

ChinaNet Online Holdings, Inc.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from ____ to ____

Commission File Number: 001-34647

ChinaNet Online Holdings, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-4672080

(I.R.S. Employer Identification No.)

No. 3 Min Zhuang Road, Building 6,

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

(Address of principal executive offices) (Zip Code)

+86-10-6900-5520

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

As of May 16, 2016, the registrant had 30,355,722 shares of common stock outstanding.

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	PAGE
<u>Item 1. Interim Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u>	<u>F1-F2</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F3-F4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>F5-F6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>F7-F26</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27-37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>38</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>38</u>
<u>Item 5. Other Information</u>	<u>38</u>
<u>Item 6. Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

PART I. FINANCIAL INFORMATION**Item 1. Interim Financial Statements****CHINANET ONLINE HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	March 31, 2016	December 31, 2015
	(US \$)	(US \$)
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,744	\$ 5,503
Term deposit	3,281	3,265
Accounts receivable, net	3,030	2,549
Other receivables, net	436	1,910
Prepayment and deposit to suppliers	6,013	5,843
Due from related parties	323	41
Other current assets	16	45
Assets classified as held for sale	1,958	1,882
Total current assets	18,801	21,038
Long-term investments	1,576	1,133
Property and equipment, net	711	681
Intangible assets, net	5,351	5,638
Deposit and prepayment for purchasing of software technology	2,438	1,024
Goodwill	4,418	4,396
Deferred tax assets-non current	1,556	1,550
Total Assets	\$ 34,851	\$ 35,460
Liabilities and Equity		
Current liabilities:		
Accounts payable *	\$ 217	\$ 95
Advances from customers *	1,379	1,313
Accrued payroll and other accruals *	615	685
Guarantee payment and prepayment from new investors	949	944

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Taxes payable *	3,255	3,186
Other payables *	145	234
Liabilities classified as held for sale *	964	913
Total current liabilities	7,524	7,370

F-1

CHINANET ONLINE HOLDINGS, INC.**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

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

	March 31, 2016 (US \$) (Unaudited)	December 31, 2015 (US \$)
Long-term liabilities:		
Deferred tax liability-non current *	89	118
Long-term borrowing from a director	135	135
Total Liabilities	7,748	7,623
Commitments and contingencies	130	129
Equity:		
ChinaNet Online Holdings, Inc.'s stockholders' equity		
Common stock (US\$0.001 par value; authorized 50,000,000 shares; issued and outstanding 30,355,722 shares and 29,640,130 shares at March 31, 2016 and December 31, 2015, respectively)	30	30
Additional paid-in capital	27,074	26,510
Statutory reserves	2,607	2,607
Retained deficit	(5,281)	(3,870)
Accumulated other comprehensive income	2,185	2,056
Total ChinaNet Online Holdings, Inc.'s stockholders' equity	26,615	27,333
Noncontrolling interests	358	375
Total equity	26,973	27,708
Total Liabilities and Equity	\$ 34,851	\$ 35,460

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

See notes to condensed consolidated financial statements

F-2

CHINANET ONLINE HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In thousands)

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Revenues		
From unrelated parties	\$5,012	\$ 5,661
From related parties	48	63
Total revenues	5,060	5,724
Cost of revenues	3,456	4,868
Gross profit	1,604	856
Operating expenses		
Sales and marketing expenses	880	1,185
General and administrative expenses	1,706	1,245
Research and development expenses	426	490
Total operating expenses	3,012	2,920
Loss from operations	(1,408)	(2,064)
Other income (expenses)		
Interest income	27	29
Interest expense	-	(17)
Other (expenses)/income	(12)	32
Total other income	15	44
Loss before income tax expense, equity method investments, noncontrolling interests and discontinued operation	(1,393)	(2,020)
Income tax benefit	28	222
Loss before equity method investments, noncontrolling interests and discontinued operation	(1,365)	(1,798)
Share of income in equity investment affiliates	-	1
Loss from continuing operations	(1,365)	(1,797)
Loss from discontinued operation, net of income tax	(46)	(25)
Net loss	(1,411)	(1,822)
Net loss attributable to noncontrolling interests from continuing operations	-	34
Net loss attributable to ChinaNet Online Holdings, Inc.	(1,411)	(1,788)

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

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Net loss	(1,411)	(1,822)
Foreign currency translation gain/(loss)	112	(120)
Comprehensive loss	(1,299)	(1,942)
Comprehensive loss attributable to noncontrolling interests	17	33
Comprehensive loss attributable to ChinaNet Online Holdings, Inc.	(1,282)	(1,909)
Loss per share		
Loss from continuing operations per common share		
Basic and diluted	\$(0.05)	\$(0.07)
Loss from discontinued operations per common share		
Basic and diluted	\$-	\$-
Weighted average number of common shares outstanding:		
Basic and diluted	28,356,797	26,366,797

See notes to condensed consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss	\$(1,411)	\$ (1,822)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities		
Depreciation and amortization	384	444
Share-based compensation expenses	564	455
Loss on disposal of fixed assets	21	-
Reverse of allowances for doubtful accounts	-	(220)
Share of income in equity investment affiliates	-	(1)
Deferred taxes	(28)	(226)
Changes in operating assets and liabilities		
Accounts receivable	(507)	(42)
Other receivables	1,464	200
Prepayment and deposit to suppliers	(152)	(2,175)
Due from related parties	(19)	(8)
Other current assets	29	(119)
Accounts payable	190	(38)
Advances from customers	64	1,279
Accrued payroll and other accruals	(89)	(72)
Other payables	(114)	42
Taxes payable	47	(25)
Net cash provided by/(used in) operating activities	443	(2,328)
Cash flows from investing activities		
Payment for office equipment and leasehold improvement	(117)	-
Long-term investment in and advance to cost/equity method investees	(693)	(183)
Payment for purchasing of software technology	(1,394)	(326)
Net cash used in investing activities	(2,204)	(509)

CHINANET ONLINE HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(In thousands)

	Three Months Ended March 31,	
	2016	2015
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Net cash provided by/(used in) financing activities	-	-
Changes in cash and cash equivalents included in assets held for sale	(6)	-
Effect of exchange rate fluctuation on cash and cash equivalents	8	(16)
Net decrease in cash and cash equivalents	(1,759)	(2,853)
Cash and cash equivalents at beginning of the period	5,503	5,037
Cash and cash equivalents at end of the period	\$3,744	\$ 2,184
Supplemental disclosure of cash flow information		
Interest expense paid	\$-	\$ 17

See notes to condensed consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and nature of operations

ChinaNet Online Holdings, Inc. (the “Company”) was incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. On June 26, 2009, the Company consummated a share exchange transaction with China Net Online Media Group Limited (the “Share Exchange”), a company organized under the laws of British Virgin Islands (“China Net BVI”). As a result of the Share Exchange, China Net BVI became a wholly owned subsidiary of the Company and the Company is now a holding company, which, through certain contractual arrangements with operating companies in the People’s Republic of China (the “PRC”), is engaged in providing advertising, precision marketing, online to offline (O2O) sales channel expansion and the related data services to small and medium enterprises (“SMEs”) and entrepreneurial management and networking services for entrepreneurs in the PRC.

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

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

As of March 31, 2016, the Company operated its business primarily in China through its PRC subsidiaries and PRC operating entities, or VIEs as discussed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, previously filed with the Securities and Exchange Commission (the “2015 Form 10-K”).

CHINANET ONLINE HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

2. Variable interest entities

Summarized below is the information related to the consolidated VIEs' assets and liabilities as of March 31, 2016 and December 31, 2015, respectively:

	March 31, 2016 US\$('000) (Unaudited)	December 31, 2015 US\$('000)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,329	\$ 4,942
Term deposit	3,281	3,265
Accounts receivable, net	2,950	2,492
Other receivables, net	352	1,712
Prepayment and deposit to suppliers	5,760	5,841
Due from related parties	306	24
Other current assets	16	27
Assets classified as held for sale	1,958	1,882
Total current assets	17,952	20,185
Long-term investments	175	1,113
Property and equipment, net	456	503
Intangible assets, net	5,344	5,630
Deposit and prepayment for purchasing of software technology	1,029	1,024
Goodwill	4,418	4,396
Deferred tax assets-non current	1,221	1,249
Total Assets	\$ 30,595	\$ 34,100
Liabilities		
Current liabilities:		
Accounts payable	\$ 65	\$ 88
Advances from customers	1,317	1,304
Accrued payroll and other accruals	253	309
Due to Control Group	11	11
Taxes payable	2,790	2,733
Other payables	14	67
Liabilities classified as held for sale	964	913
Total current liabilities	5,414	5,425

Deferred tax Liabilities-non current	89	118
Total Liabilities	5,503	\$5,543
Commitments and contingencies	130	129

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

Summarized below is the information related to the financial performance of the VIEs reported in the Company's consolidated statements of operations and comprehensive loss for the three months ended March 31, 2016 and 2015, respectively:

	Three Months Ended March 31,	
	2016	2015
	US\$('000)	US\$('000)
Revenues	\$5,039	\$ 5,620
Cost of revenues	3,455	4,868
Total operating expenses	1,883	2,203
Loss from discontinued operations	46	25
Net loss before allocation to noncontrolling interests	335	1,208

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. Summary of significant accounting policies

a) Basis of presentation

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

The condensed consolidated interim financial information as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures, which are normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, have been omitted pursuant to those rules and regulations. The condensed consolidated interim financial information should be read in conjunction with the financial statements and the notes thereto, included in the 2015 Form 10-K.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company’s consolidated financial position as of March 31, 2016, its consolidated results of operations for the three months ended March 31, 2016 and 2015, and its consolidated cash flows for the three months ended March 31, 2016 and 2015, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

b) Principles of consolidation

The condensed consolidated interim financial statements include the financial statements of all the subsidiaries and VIEs of the Company. All transactions and balances between the Company and its subsidiaries and VIEs have been eliminated upon consolidation.

c) Comparability due to discontinued operation

In the fourth fiscal quarter of 2015, the Company exited its brand management and sales channel building business segment, which qualified for presentation as a discontinued operation in accordance with ASC Topic 205. As a result, the results of operations of this business was reported in discontinued operation as a separate component in the

Company's condensed consolidated statements of operations and comprehensive loss for all periods presented. Certain accounts in the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2015 and related notes have been retrospectively adjusted to reflect the effect of reclassification of results of operations reported in discontinued operation as a separate component.

d) Use of estimates

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

e) Foreign currency translation

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

	March 31, 2016	December 31, 2015	
Balance sheet items, except for equity accounts	6.4612	6.4936	
			Three Months Ended March 31, 2016 2015
Items in the statements of operations and comprehensive loss, and statements of cash flows			6.5288 6.1380

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

CHINANET ONLINE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

f) Advertising costs

Advertising costs for the Company's own brand building are not includable in cost of revenues, they are expensed when incurred or amortized over the estimated beneficial period and are included in "sales and marketing expenses" in the statements of operations and comprehensive loss. For the three months ended March 31, 2016 and 2015, advertising expenses for the Company's own brand building were approximately US\$423,000 and US\$648,000, respectively.

g) Research and development expenses

The Company accounts for the cost of developing and upgrading technologies and platforms and intellectual property that are used in its daily operations in research and development cost. Research and development costs are charged to expense when incurred. Expenses for research and development for the three months ended March 31, 2016 and 2015 were approximately US\$426,000 and US\$490,000, respectively.

h) Recent accounting standards

In August 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date". The amendments in this ASU defer the effective date of ASU No. 2014-09 for all entities by one year. ASU No. 2014-09, issued in May 2014, clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS. Simultaneously, this ASU supersedes the revenue recognition requirements in ASC Topic 605-Revenue Recognition and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of this ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; (5) recognize revenue when (or as) the entity satisfies a performance obligation. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in this ASU to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact on its consolidated financial position and results of operations upon adopting these amendments.

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”. The amendments in this ASU do not change the core principle of the guidance. The amendments clarify the implementation guidance on principal versus agent considerations. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. The amendments in this ASU affect the guidance in ASU No. 2014-09, which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements of ASU No. 2014-09, which is deferred by ASU No. 2015-14 by one year. The Company is currently evaluating the impact on its consolidated financial position and results of operations upon adopting these amendments.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The amendments in this ASU affected all entities that issue share-based payment awards to their employees. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the impact on its consolidated financial position and results of operations upon adopting these amendments.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this ASU affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14 defers the effective date of ASU 2014-09 by one year. The Company is currently evaluating the impact on its consolidated financial position and results of operations upon adopting these amendments.

CHINANET ONLINE HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients". The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments in this ASU affect only the narrow aspects of Topic 606, which include (1) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1; (2) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers; (3) Noncash Consideration; (4) Contract Modifications at Transition Completed Contracts at Transition; (5); and (6) Technical Correction. The amendments in this ASU affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14 defers the effective date of ASU 2014-09 by one year. The Company is currently evaluating the impact on its consolidated financial position and results of operations upon adopting these amendments.

4. Term deposit

Term deposit as of March 31, 2016 and December 31, 2015 represented the amount of cash placed as a term deposit by one of the Company's operating VIEs in a major financial institution in China, which management believes is of high credit quality. The term deposit will mature on July 7, 2016. The interest rate of the term deposit is 2.925% per annual.

5. Accounts receivable, net

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Accounts receivable	6,116	5,619
Allowance for doubtful accounts	(3,086)	(3,070)
Accounts receivable, net	3,030	2,549

All of the accounts receivable are non-interest bearing. Based on the assessment of the collectability of the accounts receivable as of March 31, 2016 and December 31, 2015, the Company provided approximately US\$3,086,000 and US\$3,070,000 allowance for doubtful accounts, which were related to the accounts receivable of the Company's internet advertising and TV advertising business segment with an aging over six months. For the three months ended March 31, 2016, no allowance for doubtful accounts was provided or reversed. For the three months ended March 31,

2015, approximately US\$220,000 allowance for doubtful accounts was reversed.

6. Other receivables, net

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Term deposit interest receivable	72	48
Staff advances for normal business purpose	54	243
TV advertisement deposit and prepayment receivable	-	1,157
Overdue deposits	981	1,130
Allowance for doubtful debts	(671)	(668)
Other receivables, net	436	1,910

TV advertisement deposit and prepayment receivable as of December 31, 2015 represented the uncollected portion of the deposit and prepayment made to an agent of one of the provincial satellite TV stations partnered with the Company. The Company terminated its cooperation with this TV station and its agent upon expiration of the 2014 contract on December 31, 2014. The remaining balance of this deposit and prepayment as of December 31, 2015 was collected in January 2016.

For advertising resources purchase contracts signed by the Company with its resources providers, the Company was required to make deposits, which were either applied to the contract amounts that were needed to be paid with the consent of the counterparty or to be refunded to the Company of the remaining balance upon expiration of the cooperation. Overdue deposits represented the portion of the contractual deposits, which related advertising resources purchase contracts had been completed as of each of the reporting dates with no further cooperation. Based on the assessment of the collectability of these overdue deposits as of March 31, 2016 and December 31, 2015, the Company provided approximately US\$671,000 and US\$668,000 allowance for doubtful accounts, respectively, which was related to the deposits of its internet advertising and TV advertising business segment. For the three months ended March 31, 2016 and 2015, no allowance for doubtful accounts was provided or reversed.

CHINANET ONLINE HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

7. Prepayments and deposit to suppliers

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Deposits to internet resources providers	1,477	622
Prepayments to internet resources providers	2,860	3,623
Deposits to other services providers	1,548	1,540
Other deposits and prepayments	128	58
	6,013	5,843

The Company purchases internet resources from large internet search engines and technical services from suppliers to attract more internet traffic to its advertising portals and provide value-added services to its clients.

Deposits to internet resources providers are paid as contractual deposits to the Company's resources and services suppliers. As of March 31, 2016 and December 31, 2015, deposit to internet resources providers primarily consisted of the contractual deposits paid for purchasing internet resources from two of the Company's largest internet resources suppliers. The increase in deposits to internet resources providers was primarily due to contractual deposits paid during the first fiscal quarter of 2016 for the internet resources purchase contracts signed for fiscal 2016. The deposits for fiscal 2015 purchase contracts is expected to be refunded before June 2016.

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

Deposits to other service providers consisted of an approximately US\$0.77 million deposit to an intermediary service provider, which the Company engaged to facilitate the Company to find, select and negotiate with its internet, TV or other media resource suppliers, and another approximately US\$0.77 million deposit for an advisory contract related to finding buyers for liansuo.com and new investors for the Company. The contract with the intermediary service provider expired on April 30, 2016, and the deposit is expected to be refunded during the second fiscal quarter of 2016.

8. Due from related parties

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Beijing Saimeiwei Food Equipment Technology Co., Ltd.	34	35
Chuangshi Meiwei (Beijing) International Investment Management Co., Ltd.	181	4
Guohua Shiji (Beijing) Communication Co., Ltd.	108	-
Beijing Saturday Education Technology Co., Ltd.	-	2
	323	41

Related parties of the Company represented direct or indirect unconsolidated investees of the Company or entities that are directly or indirectly owned by Mr. Handong Cheng or Mr. Xuanfu Liu, the owners of the Company's PRC VIEs, Business Opportunities Online and Beijing CNET Online before the Offshore Restructuring. The Company provides advertising and marketing services to these related parties in its normal course of business on the same terms as those provided to its unrelated clients. Due from related parties represented the outstanding receivables for the advertising and marketing services that the Company provided to these related parties as of each reporting date. As of March 31, 2016, due from related parties also included short-term working capital loans of RMB1.0 million (approximately US\$0.15 million) and RMB0.7 million (approximately US\$0.11 million) to Chuangshi Meiwei and Guohua Shiji, respectively. The working capital loans are non-interest bearing and needs to be repaid to the Company within one year.

CHINANET ONLINE HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

9. Assets and liabilities classified as held for sale

In the fourth fiscal quarter of 2015, the Company committed to a plan to sell one of its internet advertising operating VIEs, Beijing Chuang Fu Tian Xia, also known as liansuo.com., which did not qualify for presentation as a discontinued operation, as it was not considered a significant portion of the Company's internet advertising and data service business segment. The Company expects to consummate the transaction before the end of fiscal 2016 and does not expect to have any continued involvement with the entity after the disposal date.

The Company classified the assets and liabilities of the disposal group as held for sale as of each reporting date and presented separately in the asset and liability section, respectively. The assets and liabilities held by the disposal group are as follows:

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Assets classified as held for sale		
Cash and cash equivalents	188	181
Accounts receivable, net	98	53
Other receivables, net	101	95
Advance to suppliers	381	366
Property and equipment, net	39	43
Deferred tax assets	300	298
Goodwill allocated to the disposal group ⁽¹⁾	919	914
Inter-co balances elimination ⁽²⁾	(68)	(68)
Total assets classified as held for sale	1,958	1,882
Liabilities classified as held for sale		
Accounts payable	225	154
Advance from customers	595	588
Accrued payroll and other accruals	33	50
Taxes payable	4	9
Other payables	380	364
Inter-co balances elimination ⁽²⁾	(273)	(252)
Total liabilities classified as held for sale	964	913

Liansuo.com (the disposal group) is a portion of the Company's internet advertising and data service reporting unit (1) that constitutes a business. Goodwill allocated to the disposal group is calculated based on the relative fair value of liansuo.com and the remaining portion of the reporting unit that will be retained.

(2) Inter-company balances are part of the disposal group's assets or liabilities, but were eliminated in deriving the consolidated financial statements.

F-13

CHINANET ONLINE HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

10. Long-term investments

	March 31, 2016	December 31, 2015
	US\$('000)	US\$('000)
	(Unaudited)	
Equity method investments:		
Investment in equity method investees	761	778
Advance to equity method investees	81	80
Impairment on equity method investments	(842)	(838)
Total equity method investments	-	20
Cost method investments:		
Investment in cost method investees	1,576	1,113