

ChinaNet Online Holdings, Inc.
Form 10-Q
July 17, 2014

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, 2014

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)

+86-10-5160-0828
(Registrant's telephone number, including area code)

N/A

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes 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 July 17, 2014 the registrant had 22,376,540 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Interim Financial Statements

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

	March 31, 2014 (US \$) (Unaudited)	December 31, 2013 (US \$)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,660	\$ 3,442
Term deposit	3,439	3,467
Accounts receivable, net	7,094	7,673
Other receivables, net	3,870	4,299
Prepayment and deposit to suppliers	16,647	14,692
Due from related parties	381	502
Other current assets	104	27
Deferred tax assets-current	155	153
Total current assets	33,350	34,255
Investment in and advance to equity investment affiliates	824	845
Property and equipment, net	965	1,057
Intangible assets, net	5,703	6,015
Deposit and prepayment for purchasing of software technology	3,277	2,453
Goodwill	11,356	11,450
Deferred tax assets-non current	825	759
Total Assets	\$ 56,300	\$ 56,834
Liabilities and Equity		
Current liabilities:		
Short-term bank loan *	\$ 811	\$ 818
Accounts payable *	584	421
Advances from customers *	1,120	995
Accrued payroll and other accruals *	637	676
Due to noncontrolling interest of VIE *	195	-
Taxes payable *	7,123	7,029
Other payables *	322	288
Total current liabilities	10,792	10,227

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

	March 31, 2014 (US \$) (Unaudited)	December 31, 2013 (US \$)
Long-term liabilities:		
Deferred tax liability-non current *	1,371	1,439
Long-term borrowing from director	142	143
Total Liabilities	12,305	11,809
Commitments and contingencies		
Equity:		
ChinaNet Online Holdings, Inc.'s stockholders' equity		
Common stock (US\$0.001 par value; authorized 50,000,000 shares; issued and outstanding 22,376,540 shares at March 31, 2014 and December 31, 2013)	22	22
Additional paid-in capital	19,878	19,870
Statutory reserves	2,602	2,602
Retained earnings	18,297	18,965
Accumulated other comprehensive income	3,364	3,689
Total ChinaNet Online Holdings, Inc.'s stockholders' equity	44,163	45,148
Noncontrolling interests	(168)	(123)
Total equity	43,995	45,025
Total Liabilities and Equity	\$ 56,300	\$ 56,834

*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 consolidated financial statements

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

	Three Months Ended March 31,	
	2014 (US \$) (Unaudited)	2013 (US \$) (Unaudited)
Sales		
From unrelated parties	\$ 5,182	\$ 6,990
From related parties	1	59
	5,183	7,049
Cost of sales	3,822	4,467
Gross margin	1,361	2,582
Operating expenses		
Selling expenses	589	788
General and administrative expenses	987	1,402
Research and development expenses	450	449
	2,026	2,639
Loss from operations	(665)	(57)
Other income (expenses)		
Interest income	31	32
Interest expense	(16)	-
Other expenses	(1)	(1)
	14	31
Loss before income tax expense, equity method investments and noncontrolling interests	(651)	(26)
Income tax (expense)/benefit	(48)	86
(Loss)/income before equity method investments and noncontrolling interests	(699)	60
Share of losses in equity investment affiliates	(15)	(71)
Net loss	(714)	(11)
Net loss attributable to noncontrolling interests	46	41
Net (loss)/income attributable to ChinaNet Online Holdings, Inc.	(668)	30

CHINANET ONLINE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/INCOME CONTINUED

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

	Three Months Ended March 31,	
	2014	2013
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Net loss	(714)	(11)
Foreign currency translation (loss)/gain	(324)	215
Comprehensive (loss)/income	\$ (1,038)	\$ 204
Comprehensive loss attributable to noncontrolling interests	45	38
Comprehensive (loss)/income attributable to ChinaNet Online Holdings, Inc.	\$ (993)	\$ 242
(Loss)/earnings per share		
(Loss)/earnings per common share		
Basic	\$ (0.03)	\$ 0.00
Diluted	\$ (0.03)	\$ 0.00
Weighted average number of common shares outstanding:		
Basic	22,376,540	22,186,540
Diluted	22,376,540	22,186,540

See notes to consolidated financial statements

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March	
	2014 (US \$) (Unaudited)	2013 (US \$) (Unaudited)
Cash flows from operating activities		
Net loss	\$ (714)	\$ (11)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	360	418
Share-based compensation expenses	8	11
Allowances for doubtful debts	-	260
Share of losses in equity investment affiliates	15	71
Deferred taxes	(132)	(185)
Changes in operating assets and liabilities		
Accounts receivable	520	(1,297)
Other receivables	152	(8)
Prepayment and deposit to suppliers	(2,089)	(406)
Due from related parties	118	(49)
Other current assets	(78)	(2)
Accounts payable	168	105
Advances from customers	134	564
Accrued payroll and other accruals	(36)	(29)
Other payables	71	-
Taxes payable	152	127
Net cash used in operating activities	(1,351)	(431)
Cash flows from investing activities		
Purchases of vehicles and office equipment	(13)	(11)
Payment for acquisition of VIEs	-	(1,272)
Repayment of short-term loan from unrelated entities	250	-
Prepayment for purchasing of software technology	(850)	-
Net cash used in investing activities	(613)	(1,283)

CHINANET ONLINE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In thousands)

	Three Months Ended March 31,	
	2014 (US \$) (Unaudited)	2013 (US \$) (Unaudited)
Cash flows from financing activities		