do not continue to maintain an effective customer support force.

The CSRC's Provisional Regulations effective from January 1, 2011 ("Provisional Regulations") has considerably increased requirements on pre-sale disclosures, standardized contract signing and service provisions, and after-sales product return policies in the course of providing securities investment advisory services to customers. The Interim Provisions on Strengthening the Supervision and Control of Engagement in Securities Investment Advisory Business by Utilizing "Securities Analysis Software" promulgated by the CSRC and effective on January 1, 2013 ("Circular 40") further provide that securities investment advisory companies shall provide contact information of companies and certain reminders to clients when promoting products or providing services via the Internet, telephone or SMS.

We require our customer support staff to study and comply with these new requirements imposed by the Provisional Regulations and the Circular 40 in their work. However, we cannot assure investors that our customer support staff would fully comply with the Provisional Regulations and the Circular 40. Our business could be subject to severe penalties if the failure of our customer support staff to comply with those requirements is detected by or complained to regulatory authorities.

Our acquisitions and investments may not recognize our strategic goals, and may result in operating difficulties and other harmful consequences that may adversely impact our business and results of operations.

Acquisitions and investments are important elements of our overall corporate strategy and we expect to continue to acquire and invest in companies, products, services and technologies in the future. In the past several years, we acquired certain businesses and intangible assets, including products, services, trademarks, customer relationships, users list and other assets such as CFO Genius, a financial information database provider mainly serving Chinese domestic institutional customers, Stockstar Information Technology (Shanghai) Co., Ltd. (CFO Stockstar), a leading finance and securities website in China, iSTAR Securities, a licensed securities brokerage firm incorporated in Hong Kong and Champion Connection Network H.K. Limited's investment advisory and institutional subscription businesses in China, including the assets, software, personnel etc., through several strategic investments and acquisitions. We intend to make other strategic investments and acquisitions in the future if suitable opportunities arise. Investments and acquisitions involve uncertainties and risks that may have a material adverse effect on our financial condition and results of operation, including:

- we may not identify suitable candidates and successfully complete acquisition and investment transactions, and may not be able to manage post-closing issues such as the integration of acquired businesses, products or employees;
- we may not fully realize all of the anticipated benefits of any acquisition and investment transaction;

- the pricing and other terms of contracts for acquisition and investment transactions require us to make estimates and assumptions at the time we enter into these contracts, so that we may pay more than it is worth;
- we may not identify all of the problems during the course of our due diligence, such as factors necessary to estimate our costs accurately, and issues with unlicensed use of intellectual property;
- any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations, and failure of investments to perform as expected, could make these transactions less profitable or unprofitable;
- if we fail to successfully complete acquisitions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, and we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions;
- our ongoing business may be disrupted and our management's attention may be diverted by transition or integration issues;
- we may have legal and tax exposures or lose anticipated tax benefits as a result of unforeseen difficulties in our legal entity integration activities;
- we may face contingencies related to intellectual property, financial disclosures and accounting practices or internal controls;
- when goodwill, intangible assets and investments, in connection with potential acquisition and investment transactions become impaired, we may be required to incur additional material charges relating to the impairment of those assets;
- we may incur additional amortization expense over the useful lives of certain intangible assets acquired in connection with acquisitions;
- any acquisition and investment transactions may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures;
- we may issue common stock, potentially creating dilution for existing stockholders to complete acquisition and investment transactions;
- we may borrow to finance these transactions, the amount and terms of which as well as other factors could affect our liquidity and financial condition, and debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends;
- we may experience risks relating to the challenges and costs of closing acquisition and investment transactions and the risk that an announced acquisition and investment transaction may not close.

We face risks associated with the equity transfer of our real estate investment in Langfang City, Hebei Province, including but not limited to, failure to collect the outstanding amount of the total payment owed to us.

In order to enhance our return on cash during the strategic transition period, in March 2013, we invested an aggregate \$22.1 million in a real estate project in Langfang City, Hebei Province, developed by Langfang Shengshi Real Estate Development Co., Ltd. (the "Langfang Developer"). In November 2013, we transferred our equity stake in the Langfang Developer for a total consideration of \$24.9 million, which was being paid to us in several installments. We have collected \$11.5 million in cash in 2013 and \$13.4 million was still remained receivable as of December 31, 2014. In addition, in connection with the investment in this real estate project, we also extended a loan of \$10.3 million to the Langfang Developer at a monthly interest rate of 1.5% from October 9, 2013 to October 20, 2014 and 19-21% per annum from October 21, 2014 to December 31, 2014. As of December 31 2014, the total principal outstanding was \$10.3 million. We charged an interest at the rate of 1.5% per month for the outstanding principal and consideration

receivable. The interest receivable was \$1.3 million as of December 31, 2014. Although the uncollected consideration and loans are secured by one-hundred percent of Langfang Developer's equity interest, the possibility of the purchaser's non-payment default remains. If we are unable to collect the total \$25.0 million outstanding in a timely manner, it may have a material adverse effect on our financial condition and our financial performance.

We have recorded significant losses from impairment of goodwill and intangible assets in 2014. We may be required to record a significant charge to earnings if we are required to reassess our goodwill or other intangible assets arising from our acquisitions.

In the course of our operating history, we have acquired assets and businesses, which have resulted in the recording of goodwill and/or intangible assets on our financial statements. We are required under U.S. GAAP to test goodwill for impairment at least annually or sooner if we determine there are indicators of impairment and to review our intangible assets for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and intangible assets include, but not limited to, significant adverse changes in the business climate (affecting our company as a whole or affecting any particular segment), unfavorable changes in our stock price and market capitalization, and declines in the financial condition of our business.

In the second quarter of 2014, due to the new business redirection to develop our online brokerage service “Securities Master”, the Company is expected to suffer reduced cash flow in our investment advisory services in the short term. In light of this new business redirection, with the assistance of a third party appraiser, the Company wrote-off the goodwill of \$8.1 million associated with our investment advisory services and recorded an impairment loss of US\$1.8 million for our intangible assets.

If we reassess our goodwill and intangible assets in the next years the possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

Stricter securities investment advisory and wealth management regulations may materially weaken the investors’ desire to subscribe or renew subscription for our securities investment advisory and wealth management services.

The Provisional Regulations effective from January 1, 2011 and the Circular 40 effective from January 1, 2013 expressly state that the business of providing securities investment advisory or other similar service through software tools or any other terminal equipment (“securities analysis software”) should be subject to regulation by the CSRC. The Regulations on Securities Investment Funds (2012 Amended), which took effect on June 1, 2013, further require companies providing advisory services for investment in public funds should be registered and filed pursuant to the regulations of the CSRC.

While we have acquired requisite securities investment advisory license, in accordance with the Provisional Regulations and we will continue to devote resources to regulatory compliance, the failure to comply with such regulations could lead to adverse consequences which could materially affect our securities investment advisory business. In order to comply with the Provisional Regulations, we have considerably increased pre-sales disclosure requirements, standardized contract signing and service provisions among others. Through fully disclosing the limitation of making investment decisions based on software tools and advice provided by licensed professionals, we emphasize to clients that they must be able to bear the risks of their own investments. Combined with the continuously sluggish stock market, customers' desire to purchase new or renew existing products and services is increasingly and significantly weakened.

Although the Provisional Regulations benefits the healthy development of securities investment advisory business in China in the long run, such negative impact on our business is anticipated to remain in the foreseeable future.

Further, China has tightened regulations on wealth management in recent years. China Banking Regulatory Commission issued a Notice on Regulating Operation of Wealth Management Business in Commercial Banks on March 25, 2013 ("Circular 8"), pursuant to which, banks must clearly link wealth-management products with specific assets. Circular 8 also stipulates that banks must disclose who will ultimately use the funds and for what purposes, and that each product must be audited.

None of our group companies is a bank and therefore we are currently not subject to the provisions of Circular 8. However, we cannot assure you that China will not proceed to issue similar laws and regulations on wealth management that may become applicable to companies like us. In the event we become subject to such restrictions and regulation, our wealth management business may be materially and adversely affected.

Interruption or failure of our own electronic systems or those of third-party service providers we rely upon could impair our ability to provide our products and services, which could damage our reputation and harm our operating results.

We have limited backup systems and have previously experienced system failures that have disrupted our operations. Any damage to or failure of our systems could interrupt our service. Service interruptions could reduce our revenues and profits and damage our brand and reduce competitiveness if our system is perceived to be unreliable. Our systems are vulnerable to damage or interruption as a result of terrorist attacks, wars, earthquakes, floods, fires, power loss, telecommunications failures, undetected errors or "bugs" in our software, computer viruses, interruptions in access to our websites through the use of "denial of service" or similar attacks, hacking or other attempts to harm our systems, and similar events. Any security breach caused by hackings, which involve efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could cause our users to question the safety or reliability of our website and our services and could have a material adverse effect on our business results of operations and financial condition.

If we experience frequent or persistent system failures on our websites and products due to interruptions and failures of third-party service providers we rely upon, including internet content providers and securities data providers, our reputation and brand could be severely harmed. In addition, our users depend on Internet service providers, online service providers and other website operators for access to our website and they may experience outages, delays and other difficulties due to system failures unrelated to our systems. These types of occurrences could cause users to perceive our website as not functioning properly and therefore cause them to use other methods to obtain the financial data and information services they need.

The trading software of iSTAR Securities and iSTAR Futures are provided by third parties. In addition, commencing in 2013, we launched our precious metals trading business, which operates on trading platforms provided by third party individual trading exchanges. Because our trading software and trading platforms are provided by third parties, we are unable to assure the technical stability and soundness of such trading platforms. If there are technical issues related to these third party systems, such as “bugs” or undetected errors, our services may be temporarily halted and our customers may choose to subscribe to our competitors’ services instead and our overall business and financial results may suffer as result.

If we are unable to adapt or expand our existing technology infrastructure to accommodate greater traffic or additional customer requirements, our business may be harmed.

In the past, our websites regularly serve a large number of daily unique visitors when there are significant business developments, financial news and activities, or stock market trading activities. In addition, the number of our visitors has continued to increase over time and we are seeking to further increase our user base. Therefore, our website must accommodate a high volume of traffic to meet peak user demand and deliver frequently updated information. Our websites have in the past experienced and may in the future experience slower response time or login delays for a variety of reasons. It is essential to our success that our websites are able to accommodate our users in an efficient manner so that our users’ experience with us is viewed favorably and without frequent delays. Therefore we may be required to upgrade our technology infrastructure to keep up with the increasing traffic on our websites, such as increasing the capacity of our hardware servers and the sophistication of our software. If we fail to adapt our technology infrastructure to accommodate greater traffic or customer requirements, our users and customers may become dissatisfied with our services and switch to our competitors’ websites, which could harm our business.

We depend largely on the infrastructure of the telecommunications operators in China, and any interruption of their network infrastructure may result in severe disruptions to our business.

Although private Internet service providers exist in China, substantially all access to the Internet in China is maintained through the telecommunications operators, under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or MIIT. In addition, local networks connect to the Internet through a government-owned international gateway. We rely on this infrastructure and to a lesser extent, certain other Internet data centers in China to provide data communications capacity primarily through local telecommunications lines. In the event of a large-scale infrastructure disruption or failure, we may not have access to alternative networks and services, on a timely basis or at all.

We may not be able to lease additional bandwidth from the telecommunications operators in China on acceptable terms, on a timely basis or at all. In addition, we may not have means of getting access to alternative networks and services on a timely basis or at all in the event of any disruption or failure of the network.

The Internet infrastructure in China, which is not as well developed as in the United States or other more developed countries, may limit our growth.

The Internet infrastructure in China is not as well developed as in the United States or other more developed countries. In particular, we depend significantly on the PRC government and fixed line telecommunications operators in China to establish and maintain a reliable Internet infrastructure to reach a growing base of Internet users in China. We cannot assure investors that the Internet infrastructure in China will support the demands associated with the continued growth of the Internet industry in China. If the necessary infrastructure standards or protocols, or complementary products, services or facilities are not developed in China on a timely basis or at all by these enterprises, our business, financial condition and results of operations could be materially adversely affected.

Concerns about the security and confidentiality of information on the Internet may reduce use of our network and impede our growth.

A significant barrier to confidential communications over the Internet in general has been a public concern over security and privacy, including the transmission of confidential information. To address such concerns, the Standing Committee of the National People's Congress of China issued the Decisions on Strengthening the Protection of Internet Information, effective on December 28, 2012 ("Information Protection Decisions"), which prescribe detailed measures to protect confidential information transmitted via the Internet and the liabilities for violation of the provisions. If these concerns are not adequately addressed pursuant to the Information Protection Decisions and other relevant regulations, they may inhibit the growth of the Internet and other online services generally. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our websites and impede our growth.

We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. If unauthorized persons are able to penetrate our network security, they could misappropriate proprietary information, including personal information regarding our subscribers, or cause interruptions in our services. As a result, we may be required to incur substantial costs and divert our other resources to protect against or to alleviate these problems. Security breaches could have a material adverse effect on our reputation, business, financial condition and results of operations.

We may be subject to, and may expend significant resources in defending against claims based on the content and services that we provide through our website and research tools.

Due to the manner in which we obtain, collect, categorize and integrate content for our website, and because our services, including our online bulletin boards and discussion forums, may be used for the distribution of information and expression of opinions, claims may be filed against us for defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of such information. For example, our bulletin boards and online forums reflect the statements and views of persons we do not control and we cannot be assured that such information is true and correct and is not misleading. These persons may also have conflicts of interest in relation to their statements or views regarding securities or other financial matters. Liability insurance for these types of claims is not currently available in the PRC. While we do not take responsibility for statements or views presented on our website, we may incur significant costs investigating and defending these types of claims even if they do not result in liability. Any such claim may also damage our reputation if our users and subscribers do not view this content as reliable or accurate, which could materially and adversely affect our business.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

We cannot be certain that our website content, online services and our research tools do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses in defending against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely affect our business.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business.

We regard our copyrights, trademarks, trade secret and other intellectual property as critical to our success. Unauthorized use of the intellectual property used in our business may materially and adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. In particular, the laws and enforcement procedures in the PRC do not protect intellectual property rights to the same extent as do the laws and enforcement procedures in the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

We depend on our key personnel and our business and growth prospects may be severely disrupted if we lose their services.

Our future success is dependent upon the continued service of our key executives and employees. We rely on their expertise in our business operations. If one or more of our key executives are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company in violation of their employment agreements, we may not be able to easily replace them.

Furthermore, since our industry is characterized by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future. We currently do not maintain key-man life insurance for any of our key personnel. We cannot assure investors that we will be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel that we will need to achieve our business objectives in the future. As a result, our business may be significantly disrupted and our financial condition and results of operations may be adversely affected.

Because there is limited business insurance coverage in China, any business disruption or litigation we experience might result in us incurring substantial costs and the diversion of resources.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance make having such insurance impractical for us.

Our results of operations may fluctuate, which makes our results difficult to predict and you should not rely on our quarterly operating results as an indication of our future performance, because our results of operations are subject to significant fluctuations.

We may experience significant fluctuations in our operating results including but not limited to strategic transformation initiative, cost-cutting initiative and its effect on efficiency and operational performance, potential business consolidation amidst the new regulatory environment, the market prospect of the businesses of securities investment advisory and wealth management, the difficulty in forecasting revenues from our precious metals trading services business and the transition period to adapt to the new compliance requirements, due to a variety of factors, many of which are outside our control. Significant fluctuations in our operating results could be caused by any of the factors identified in this section, including but not limited to, our ability to retain existing clients, attract new clients at a steady rate and maintain client satisfaction; technical difficulties, system downtime or Internet failures; operators'

policies; changing customer needs, regulatory environment and market condition; seasonal trends in Internet use; wavering investor confidence that could impact our business; possible non-cash goodwill, intangible assets and investment impairment that may adversely affect our net income; the unpredictability of our strategic transformation and upgrade; general economic conditions and economic conditions specific to the Internet and wireless, financial information and services, securities investment advisory and wealth management, and the China and Hong Kong securities markets. As a result of these and other factors, comparing our results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected figures. Our results of operations in future quarters may fall below expectations.

The effects of war, acts of terrorism, health epidemics, natural disasters or other unforeseen wide-scale events could have a material adverse effect on our operating results and financial condition.

The continued threat of terrorism and associated heightened security measures and military actions in response to acts of terrorism has disrupted commerce and has intensified uncertainties in the U.S. and international economies. Any further acts of terrorism, a future war, a widespread natural disaster, or a health epidemic, such as the influenza H7N9, may disrupt commerce, undermine consumer confidence and lead to a further downturn in China or international economies, which could negatively impact our revenues. Furthermore, an act of terrorism or war, or the threat thereof, or any natural disaster that results in unforeseen interruptions of commerce, could negatively impact our business by interfering with our ability to obtain products from our manufacturers.

Risks relating to our corporate structure

We primarily rely on contractual arrangements with our significant PRC-incorporated affiliates and their shareholders to maintain control over our China operations indirectly. If the affiliates fail to perform their obligations under these contractual arrangements or PRC laws impair the enforceability of these contracts, our business, financial condition and results of operations may be materially and adversely affected.

Because PRC regulations restrict our ability to provide Internet content directly in China, we rely on contractual arrangements, or VIE agreements, with our significant PRC-incorporated affiliates and their shareholders for the operation of our businesses. We have no direct equity ownership interest in these onshore affiliates. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, these entities could fail to take actions required for our business or fail to perform its obligations under these contractual arrangements.

The VIE agreements are governed by PRC law. In the event any of these significant PRC affiliates fails to perform its obligations under these contractual arrangements, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. The uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

The VIE agreements we entered into include share pledge agreements. Under the share pledge agreements, each of Zhiwei Zhao, our chief executive officer, and Jun Wang, our chief financial officer, have pledged their equity interest in Beijing Fuhua Innovation Technology Development Co., Ltd., or CFO Fuhua to China Finance Online (Beijing) Co., Ltd, or CFO Beijing. We are in the process of registering the pledges of equity interests by nominee shareholders of some of our consolidated affiliated entities. The nominee shareholders of each of our consolidated affiliated entities have pledged all of their equity interests in the relevant consolidated affiliated entities to our subsidiaries. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. There is no assurance that we can have these equity pledges registered successfully. Prior to the completion of the registration, we may not be able to successfully enforce the equity pledge against any third parties who have acquired property right interests in good faith in the equity interests in the relevant consolidated affiliated entity.

If the PRC government finds that the agreements that establish the structure for operating our online financial data and information services and securities investment advisory services no longer comply with PRC government restrictions on foreign investment in the Internet content services industry, we could be subject to severe penalties.

PRC regulations currently limit foreign ownership of companies that provide Internet content services, which include operating financial data and information services through the Internet, to be no more than 50%. Accordingly, foreign and wholly foreign-owned enterprises are currently not able to apply for the required licenses for operating such services in China.

We are a foreign enterprise and each of our significant subsidiaries, CFO Beijing, Fortune Software (Beijing) Co., Ltd., or CFO Software, CFO Stockstar, CFO Genius, Zhengning Information & Technology (Shanghai) Co., Ltd., or CFO Zhengning, and Fortune (Beijing) Success Technology Co., Ltd., or CFO Success, is a wholly foreign-owned enterprise under PRC law and, accordingly, neither we, nor any of these significant subsidiaries is eligible to apply for licenses to operate our website. In order to comply with foreign ownership restrictions, we operate our website in China through CFO Fuhua and its wholly owned subsidiary CFO Meining, both of which hold the licenses required to be an Internet information content provider under the relevant PRC laws. Zhiwei Zhao and Jun Wang hold 45% and 55% of the equity interests in CFO Fuhua, respectively. We have been and are expected to continue to be dependent on CFO Fuhua and CFO Meining to host our websites, www.jrj.com and www.stockstar.com. We have entered into VIE agreement with CFO Fuhua, its shareholders to maintain substantial control over CFO Fuhua. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. And VIE agreements have been under increasing scrutiny by the relevant government authorities in recent years. Accordingly, we cannot assure investors that the PRC regulatory authorities will ultimately take a view that our arrangements with CFO Fuhua comply with PRC law.

Although we believe we comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining penalties for violations of laws and regulations. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. Any of these or similar occurrences could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of our consolidated affiliated entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of our consolidated affiliated entities, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

VIE agreements that we have entered into with our PRC affiliates may be subject to scrutiny by the PRC tax authorities and a finding that we or our PRC affiliates owe additional taxes could substantially reduce our consolidated net income.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC-incorporated subsidiaries and PRC-incorporated affiliates do not represent an arm's length price and adjust the income of our PRC-incorporated subsidiaries or that of our PRC-incorporated affiliates in the form of transfer pricing adjustments. Transfer pricing adjustments could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our PRC incorporated subsidiaries or affiliates, which could in turn increase their respective tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties on our PRC-incorporated subsidiaries or affiliates for underpayment of taxes. Our consolidated net income may be materially and adversely affected if our PRC-incorporated subsidiaries or affiliates' tax liabilities increase or if they are found to be subject to late payment fees or other penalties.

We rely principally on dividends and other distributions on equity paid by our wholly owned operating subsidiaries to fund any cash and financing requirements we may have.

We are a holding company, and our ability to pay dividends and other cash distributions to our shareholders, repay any debt we may incur and meet our other cash requirements depends solely on our ability to receive dividends and other distributions from our PRC subsidiaries and consolidated affiliated entities to our offshore affiliates and/or other contractual arrangements, more specifically:

- (a) Earnings of our PRC subsidiaries that we directly own and operate inside the PRC are transferred to us by means of dividend payments. The amount of dividends paid to us by our directly owned PRC subsidiaries depends mainly on the service fees paid to them from our consolidated affiliated entities.
- (b) Earnings of our PRC subsidiaries that we indirectly hold through an intermediary Hong Kong or British Virgin Islands company are transferred to us by means of dividend payments via such intermediary company. The transfer of dividend payments from such intermediary company to us is not subject to PRC taxation or other regulatory restrictions.
- (c) Earnings of the VIEs, which we exert control via VIE contracts including without limitation exclusive technology consulting and management service agreement, exclusive purchase right agreement, power of attorney and pledge agreement, are first transferred in full (pre-tax) to our wholly foreign owned enterprise via such contractual arrangements.

However, there are restrictions under PRC laws for the payment of dividends to us by our PRC subsidiaries. For example, if our PRC subsidiaries incur debt on its own behalf, the instruments governing the debt may restrict its ability to make payments or distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by the PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, the PRC subsidiaries are required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve. This reserve is not distributable as dividends until the accumulated amount of such reserve has exceeded 50.0% of its

registered capital. Consequently, each of our PRC subsidiaries is restricted in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. In addition, PRC tax authorities may require us to amend the VIE contractual arrangements that would materially and adversely affect the ability to pay dividends and other distributions to us. The foregoing restrictions on the ability of the PRC subsidiaries to pay dividends to us could materially and adversely limit our ability to pay dividends to holders of our ADSs.

Risks relating to doing business in the People's Republic of China

China's economic, political and social conditions, as well as government policies, could affect the financial markets in China and our business.

Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. These actions, as well as future actions and policies of the PRC government, could materially affect the financial markets in China and our business and operations.

The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. Our significant PRC operating subsidiaries are enterprises incorporated in China and wholly owned by foreign investors and are subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. However, these laws, regulations and legal requirements are constantly changing, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, securities investment advisory and wealth management, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

The PRC government may prevent us from, and we may be subject to liability for, distributing content online that it believes to be inappropriate.

China has enacted laws and regulations governing Internet access and the distribution of news, information or other content, as well as products and services, through the Internet. In the past, the PRC government has stopped the distribution of information through the Internet that it believes violates PRC law. MIIT, the General Administration of Press and Publication, Radio, Film and Television, and the Ministry of Culture have promulgated regulations which prohibit information from being distributed through the Internet if it contains content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise state security or secrets.

In addition, MIIT has published regulations that subject website operators to potential liability for content included on their websites and the actions of users and others using their systems, including liability for violations of PRC laws prohibiting the distribution of content deemed to be socially destabilizing. The PRC's Ministry of Public Security has the authority to order any local Internet service provider, or ISP, to block any Internet website maintained outside China at its sole discretion. Periodically, the Ministry of Public Security has stopped the distribution over the Internet of information which it believes to be socially destabilizing. The PRC's State Secrecy Bureau, which is directly responsible for the protection of state secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information.

Under applicable PRC regulations, we may be held liable and be subject to penalties for any content we offer or will offer through our website, including information posted on bulletin boards and online forums which we host and maintain on our website. Furthermore, we are required to delete any content we transmit through our website if such content clearly violates PRC laws and regulations. Where any content is considered suspicious, we are required to report such content to PRC governmental authorities.

It may be difficult to determine the type of content that may result in liability for us. If any financial data and information services we offer through our website were deemed to have violated any of such content restrictions, we could be forced to discontinue such services and provision of financial data and be subject to penalties, including confiscation of income, fines, suspension of business and revocation of licenses for operating online financial data and information services, which would materially and adversely affect our business, financial condition and results of operations. Moreover, if any information posted on our bulletin boards or online forums were deemed to have violated any of the content restrictions, we could be subject to similar penalties that materially and adversely affect our business, financial condition and results of operations.

If the current tax benefits we enjoy in PRC were no longer available, our effective tax rates for our PRC operations could increase.

The PRC Enterprise Income Tax Law, or the EIT Law, and its implementation regulations adopted a uniform tax rate of 25% for all enterprises (including domestically owned enterprises and foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a five-year transitional period during which certain enterprises are allowed to continue to enjoy existing preferential tax treatments provided by the then-applicable tax laws and administrative regulations. In 2012, the five-year transitional period has ended for four of our subsidiaries, which has been subject to uniform tax rate of 25% since 2012, materially increasing our tax obligations.

According to the Administrative Measures on the Recognition of “High and New Technology Enterprises”, or the Recognition Rules, issued in 2008, the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation shall jointly determine whether an enterprise is qualified as a “High and New Technology Enterprise”, or HNTE, under the EIT Law and be entitled to enjoy a preferential enterprise income tax rate of 15%. The qualification is valid for three years from the date of award, and enterprises should submit the application for renewal. CFO Software and CFO Meining have been classified as HNTE and enjoy the preferential tax rate in 2011. And CFO Genius also obtained the HNTE status in 2012. There is no assurance that they will continue to be classified as the HNTE when they are subject to reevaluation in the future. In 2014, CFO Meining obtained renewal of its HNTE status successfully, while CFO Software did not submit its application for renewal. CFO Genius will be reevaluated its HNTE status in 2015. In the event that the preferential tax treatment for them is discontinued, these entities will become subject to the uniform tax rate of 25%, which materially increase our tax obligations.

According to Circular on Issues concerning the Implementation of Preferential Policies for Enterprise Income Tax, or Caishui Circular 69, promulgated in 2009, subject to annual verification, a qualified software enterprise established prior to January 1, 2008 may continue to qualify under the tax holidays previously granted to it as a “software enterprise”. Where the software enterprise had qualified for tax holidays before 2008, it may continue to do so with respect to its remaining tax holidays from 2008 until the expiration of such tax holidays. As of December 31, 2014, two of our subsidiaries were classified as “Software Enterprises” and enjoyed a preferential tax rate of 12.5%. Our tax obligation will increase as these subsidiaries start to use up their tax holidays.

In addition, companies that develop their own software and register the software with relevant authorities in China were generally entitled to a value-added tax, or VAT, refund. With respect to revenue generated from the sale of certain online subscriptions, including our service packages, nine of our subsidiaries obtained VAT refunds that reduce their effective VAT rates from 17% to 3% before 2011. The VAT refund policy was reconfirmed pursuant to the Notice on VAT Policy for Software Products, effective January 1, 2011, jointly promulgated by the Ministry of Finance and the State Administration of Taxation on October 13, 2011, or Caishui Circular 100. Although the Notice on VAT Policy for Software Products does not specify policy expiration date, in the event that the VAT refund policy for our subsidiaries is discontinued, our subsidiaries will become subject to the standard tax rate at 17%, which materially increase our tax obligations.

Uncertainties in the PRC tax system may lead to penalties, termination of preferential tax treatment or change of tax levy method imposed on us because of a difference in interpretation of the applicable law by the relevant governmental authority. For example, under current tax laws and regulations, the local tax authority approved certain of our entities to file the income tax by adopting the “deemed-profit method”. Under the method, the entities filed the income tax by calculating the tax as 2.5% of the gross revenues. However, since there is no clear guidance as to the applicability of certain areas of preferential tax treatment and tax levy position, we may be found to be in violation of the tax laws and regulations based on the interpretation of local tax authorities with regard to taxable income and the applicable tax rates, and therefore might be subject to penalties, including but not limited to monetary penalties, termination of preferential tax treatment or change of tax levy method, or claw-back and late payment interest. Reduction or elimination of the preferential tax treatments we have enjoyed or change of our tax levy method on us or our combined entities in China may significantly increase our income tax expenses and materially reduce our net income, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

In addition, we cannot predict the effect of future tax application and tax developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. The discontinuation of tax application could materially and adversely affect our financial condition. Any significant increase in our income tax expenses may materially and adversely affect our profit.

Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

In connection with the EIT Law, the Ministry of Finance and the State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. On July 26, 2010, the State Administration of Taxation issued the Bulletin Concerning Promulgation of Administrative Measures on the Enterprise Income Tax Treatment of Enterprise Reorganization, or Bulletin 4. On March 28, 2011, the State Administration of Taxation issued the Bulletin Concerning the Tax Administration of Non-resident Enterprises, or Bulletin 24. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. Bulletin 4 became effective retroactively on January 1, 2010. Bulletin 24 took effective since April 1, 2011 and also applies to transactions that have occurred prior to its effectiveness for which the relevant PRC tax matters have not been dealt with.

By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. The PRC tax authorities have the discretion under Circular 59, and Circular 698, Bulletin 4 and Bulletin 24 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. If the PRC tax authorities make adjustments under Circular 59, Circular 698, Bulletin 4 or Bulletin 24, our income tax costs associated with such potential acquisitions will be increased.

Dividends we receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.

The EIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises” to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation regulations unless any such non-PRC investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. We are a Hong Kong incorporated company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. According to mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between the Mainland and Hong Kong Special Administrative Region in August 2006, dividends payable by a subsidiary located in the PRC to the company in Hong Kong who directly holds at least 25% of the equity interests in the subsidiary will be subject to a maximum 5% withholding tax under certain conditions. Since the preferential withholding tax is subject to the approval from competent taxation authorities in PRC, it remains uncertain whether our company in Hong Kong actually would be able to enjoy preferential withholding taxes for dividends distributed by our subsidiaries in China. If we are not able to enjoy the preferential withholding taxes and the tax rate may be 10% for dividends distributed by our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.

Under the PRC Enterprise Income Tax Law and its Implementing Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The Implementing Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise”.

On April 22, 2009, the State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or SAT Circular 82, which provided certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore- incorporated enterprise is located in China. In addition, the SAT issued the Bulletin 45 on July 27, 2011 to provide more guidance on the implementation of the above circular with an effective date to be September 1, 2011. The Bulletin 45 made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. It also specifies that when provided with a copy of PRC tax resident determination certificate from a resident PRC -controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest or royalties to the PRC-controlled offshore incorporated enterprise.

Although SAT Circular 82 and the Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in SAT Circular 82 and the administration clarification made in Bulletin 45 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. Accordingly, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax at 25% on our worldwide income. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiary, a 25% enterprise income tax on our worldwide income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Dividends payable by us to our foreign investors and gain on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends generated on or after January 1, 2008 payable to investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC “resident enterprise”, it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises” or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

Restrictions on currency exchange may limit our ability to utilize our revenues effectively.

The majority of our revenues and operating expenses are denominated in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency

out of China. Pursuant to the Foreign Currency Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997 and various regulations issued by the Administration for Foreign Exchange (“SAFE”) and other relevant PRC government authorities, Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local branch for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency-denominated obligations. Currently, each of our PRC subsidiaries and affiliates may purchase foreign exchange for settlement of “current account transactions”, including payment of dividends to us and payment of license fees and service fees to foreign licensors and service providers, without the approval of SAFE. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

Each of our PRC subsidiaries and affiliates may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. However, we cannot assure investors that the relevant PRC governmental authorities will not limit or eliminate our ability to purchase and retain foreign currencies in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. Since a significant amount of our future revenues will be in the form of Renminbi, the existing and any future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies.

In addition, as further explained in disclosures below, each of our PRC subsidiary and affiliated consolidated entities is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50% of its respective registered capital. These reserves are not distributable as cash dividends.

Fluctuations in exchange rates could result in foreign currency exchange losses.

Because substantially all of our revenues and expenditures are denominated in Renminbi and the net proceeds from our initial public offering were denominated in U.S. dollars, fluctuations in the exchange rate between U.S. dollars and Renminbi affect the relative purchasing power of these proceeds and our balance sheet and earnings per ADS in U.S. dollars. In addition, we report our financial results in U.S. dollars, and appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollars without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although beginning in April, 2012, the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 1% per day and increased to 2% beginning in March, 2014, and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium- to long-term. Moreover, it is possible that in the future, PRC authorities may expand the Renminbi exchange rate's floating range, lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

The audit report included in this annual report are prepared by auditors who are not inspected by the U.S. Public Company Accounting Oversight Board (“PCAOB”), as such, our investors currently do not have the benefits of PCAOB oversight.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, or SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and applicable professional standards. Because our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, our investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may consequently lose confidence in our reported financial information and procedures and the quality of our financial statements.

PRC’s new labor law restricts our ability to reduce our workforce in the PRC in the event of an economic downturn and may increase our labor costs.

The PRC Labor Contract Law became and was implemented on January 1, 2008. The Labor Contract Law has reinforced the protection for employees who, under the PRC Labor Contract Law, have the right, among others, to have written labor contracts, to enter into labor contracts with no fixed terms under certain circumstances, to receive overtime wages and to terminate or alter terms in labor contracts. Furthermore, the Labor Contract Law establishes additional restrictions and increases the costs involved with dismissing employees. There remains significant uncertainty as to its interpretation and application by the PRC government and courts. In the event that we decide to significantly reduce our workforce, particularly in the period with sluggish prospect in securities market, the Labor Contract Law could adversely affect our ability to do so in a timely and cost effective manner, and our results of operations could be adversely affected. In addition, for employees whose contracts include non-competition terms, the Labor Contract Law requires employers to pay monthly compensation after such employment ends, which will increase employers’ operating expenses.

Risks relating to our shares and ADSs

Due to recent credit crisis of U.S.-listed Chinese companies caused by Chinese companies' accounting scandals and the short selling agencies' raider activities in the aggregate, the price of our underlying common stock might fluctuate significantly and if our stock price drops sharply, we may not satisfy the continued listing requirements of NASDAQ.

Since 2011, there have been well-publicized accounting problems at several U.S.-listed Chinese companies that have resulted in significant drops in the trading prices of their shares and, in some cases, have led to the resignation of outside auditors, trading halts or share de-listings by NASDAQ or the New York Stock Exchange, and investigations by the Division of Enforcement of the U.S. Securities and Exchange Commission. Many, but not all, of the companies involved in these scandals had entered the U.S. trading market through "reverse mergers" into publicly traded shells. The scandals have had a broad effect on Chinese companies with shares listed in the United States. Despite the fact that we have consistently made the determination that the Company has been having effective internal controls since our listing in NASDAQ in 2004 until as of December 31, 2014, such accounting scandals in other Chinese companies could have an adverse effect on the market for shares of our underlying common stock. Investors could lose confidence in PRC companies in general, which could lead to fluctuations in the market prices of our underlying common stock and, if such prices were to drop sharply below \$1.00 for 30 days consecutively, could cause us not to satisfy the continued listing requirements of NASDAQ.

In addition, some short selling agencies have been targeting U.S.-listed Chinese companies. Although the research reports issued by those short selling agencies regarding some U.S.-listed Chinese companies are largely meritless, targeted companies had suffered from significant fluctuations on their share prices. We cannot assure investors that we will not be the target of the short selling agencies in 2015. If we were to become their target, even if their claims are meritless, our share price may drop significantly, and if such prices were to drop sharply below \$1.00 for 30 days consecutively, could cause us not to satisfy the continued listing requirements of NASDAQ.

Stock prices of Internet-related companies, particularly companies with business operations primarily in China, have fluctuated widely in recent years, and the trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.

The trading prices of our ADSs have been volatile and could fluctuate widely in response to factors beyond our control. Since the completion of our initial public offering in October 2004, the trading prices of our ADSs have ranged between a high of \$47.68 per ADS to a low of \$1.02 per ADS as of December 31, 2014. During the twelve-month period ended December 31, 2014, the price of our ADSs has ranged from a low of \$2.33 to a high of \$11.88 per ADS. The market prices of the securities of Internet-related companies have generally been especially volatile.

In particular, the performance and fluctuation of the market prices of other technology companies with business operations mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings and as a result of the global financial crisis. The trading performances of these Chinese companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our ADSs. Changes in the U.S. stock market generally or as it concerns our industry, as well as geopolitical, economic, and business factors unrelated to us, may also affect the market price and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for business specific reasons. Factors such as variations in our revenue, earnings and cash flow, announcements of strategic transition and new investments, cooperation arrangements or acquisitions, and fluctuations in market prices

for our services could cause the market price for our ADSs to change substantially. The global financial crisis may have substantial negative impact on our financial and business performance. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot assure investors that these factors will not occur in the future.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ADSs, the prevailing market price for our ADSs could be adversely affected. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material and adverse effect on the price of our ADSs.

The 82,837,921 ordinary shares that were outstanding prior to our initial public offering are “restricted securities” as defined in Rule 144 promulgated under the Securities Act of 1933, as amended, or the Securities Act and may not be sold in the absence of registration other than in accordance with Rule 144 under the Securities Act or another exemption from registration. These “restricted securities” are available for sale subject to volume and other restrictions as applicable under Rule 144 of the Securities Act. To the extent ordinary shares are sold to the market, the market price of our ADSs could decline.

A significant percentage of our outstanding ordinary shares are held by a small number of our shareholders, and these shareholders may have significantly greater influence on us and our corporate actions by nature of the size of their shareholdings relative to our public shareholders.

As of December 31, 2014, five of our existing shareholders, including Zhiwei Zhao, IDG Technology Venture Investment, LP, IDG Technology Venture Investment, Inc., Ling Zhang and Jianping Lu, beneficially owned, collectively, approximately 52.81% of our outstanding ordinary shares.

For more information regarding our principal shareholders and their affiliated entities, see “ITEM 6. Directors, Senior Management and Employees - E. Share Ownership”.

Accordingly, these shareholders have had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us.

Provisions in our charter documents and certain provisions under Hong Kong law may discourage our acquisition by a third party, which could limit your opportunity to sell your shares at a premium.

Our constituent documents and Hong Kong law include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change in control transactions, including, among other things, the following:

- Our articles of association provide for a staggered board, which means that certain number of our directors, not exceeding the half of the remaining directors after excluding our chief executive officer, are retired at every annual general meeting and the vacancies created by the retirement stand for election. Our chief executive officer will at all times serves as a director, and will not retire as a director, so long as he remains our chief executive officer. This means that, with our staggered board, at least two annual shareholders' meetings, instead of one, are generally required in order to effect a change in a majority of our directors, making it more difficult for any potential acquirer to take control of our board in a relatively short period of time, which may discourage proxy contests for the election of our directors and purchases of substantial blocks of our shares.
- Hong Kong law permits shareholders of a company to remove directors by a shareholders' resolution. Our articles of association require any shareholder who wishes to remove a director by resolutions to give us at least 120 days' advanced notice of the same, making it more difficult and time consuming for a potential acquirer who has accumulated a substantial voting position to obtain control of our board by removing opposing directors.
- Our articles of association provide that our board can have no less than five and no more than nine directors. Our board currently has five directors as of the date of this report. Any increase in the maximum number of directors on our board beyond nine directors can only be accomplished by amending our articles of association, which under Hong Kong law requires a shareholders' supermajority vote of 75% and at least 21 days' notice. These restrictions can make it more difficult for a potential acquirer who has accumulated a majority of our shares to take control of us by promptly increasing the size of our board and appointing new directors that are its nominees.
- Hong Kong does not have merger laws that permit Hong Kong companies to merge in the same way as U.S. companies could in the United States. However, the Hong Kong Companies Ordinance has provisions that facilitate arrangements for the reconstruction and amalgamation of companies. The arrangement must be approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, representing three-fourths in value of each such class of shareholders or creditors that are present and voting either in person or by proxy at meetings convened by the High Court of Hong Kong. The arrangements must be sanctioned by the High Court of Hong Kong after shareholders or creditors approve it at the court-convened meeting.
- Our shareholders have authorized our board of directors, without any further action by shareholders, to issue additional shares. Under Hong Kong law, the authority granted by our shareholders will remain valid until the conclusion of our next annual general meeting, or the time when our next annual general meeting is required to be held. For as long as this approval remains effective, or is renewed, our board of directors will have the power to issue additional ordinary shares (including ordinary shares represented by ADSs) and preference shares without any further action by shareholders.

We are a Hong Kong company and because the legal and procedural protections of minority shareholders under Hong Kong law differ from those under U.S. law, you may have difficulty protecting your interests as our shareholder relative to shareholders of corporations organized in the U.S.

We are a Hong Kong company and are subject to the laws of Hong Kong. The fiduciary responsibilities of our directors and the ability of minority shareholders to take successful legal action in Hong Kong against us or our directors are governed by the laws and court procedures of Hong Kong. Shareholders of a Hong Kong company would not be able to bring class action lawsuits against that company or its directors in a Hong Kong court in the same way that shareholders of a U.S. corporation might be able to bring such lawsuits in a U.S. court. In addition, professional conduct rules applicable to Hong Kong lawyers generally prohibit Hong Kong lawyers from accepting contingency fee arrangements, where a lawyer representing the plaintiffs is paid a fee only if the lawsuit is successful. Without contingency fee arrangements or the ability to bring class action lawsuits, our shareholders may find it more costly and difficult to take legal action against us or our directors in the Hong Kong courts. The Hong Kong courts are also unlikely to recognize or enforce against us judgments of courts of the United States based on the civil liability provisions of U.S. securities laws, or, to allow original actions brought in Hong Kong, based on the civil liability provisions of U.S. securities laws that are penal in nature.

In addition, there is no automatic statutory recognition in Hong Kong of judgments obtained in the United States. Moreover, Hong Kong companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

As a result, minority public shareholders may have more difficulties in protecting their interests in the face of actions taken by management, directors or controlling shareholders than they would as minority public shareholders of a U.S. corporation. Moreover, substantially all of our assets are located outside of the United States and all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States, whose substantial portion of assets are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons.

The voting rights of holders of ADSs must be exercised in accordance with the terms of the deposit agreement, the American depositary receipts, and the procedures established by the depositary. The process of voting through the depositary may involve delays that limit the time available to you to consider proposed shareholders' actions and also may restrict your ability to subsequently revise your voting instructions.

A holder of ADSs may exercise his/her/its voting rights with respect to the underlying ordinary shares only in accordance with the provisions of the deposit agreement and the American depositary shares.

When the depositary receives from us notice of any shareholders meeting, it will distribute the information in the meeting notice and any proxy solicitation materials to you. The depositary will determine the record date for distributing these materials, and only ADS holders registered with the depositary on that record date will, subject to applicable laws, be entitled to instruct the depositary to vote the underlying ordinary shares. The depositary will also determine and inform you of the manner for you to give your voting instructions, including instructions to give discretionary proxies to a person designated by us. Upon receipt of voting instructions of a holder of ADSs, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Although Hong Kong law requires us to call annual shareholders' meetings by not less than 21 days' notice in writing, and all other shareholders' meeting by not less than 14 days' notice in writing, these minimum notice requirements can be shortened or completely waived by the consent of all holders of our ordinary shares entitled to attend and vote (in the case of annual shareholders' meetings) or a majority in number of the holders of our ordinary shares representing at least 95% in nominal value of the shares giving the right to attend and vote (in the case of all other shareholders' meetings). If the minimum notice periods are shortened or waived, you may not receive sufficient notice of a shareholders' meeting for you to withdraw your ordinary shares and cast your vote with respect to any proposed resolution, as a holder of our ordinary shares. In addition, the depositary and its agents may not be able to send materials relating to the meeting and voting instruction forms to you, or to carry out your voting instructions, in a timely manner. We cannot assure investors that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. The additional time required for the depositary to receive from us and distribute to you meeting notices and materials, and for you to give voting instructions to the depositary with respect to the underlying ordinary shares, will result in your having less time to consider meeting notices and materials than holders of ordinary shares who receive such notices and materials directly from us and who vote their ordinary shares directly. If you have given your voting instructions to the depositary and subsequently decide to change those instructions, you may not be able to do so in time for the depositary to vote in accordance with your revised instructions.

Furthermore, the depositary has deemed any holders who do not send in voting instructions at all or in a timely manner as having instructed the depositary to give a discretionary voting proxy to the person(s) designated by us to receive voting proxies, with full power to exercise such holder's (or holders') voting rights under the ADSs' underlying ordinary shares in the manner as the proxy holder deems fit. Accordingly, matters that favor the incumbent board of directors and management will have a higher likelihood of passing than would otherwise be the case.

The depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote.

You may not receive distributions on our ordinary shares or any value for them if such distribution is illegal or if any requisite government approval cannot be obtained in order to make such distribution available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions (which may include securities or rights distributions) it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible to make a distribution available to any holders of ADSs if it decides that it is unlawful to make such distribution. For example, it would be unlawful to make a distribution to holder of ADSs if it consisted of securities that required registration under the Securities Act but that were not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is unlawful or unreasonable from a regulatory perspective for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfers of your ADSs.

Your ADSs, each of which represents five ordinary shares, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your right as a holder of ADSs to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to our ADS holders in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. In addition, the deposit agreement provides that the depositary bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, ADS holders may be unable to participate in our rights offerings and may experience dilution in their holdings.

In addition, if the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

ITEM 4. INFORMATION ON THE COMPANY

China Finance Online Co. Limited was incorporated in Hong Kong in November 1998. In April 2001, we launched our online financial and listed company data and information services.

In October 2004, we completed the initial public offering of our ADSs, each of which represents five of our ordinary shares, and listed our ADSs on The NASDAQ Stock Market. On January 3, 2011, our ADSs were elevated to trade on the NASDAQ Global Select Market. The NASDAQ Global Select Market is designated for public companies that meet the highest initial listing standards in the world. Inclusion in the world-class blue chip market is a significant milestone of our progress and is indicative of our commitment to high standards and good governance, and demonstrates our achievement, leadership and stature.

In April 2000, we acquired the financial information website www.jrj.com.cn and in October 2004 we acquired the domain name www.jrj.com, and commenced operating our subscription-based financial information business in March 2005. We maintain the same content under both domain names.

In 2006 we acquired the website www.stockstar.com, which was established in 1996 and is one of the leading finance and securities websites in China.

Also in 2006, we acquired CFO Genius, a financial information database provider primarily serving domestic securities and investment institutions.

In 2007, we acquired Daily Growth Securities Limited, (renamed iSTAR International Securities Co. Limited in February 2013), a licensed securities brokerage firm incorporated in Hong Kong.

Based on our assessment of changes in customer demand, market and regulatory environment and industry outlook, the Board of Directors approved the strategic transition. The goal of our strategic transition is to deliver to investors and our clients and customers a one-stop financial platform providing investment advisory, securities trading and wealth management services. In order to address the demand for alternative investment opportunities, the Company established new affiliates and acquired and invested in other business entities engaged in alternative investments.

In January 2013, Zhengjin (Fujian) Precious Metal Investment Co., Ltd. (“Zhengjin Fujian”), a new affiliate of the Company we established in 2013, became a member of the SAIC (State Administration for Industry and Commerce) –

approved Haixi Commodity Exchange (“Haixi”). Haixi is the only commodities spot market which provides electronic trading in Fujian province. In September 2013, Zhengjin (Tianjin) Precious Metal Management Co., Ltd. (“Zhengjin Tianjin”), another affiliate of the Company, became the member of Tianjin Precious Metal Exchange (“TJPME”). In September 2013, we acquired 60% equity of Shenzhen Tahoe Investment and Development Co., Ltd. (“Tahoe”). Henghui (Tianjin) Precious Metals Management Co., Ltd. (“Henghui”), a subsidiary of Tahoe, is also a member of TJPME.

In August 2013, the Company launched “Yinglibao”, an internet-based financial platform that integrates cash management solutions and mutual fund distribution. For users who maintained Yinglibao balances, they could receive a money market fund rate of return on their balances, which is higher than the current bank demand deposit rate. In addition, Yinglibao users have the option of purchasing mutual fund products directly through their accounts.

In the second quarter of 2014, as part of our strategic transition, the Board of Directors determined that online brokerage services should be one of the Company’s core businesses going forward. In April 2014, we entered into a framework agreement with CITIC Securities Co., Ltd. (“CITIC”) to integrate the Company’s and CITIC’s resources to develop online comprehensive brokerage services. After months of internal development and collaboration with CITIC, we officially launched our landmark fully integrated securities-trading platform, “Securities Master” (“Zhengquantong”), to enable retail investors to access market information, open trading accounts and trade securities in real-time through highly-intuitive user interface. During 2014, we also entered into strategic partnership agreements with Zhongshan Securities Co., Ltd., Hengtai Securities Co., Ltd. and Great Wall Securities Co. Limited. In early 2015, we entered into strategic partnership agreements China International Capital Corporation Limited and Changjiang Securities Co. Limited.

In December 2014, we continued our strategic transition efforts by launching an investment advisory service platform, “Investment Masters” (“iTougu”), designed to provide securities investment advisors and their clients a real-time communication channel, where messages, market analytics, research report and investment strategies are exchanged. Further, this platform is connected to our securities-trading platform, Securities Master, to enable our users to place trade orders directly while using Investment Masters.

B. Business overview.

Overview:

China Finance Online Co. Limited is a leading web-based financial services company in China. The company provides Chinese retail investors with online access to securities and commodities trading services, wealth management products, securities investment advisory services, as well as financial database and analytics services to institutional customers. The Company's two prominent flagship portal sites, www.jrj.com and www.stockstar.com, are ranked among the top financial websites in China. In a recent study conducted by the authoritative Internet Society of China, JRJ was awarded one of “China’s Top 100 Internet Sites” and ranked highest amongst vertically integrated financial websites in China.

With the capabilities we have amassed during our strategic transition and the new lines of businesses we have developed during the same period, we continued to position ourselves to accomplish our strategic goal of leveraging our robust internet capabilities to become a leading one stop financial products and services provider in China.

In 2014, we launched Investment Masters (iTougu) application facilitating communication between securities investment advisors and their respective clients and followers in real-time and for 24 hours a day, and enabling a vast number of Chinese individual investors to obtain private advice from thousands of securities investment advisors. We established and expanded our partnerships with securities firms on our web-based trading platform, Securities Master (Zhengquantong) and continued to diversify our product offerings on our wealth management platform, Yinglibao. We also provide our rapidly growing precious metals trading services business in mainland China along with brokerage services in Hong Kong in order to address the market demand for alternative investment opportunities.

In addition, the Company offers basic financial software, information services and securities investment advisory services to retail investors in China. Through its subsidiary, Shenzhen Genius Information Technology Co., Ltd., we provide financial database and analytics to institutional customers including domestic financial, research, academic and regulatory institutions.

Our Business Sectors

In 2013, we re-categorized the components of our net revenues to better reflect the evolving nature of our business. Currently, the Company's net revenues are categorized under: (a) revenues from financial services, which include brokerage-related revenues including precious metal trading service; (b) revenues from financial information and advisory business, which include subscription fees from individual customers and institutional customers; and (c) advertising revenues.

a. Subscription Services and other Related Services in the PRC

(i) Financial Services Business

Investment Masters (“iTougu”)

On December 25, 2014, the company launched an investment advisory service platform “Investment Masters (iTougu)” at its annual conference “Leading China 2014: Financial Industry Innovation Forum”. The Investment Masters platform is designed to provide securities investment advisors and their clients a real-time communication channel, where they may communicate directly and in real-time. It also provides a vast number of Chinese individual investors access to securities investment advisors where they may attain private investment advice from thousands of investment advisors. In addition, the Investment Masters platform provides these highly-demanded features:

• Text and audio interactive messaging system for real-time broadcast and Q&As between investment advisors and their clients;

• Daily market analytics, research reports and investment strategies for investment advisors;

• Access to fast trade order placement with direct connection to the Company's Securities Masters platform; and

• Client Management system for every investment advisor to view and manage client profiles, historical data and activities.

Securities Master (“Zhengquantong”)

On August 18, 2014, the Company launched a fully-integrated securities trading platform, “Securities Master (Zhengquantong)”, that is easily accessible to investors through a highly-intuitive user interface via computers, smartphones and tablets. Securities Master aims to create a simple and seamless experience for retail investors to access market information, open trading accounts and trade in real-time, providing investors a mean to manage their finances more effectively and efficiently. Investors will also have fast access to online securities trading with professional-level market data, analytics, research reports, as well as real-time online advisory services to facilitate trading decisions.

As of the date hereof, we have integrated Securities Master with the trading and settlement systems of CITIC Securities Co. Ltd., Zhongshan Securities Co. Limited, Great Wall Securities Co. Limited, Hengtai Securities Co. Limited and China International Capital Corporation Limited.

Yinglibao

On August 2013, the Company launched “Yinglibao”, an internet-based financial platform that integrates cash management solutions and mutual fund distribution. For users who maintained Yinglibao balances, their balances would be subscribed by the money market fund managed by third-party mutual fund management companies.

Currently, we are combining Yinglibao and Securities Master with Investment Masters, integrating our three services to provide our clients and customers a one-stop financial platform of investment advisory, securities trading and wealth management services.

(ii) Financial information and advisory business

In 2013 and 2014, revenues from financial information and advisory business services represented approximately 21.1% and 12.4% of our total net revenues respectively. In the transition of the Company, financial information and advisory business was not part of our core business.

Individual Subscription Business

To conduct our subscription services, we collect and process our website content through our research tools and provide to our subscribers financial analysis tools, real-time and historical data, news, research reports and online forums in one integrated information platform, providing them the means to make informed investment decisions with respect to China’s listed company stocks, bonds, mutual funds and stock index futures based on specifications determined by them.

During our strategic transition period, while we did not accept new paid subscribers or renewal for premium individual subscription service, we continue to provide our existing subscriber base premium individual subscription, basic software and information services and charge our existing subscribers a subscription fee for the use of our service packages over an agreed-upon service period, which is typically one year.

Institutional Subscription Business

Shenzhen Genius Information Technology Co. Ltd. (“CFO Genius”) was founded in 1994. It was the first professional financial database provider in China. In 2006, it became a fully-owned subsidiary of China Finance Online Co., Ltd.

(iii) Advertising Business

We believe that our websites www.jrj.com and www.stockstar.com are among the most popular financial information websites in China. While our internet community is generally affluent and educated and thus represents a potentially attractive group for advertisement, in 2012, we continued to allocate most of our advertising inventory to promote our own product and service offerings to individual investors. In 2013 and 2014, revenues from advertising-related services represented approximately 12.9% and 9.7% of our total net revenues respectively, and online advertising was not part of our core business.

b. Precious Metal Trading Business

In 2013, in order to address the market demand for alternative investment opportunities, the Company established Zhengjin Fujian and Zhengjin Tianjin and acquired Henghui to help clients invest in and trade precious metals. As a PRC-affiliate of the Company, Zhengjin Fujian is a member of the SAIC (State Administration for Industry and Commerce)-approved Haixi, while Zhengjin Tianjin and Henghui are members of TJPME. Our precious metals trading affiliates' intended scopes of business include precious metals spot trading, silver product sales and financial investment advisory services. Currently, they are focused on online silver trading on Haixi and TJPME on behalf of their respective clients.

We earn commission income from our clients' trading activities. In addition, we act as one of the market makers in Haixi and TJPME. As a market maker, we commit to accept all trade executions by offering to buy or sell trading products from or to our clients. As a result, we also recognize trading gains and losses in our net revenues.

In 2013 and 2014, our net revenues derived from precious metal trading business represented approximately 57.1 % and 71.8% of our total net revenues respectively.

c. Hong Kong Securities and Futures Contracts Brokerage Business

Following our acquisition of Hong Kong-based iSTAR Securities (formerly named Daily Growth Securities Limited) in November 2007, a licensed securities brokerage firm, we began providing certain brokerage and related services to our customers who invest in stocks listed on HKEx. iSTAR Securities is regulated by HKEx and SFC.

In March 2015, the company signed a contract to transfer the entire equity interest in iSTAR Futures and iSTAR Wealth Management to a third party for a total consideration of \$6.5 million (HK\$ 50.7 million equivalently), comprising \$ 1.0 million (HK\$8,000,000 equivalently) and a sum equal to the net assets of the iSTAR Futures and iSTAR Wealth Management as of March 31, 2015.

Customer support

Our customer support center provides our clients and users with real-time and professional support our customer support personnel are available to explain various features of our offerings and provide investment advisory services directly over the phone. Customer support is also available to provide assistance on technical problems to our users, as well as perform sales and marketing roles. We have an in-house training program for our customer support personnel, which include training courses on China's securities markets, our service features and functionalities, technical problem solving skills and general customer service guidelines.

Sales and Marketing

We market our service offerings through online marketing, call centers, advertising and our customer support personnel. We will continue to use our focused marketing strategy to further enhance awareness of our brand and acquire new customers. We conduct online marketing mainly through our websites www.jrj.com and www.stockstar.com, which are among the most popular financial information websites in China. We also advertise radio stations and subways and also conduct public relations activities in the major cities in. In December 2014, we have successfully hosted "Leading China 2014: Financial Industry Innovation Forum" in Beijing. Regulators and guests from the State Council of People's Republic of China, China Securities Regulatory Commission (CSRC), China Banking Regulatory Commission (CBRC), Association of Chinese Insurance Industry, Tsinghua University PBC School of Finance and executives from Chinese securities firms and commercial banks, among others, made important speeches covering topics including online securities, peer-to-peer lending, crowd financing, on-line banking and securities settlement systems. The Company also demonstrated our new and applauded Investment Masters (iTougu)

application at the summit.

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Research and Development

We seek to differentiate our products and optimizing our services as continue to strengthen our core competence. We have been focusing on development and innovation of internet platforms and mobile internet applications, bringing cutting-edge technology shapes including multimedia, social networking, big data, cloud computing and user behavior analysis into our financial service platform,

During our strategic transition period, the Company has developed and launched our new wealth management service platform, Yinglibao, in August 2013, the fully-integrated securities trading platform, Securities Master, in August 2014, and our investment advisory service platform, Investment Masters, in December 2014.

When designing products, we aim to anticipate our customers' needs and to meet their increasingly complex and specific design requirements. We also strive to design products that will achieve broad market acceptance and generate widespread end user demand. Our product development team conducts frequent meetings with our sales and marketing team to discuss the feasibility of new service offerings and the progress of existing product development efforts. Our research and development team also works closely with our customer support team to develop features and content based on user feedback.

We expect product development to remain an important part of our business as the online financial services industry in China becomes increasingly sophisticated. We will keep placing significant emphasis on refining and upgrading our products and service platform, and on creating new and innovative features to meet the changing needs of our customers. Our research and development team works as an integral part of our overall service offering efforts.

Competition

Although we pioneer in providing online financial services and information, we are still facing more competition in many aspects of our business. New business ventures such as Investment Masters, Securities Master, Yinglibao, precious metals trading, securities investment advisory and wealth management services are developing in accordance with our current business plan. We are operating in an increasingly competitive environment and competing for clients on the basis of product choices, client services, reputation and brand names. The potential competitions we face include the following:

- competition from traditional financial service providers offering similar services and products;
- competition from existing internet companies entering into financial service market offering similar services and products; and
- competition from new entrants providers offering similar services and products.

With respect to our scaled-down financial information services, the number of competitors providing online financial news and information has increased since we commenced operations. Competition is intensifying among companies that provide security analysis software despite the declining market demand. As a result, the security analysis software industry is showing signs of over-capacity. Sales of many companies started to stall or decline and profit margins continue to be squeezed. More broadly, we also compete, directly and indirectly, for users and subscribers with companies in the business of providing financial data and information services, including:

- Publishers and distributors of traditional media, including print, radio and television as well as radio and television programs and news programs focused on financial news and information;
 - Internet portals providing information on business, finance and investing;
 - Financial information web pages offered by websites;
- Stock research software vendors, especially those that develop and market stock research software through stock brokerage companies;
 - Stock brokerage companies, especially stock brokerage companies with online trading capabilities; and
 - Other companies that provide similar products and services as ours.

Our ability to compete depends on many factors, including the comprehensiveness, timeliness and trustworthiness of our content, market acceptance of our services, pricing and sophistication of our products, ease of use of our information platform, the effectiveness of our sales and marketing efforts and our ability to continue to innovate and develop new products.

In addition, lack of substantial barriers to entry has historically enabled certain unqualified companies and low-quality products to compete with us in the market. Certain unlicensed participants supplied counterfeit, illegal or low-quality and inferior products or services under our name. Such unlawful acts not only distorted market order, but also negatively impacted our reputation and materially and adversely affect our future developments. In addition, the resultant increase in expenses is becoming apparent across the industry.

Intellectual property

Our intellectual property is an essential element of our business operations. We rely on copyright, trademark, trade secret and other intellectual property law, as well as non-competition, confidentiality and license agreements with our employees, suppliers, business partners and others to protect our intellectual property rights. Our employees are generally required to sign agreements to acknowledge that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and to assign to us any ownership rights that they may claim in those works. Despite our precautions, it may be possible for third parties to obtain and use intellectual property that we own or license without consent.

Our PRC subsidiaries and PRC-incorporated affiliates are the registered owners of 175 software copyrights as of December 31, 2014, each of which has been registered with the National Copyright Administration of the PRC.

We have registered two key domain names relating to our websites, www.jrj.com and www.stockstar.com, with the Internet Corporation for Assigned Names and Numbers, or ICANN, an internationally organized, non-profit corporation. We have also registered one domain name relating to our website, www.jrj.com.cn, with the China Internet Network Information Center, a domain name registration service in the PRC. We currently have 40 trademarks registered with the Trademark Office of State Administration of Industry and Commerce (the “SAIC”) and one trademark registered and four in the process of registering in Hong Kong as of December 31, 2014.

Regulation

We operate our business primarily in the PRC under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its leadership, including:

- MIIT (Ministry of Industry and Information Technology);
 - PBC (The People's Bank of China);
 - CSRC (China Securities Regulatory Commission);
 - CBRC (China Banking Regulatory Commission);
 - Ministry of Culture;
- General Administration of Press and Publication (National Copyright Administration);
- National Development and Reform Commission (NDRC);
- SAIC (State Administration of Industry and Commerce);
 - Ministry of Public Security;
 - Ministry of Commerce; and
- State Administration of Radio Film and Television

The State Council and these ministries and agencies have issued a series of rules that regulate a number of different substantive areas of our business. And our businesses in the Hong Kong are subject to regulations by HKEx, Hong Kong Securities and Futures Commission, or SFC, and Hong Kong Police Force, which are discussed below.

Regulation of securities investment advisory

Securities investment advisory is intensely regulated in China, which mainly include the Securities Law (2005), the Tentative Measures for Administration of Securities and Futures Investment Consultancy (1997), the Notice on Several Issues related to Regulation of Securities Investment Advisory provided to the Public (2001) and the Provisional Regulations. Those laws and regulations impose licensing requirements on the provision of securities investment advisory to the public in China.

The CSRC has adopted a series of rules regulating the methods of providing securities investment advisory to the public, including without limitation Tentative Provisions for Issuance of Securities-related Research Reports (2010), Tentative Provisions for Securities Investment Consultancy Business with Membership System (2005), Rules on Strengthening the Broadcast Management of Information related to Securities and Futures (1997). Those rules established the requirements on companies engaged in securities investment advisory business to set up branches in China, required securities investor advisors to disclose any conflict of interest and set up firewall measures internally, and prohibited securities investor advisor from disseminating the information related to securities investment on TV channels or radio programs without the approval by the CSRC and the State Administration of Radio Film and Television.

The Provisional Regulations promulgated by the CSRC in October 2010 and effective as of January 1, 2011 require that securities investment advisory providers obtain a license.

The CSRC issued the Interim Provisions on Strengthening the Supervision and Control of Engagement in Securities Investment Advisory Business by Utilizing “Securities Analysis Software” (“Circular 40”). Pursuant to Circular 40, the sale or provision of “Securities Analysis Software” to the investors to directly or indirectly obtain economic benefits shall be deemed as engagement in securities investment advisory business, and any institution or individual engaging in such business shall be licensed by the CSRC and obtain the securities investment advisory qualifications.

We have obtained such license in accordance therewith to provide securities investment advisory services which assist in clients’ investment decision-making process to its individual and corporate clients. CFO Newrand Training owns an investment education license issued by the Shenzhen Bureau of Education.

Regulation of securities brokerage, futures contracts brokerage, securities investment advisory and money lending businesses in Hong Kong

iSTAR Securities, regulated by HKEx and SFC, holds a type 1 license, which allows it to engage in securities trading and brokerage business in Hong Kong. iSTAR Futures, regulated by the SFC, holds a type 2 license, which allows it to engage in futures contract trading business. iSTAR Wealth Management, regulated by the SFC, holds type 4, type 5 and type 9 licenses, which allows it to engage in advising on securities, advising on future contracts and asset management in Hong Kong. iSTAR Credit, holds a Money Lenders License, is regulated by Hong Kong Police Force.

Regulation of precious metal trading business

While the regulations on precious metals trading business were generally not specific in the past, China has recently tightened regulations on commodities transactions in the spot market. In November 2013, the Ministry of Commerce (“MOC”), the People’s Bank of China (“PBC”) and the CSRC jointly issued Interim Provisions on Commodities Transactions in the Spot Market, effective January 1, 2014 (“Circular 3”). According to Circular 3, MOC will be in charge of all matters related to the planning, information and statistics consolidation of the markets and PBC will be responsible for the financial regulations related to the spot market transactions as well as the supervision of non-financial institutions’ payment services. In addition, each of our affiliates engaged in precious metal trading business are subjected to the regulations of Haixi, TJPME and other exchanges that we may enter in the future, each of which is in charge of the local implementation of Circular 3.

Regulation of Yinglibao

Yinglibao provides an electronic platform of mutual fund sales. The Administrative Measures for the Sale of Securities Investment Funds promulgated by the CSRC on June 9, 2011 are the principal regulation for the sale of mutual fund.

In addition, given the cash saving, transferring and management functions of Yinglibao, Yinglibao may be subject to futures additional Chinese laws and regulations related to banking and securities businesses. In the event Yinglibao became restricted or even prohibited by Chinese laws, our customers’ financial activities may be affected and there may be a material adverse impact on our new business ventures to provide users with alternative investment opportunities.

Regulation of wealth management business

Wealth management for private investors is still in early development stage in China. China has not adopted a unified and specific regulatory framework governing the distribution of wealth management products and the provision of wealth management consulting services. Nevertheless, there are ad hoc laws and regulations related to several types of wealth management products as the following:

PRC Trust Law (2001) and the Administrative Rules Regarding Trust Company-Sponsored Collective Fund Trust Plans (2007 and amended in 2009) are principal laws and regulations for trust products;

PRC Partnership Enterprise Law (2006), the Notice on Further Standardizing the Development and Record-filing Administration of Equity Investment Enterprises in Pilot Regions (2011) promulgated by the NDRC and a series of local regulations promulgated by provinces and certain cities, including Beijing, Shanghai and Tianjin, to encourage and regulate the development of private equity investment in the applicable region;

Administrative Measures for the Sale of Securities Investment Funds promulgated by the CSRC on June 9, 2011 are the principal regulation for the sale of mutual fund.

Regulation of account management business

A draft Account Management Operational Rules (the “Draft Rules”) was released by Securities Association of China (the “Association”) on March 16, 2015 for public comments. Pursuant to the Draft Rules, account management refers to provision of value analysis or investment decision for clients in respect of investing in or trading of securities, funds, futures and other relevant financial products, and carrying out investment or trading management on behalf of clients. Securities houses and securities investment consulting firms are allowed to provide account management services upon satisfying the following conditions:

- Obtained the securities investment consulting services license, and with a registered capital of not less than RMB 50 million;
- There are at least 10 employees with securities investment consulting services license and more than 2 years’ relevant experience in securities, funds or futures, and qualified senior management;
- Proper operational management, internal control and investment protection systems commensurate with its businesses;
 - Proper operational premises and facilities and technology system commensurate with its businesses;
- There has been no criminal or administrative penalty relating to violation of law or regulations in the past 3 years, nor is there ongoing investigation or correction involving potential violation of law or regulations; and
 - Other conditions pursuant to relevant laws or regulations and rules by the Association.

Employees involving in the account management services are required to hold the securities investment consulting services license, registered with the Association as investment consultant, have relevant experience in securities investment, research, investment consulting or similar businesses, have sound credit and ethical record, and have not been subject to criminal or administrative penalty in the past 3 years.

Notwithstanding that we have not been engaged in account management business, in the event the Draft Rules becomes effective in the future and we intend to be engaged by clients to provide investment or trading management services, the Draft Rules is expected have a positive impact on our business.

Foreign ownership restriction on Internet content provision businesses

According to the Provisions on Administration of Foreign Invested Telecommunications Enterprises, or the FITE Provisions, promulgated by the State Council in December 2001 and amended in September 2008, foreign ownership in the companies that provide Internet content services, including our business of providing financial information and data to Internet users, must not exceed 50%. In order to comply with this foreign ownership restriction, we operate our website in China through CFO Fuhua, which is wholly owned by Zhiwei Zhao, our chief executive officer, and Jun Wang, our chief financial officer, both of whom are PRC citizens. Under FITE Provisions and other related regulations, we cannot directly hold the licenses and approvals necessary to operate our website because those licenses and approvals cannot be held by foreign entities or majority foreign-owned entities. We, as a company incorporated in Hong Kong, are a foreign entity for this purpose.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, we cannot assure investors that the PRC regulatory authorities will not ultimately take a view that is contrary to the opinion of Jincheng Tongda & Neal Law Firm, our PRC legal counsel. If the PRC government finds that the agreements that establish the structure of our operations in China do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties.

Internet-related licenses and permits

There are a number of aspects of our business which require us to obtain licenses from a variety of PRC and Hong Kong regulatory authorities.

In September 2000, the State Council promulgated the Telecommunications Regulations, or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in the PRC as either basic or value-added. Internet content services, or ICP services, are classified as value-added telecommunications businesses. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts. In September 2000, the State Council issued the Administrative Measures on Internet Information Services, or the Internet Measures, according to which, commercial ICP service operators must obtain an ICP license from the relevant government authorities before engaging in any commercial ICP operations within the PRC.

In order to host our website, CFO Fuhua and CFO Meining are required to hold an ICP license issued by MIIT or its local offices. Pursuant to the revised Administrative Measures for Telecommunications Business Operating License promulgated by MIIT in March 2009, ICP operators providing value-added services in multiple provinces are required to obtain an inter-regional license (or National License) and ICP operators providing the same services in one province are required to obtain a local license (or Local License). CFO Fuhua currently holds a Local License and an ICP license both issued by the local branch of MIIT in Beijing, and CFO Meining currently holds a National License issued by MIIT and an ICP license issued by the local branch of MIIT in Shanghai.

A regulation issued by MIIT, the Notice on Certain Issues Regarding the Regulation of Short Messaging Services on April 29, 2004, requires short message, or SMS, content providers to obtain an SMS license from MIIT or its local offices. We have obtained the required SMS license by CFO Fuhua and CFO Meining for the delivery of our financial short message content.

Furthermore, MIIT has promulgated the Internet Electronic Messaging Service Administrative Measures in November 2000, or the BBS Measures, requiring ICP license holders that provide online bulletin board services to register with, or obtain an approval from, the relevant telecommunications authorities. CFO Fuhua and CFO Meining have obtained such approval from Beijing Communications Administration and Shanghai Communications Administration, respectively, the government agency in charge of this matter.

On July 6, 2004, the State Administration of Radio Film and Television promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the A/V Broadcasting Rules. The A/V Broadcasting Rules apply to the opening, broadcasting, integration, transmission or download of audio/video programs via the Internet and other information networks. Anyone who wishes to engage in Internet broadcasting activities must first obtain an audio/video program transmission license, with a term of two years, issued by the State Administration of Radio Film and Television and operate pursuant to the scope as provided in such license. Foreign invested enterprises are not allowed to engage in this business nor obtain such license. On December 20, 2007, the State Administration of Radio Film and Television and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services, commonly known as Document 56, which came into effect as of January 31, 2008. Document 56 reiterates the requirement set forth in the A/V Broadcasting Rules that online audio/video service provider must obtain a license from the State Administration of Radio Film and Television. Furthermore, Document 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to relevant official answers to press questions published on the State Administration of Radio Film and Television's website dated February 3, 2008, officials from the State Administration of Radio Film and Television and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Document 56 was issued. CFO Fuhua holds a Radio and TV Program Production and Business Operation License which allows it to produce and publish cartoons, entertainment programs and special topic programs and an Information Network Communicated Audio-Video Program License which a