

ChinaNet Online Holdings, Inc.
Form S-1/A
November 12, 2009

As filed with the Securities and Exchange Commission on November 12, 2009

Registration No. 333-162038

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1 to FORM S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

CHINANET ONLINE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

20-4672080

7310

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer Identification No.)

(Primary Standard Industrial
Classification Code Number)

No.3 Min Zhuang Road, Building 6
Yu Quan Hui Gu Tuspark, Haidian District,
Beijing, PRC 100195
86-10-5160-0828

(Address, including zip code, and Telephone Number, including area code, of Registrant's Principal Executive
Offices)

Loeb & Loeb LLP
345 Park Avenue
New York, New York 10154
(212) 407-4000

(Name, Address, including zip code, and Telephone Number, including area code, of Agent for Service)

With a copy to:
Mitchell S. Nussbaum, Esq.
Loeb & Loeb LLP
345 Park Avenue
New York, New York 10154
(212) 407-4159

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 Smaller reporting company
(Do not check if smaller reporting company)

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES PUBLICLY UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Prospectus

Subject to Completion, Dated November 12, 2009

CHINANET ONLINE HOLDINGS, INC.

11,807,776 SHARES OF COMMON STOCK

This prospectus relates to the resale of 2,905,120 shares (the "Issued Shares") of our common stock, par value \$.001 per share (the "Common Stock"), 4,121,600 shares of Common Stock (the "Conversion Shares") issuable upon the conversion of shares of our 10% Series A Convertible Preferred Stock, par value \$.001 per share (the "Series A Preferred Stock"), and 4,781,056 shares of Common Stock (the "Warrant Shares") issuable upon exercise warrants to purchase our Common Stock (the "Warrants"). The Issued Shares, the Conversion Shares and the Warrant Shares (collectively, the "Shares") are being offered by the selling stockholders (the "Selling Stockholders") identified in this prospectus. As of the date of this prospectus, the Shares being registered in the registration statement, of which this prospectus forms a part, represents 74.9% of the shares of the Company's currently issued and outstanding shares of Common Stock and represents 167.2% of the issued and outstanding shares of Common Stock held by non-affiliates. We currently have 15,774,300 shares of Common Stock issued and outstanding, of which 7,060,280 shares are owned by non-affiliates.

We will not receive any of the proceeds from the sale of the Issued Shares or the Conversion Shares by the Selling Stockholders. However, we will receive the proceeds from any cash exercise of Warrants to purchase the Warrant Shares to be sold hereunder. See "Use of Proceeds." The Selling Stockholders may sell their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or quoted or in private transactions. These sales may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. See "Plan of Distribution"

We have agreed to pay certain expenses in connection with the registration of the Shares.

Our Common Stock is quoted on the OTC Bulletin Board ("OTCBB") under the trading symbol "CHNT". The closing price for our Common Stock on the OTCBB on November 5, 2009 was \$3.80 per share. As of November 5, 2009, the total dollar value of the Conversion Shares was \$15,662,080, and the total dollar value of the warrant shares was \$18,168,012. You are urged to obtain current market quotations of our Common Stock before purchasing any of the Shares being offered for sale pursuant to this prospectus.

The Selling Stockholders, and any broker-dealer executing sell orders on behalf of the Selling Stockholders, may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended. Commissions received by any broker-dealer may be deemed underwriting commissions under the Securities Act of 1933, as amended.

Investing in our Common Stock involves risk. You should carefully consider the risk factors beginning on page 7 of this prospectus before purchasing shares of our Common Stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2009

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SUMMARY

This summary highlights material information about us that is described more fully elsewhere in this prospectus. It may not contain all of the information that you find important. You should carefully read this entire document, including the “Risk Factors” section beginning on page 7 of this prospectus and the financial statements and related notes to those statements appearing elsewhere in this prospectus before making a decision to invest in our Common Stock.

Unless otherwise indicated in this prospectus or the context otherwise requires, all references to “we,” “us,” “our” and “the Company” , “China Net Companies” or “China Net” refers collectively to ChinaNet Online Holdings, Inc. (the “Company”), China Net Online Media Group Limited, a company organized under the laws of British Virgin Islands (“ChinaNet BVI”), 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 People's Republic of China (“Rise King WFOE”), Business Opportunity Online (Beijing) Network Technology Co., Ltd. a PRC company (“Business Opportunity Online”), Beijing CNET Online Advertising Co., Ltd., a PRC company (“Beijing CNET Online”), and Shanghai Borongdingsi Computer Technology Co., Ltd. a PRC company (“Shanghai Borongdingsi”).

OUR COMPANY

The Company is a holding company that conducts its primary businesses through its subsidiaries and operating companies, Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi. We are one of China’s leading full-service media development and advertising platforms for the small and medium enterprise (the “SME”) market. We are a service oriented business that leverages proprietary advertising technology to prepare and publish rich media enabled advertising campaigns for clients on the Internet and on television. Our goal is to strengthen our position as the leading diversified media advertising provider in China. Our multi-platform advertising network consists of the website www.28.com (“28.com”), our Internet advertising portal, ChinaNet TV, our TV production and advertising unit, and our newly launched bank kiosk advertising unit, which is primarily used as an advertising platform for clients in the financial services industry.

Through the high traffic internet portal 28.com, operated through Beijing Opportunity Online, companies and entrepreneurs advertise their products, services and business opportunities. Through our ChinaNet TV division, operated through Beijing CNET Online, we create and distribute television shows similar to infomercials. Through our new bank kiosk division, operated through Shanghai Borongdingsi, we place kiosks in branches of banks in strategic cooperation with banking institutions, and sell advertising time on those kiosks to our clients.

We derive our revenue principally by:

- charging our clients fixed monthly fees to advertise on 28.com;
- charging production fees for television and web video spots;
- selling advertising time slots on our television shows and bank kiosks;
- reselling Internet space and television space at a discount to the direct cost of any individual space or time slot, but at a mark-up to our cost due to purchase of these items in bulk; and
 - collecting fees associated with lead generation.

The five largest industries in terms of revenue in which our advertising clients operate are (1) food and beverage, (2) women accessories, (3) footwear, apparel and garments, (4) home goods and construction materials, and (5) environmental protection equipment. Advertisers from these industries together accounted for approximately 79% of our revenue in 2008.

ChinaNet Organizational Structure

Prior to July 14, 2009, our company name was Emazing Interactive, Inc. On June 26, 2009, the Company, which formerly focused on web server access and company branding in hosting web-based e-games, entered into a share exchange agreement with the shareholders of ChinaNet BVI, which controlled Business Opportunity Online, Beijing CNET Online and Shanghai Borongdongsi. Pursuant to that agreement, the ChinaNet BVI Shareholders transferred to the Company all of the ChinaNet BVI Shares in exchange for the issuance of shares of Common Stock (the “Share Exchange”). As a result of the Share Exchange, ChinaNet 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 PRC, is engaged in providing advertising, marketing and communication services to SMEs in China.

For the sole purpose of changing its name, on July 14, 2009, the Company merged into a newly-formed, wholly owned subsidiary incorporated under the laws of Nevada called ChinaNet Online Holdings, Inc. As a result of the merger, our corporate name was changed to ChinaNet Online Holdings, Inc.

Executive Offices

Our principal executive offices are located at No.3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, 100195. Our telephone number at that address is 86-10-5160-0828.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Form S-1 that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). These include statements about the Company’s expectations, beliefs, intentions or strategies for the future, which are indicated by words or phrases such as “anticipate,” “expect,” “intend,” “plan,” “will,” “the Company believes,” “management believes” and similar words or phrases. The forward-looking statements are based on the Company’s current expectations and are subject to certain risks, uncertainties and assumptions. The Company’s actual results could differ materially from results anticipated in these forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements.

THE OFFERING

Common Stock being offered by Selling Stockholders	Up to 11,807,776 shares (1)
Common Stock outstanding	15,774,300 shares as of the date of this Prospectus
Common Stock outstanding after the Offering	24,676,956(2)
Use of Proceeds	We will not receive any proceeds from the sale of shares by the Selling Stockholders. We will receive proceeds from any cash exercise of warrants.
OTCBB Symbol	CHNT
Risk Factors	The securities offered by this prospectus are speculative and involve a high degree of risk and investors purchasing securities should not purchase the securities unless they can afford the loss of their entire investment. See “Risk Factors” beginning on page 6.

(1) This prospectus relates to the resale by the Selling Stockholders of up to 11,807,776 shares of our Common Stock, par value \$.001 per share, including 2,905,120 shares of our Common Stock that is currently issued and outstanding, 4,121,600 shares of our Common Stock (the “Conversion Shares”) issuable upon the conversion of our Series A Preferred Stock, and 4,451,328 shares of our Common Stock (the “Warrant Shares”) issuable upon exercise of Warrants. The Warrant Shares are comprised of 4,121,600 shares of Common Stock issuable upon exercise of Series A-1 Warrants and Series A-2 Warrants to purchase our Common Stock, and 659,456 shares of Common Stock issuable upon exercise of warrants to purchase our Common Stock (the “Placement Agent Warrants”) issued to TriPoint Global Equities, LLC, as placement agent in connection with the Financing of which 218,921 Placement Agent Warrants were assigned by TriPoint Global Equities to certain of its employees, sub-placement agents and certain employees of the sub-placement agents.

(2) Assumes issuance of all Conversion Shares and exercise of all Warrants.

RECENT DEVELOPMENT

On August 21, 2009 (the “Closing Date”), we entered into a securities purchase agreement with several investors, including institutional, accredited and non-US persons and entities (the “Investors”), pursuant to which we sold 4,121,600 units, comprised of 10% Series A Convertible Preferred Stock, par value \$.001 per share (the “Series A Preferred Stock”), and series A-1 and series A-2 of warrants, at any exercise price of \$3.00 and \$3.75, respectively, for a purchase price of \$2.50 per unit and gross proceeds of approximately \$10.3 million (the “Financing”). The issuance of the units was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Regulation D or Regulation S promulgated thereunder. Net proceeds from the Financing were approximately \$9.5 million.

In connection with the Financing, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the Investors in which we agreed to (i) file a registration statement (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”) to register the Common Stock underlying the Series A Preferred Stock, the Series A-1 Warrants and the Series A-2 Warrants, thirty (30) days after the closing of the Financing, (ii) use our best efforts to have the Registration Statement declared effective within a given time period, and (iii) keep the Registration Statement continuously effective under the Securities Act until such date as is the earlier of the date when all of the securities covered by that registration statement have been sold or the date on which such securities may be sold without any restriction pursuant to Rule 144. Subject to certain exceptions, we are required pay liquidated damages if the Registration Statement is not filed or declared effective within given time periods, or ceases to be effective during the time period effectiveness is contractually required under the RRA.

In connection with the Financing, we entered into a securities escrow agreement with the Investors (the “Escrow Agreement”), pursuant to which Rise King Investment Limited, a British Virgin Islands company (the “Principal Stockholder”), initially placed 2,558,160 shares of Common Stock (the “Escrow Shares”) into an escrow account. The Escrow Shares are shares of Common Stock currently owned by the Principal Stockholder as a result of the Share Exchange. Of the Escrow Shares, 1,279,080 shares (equivalent to 50% of the Escrow Shares) are being held as security for the achievement of audited net income equal to or greater than \$7.7 million for the fiscal year 2009 (the “2009 Performance Threshold”) and the remaining 1,279,080 of the Escrow Shares are being held as security for the achievement of audited net income equal to or greater than \$14 million for the fiscal year 2010 (the “2010 Performance Threshold”).

If we achieve at least 95% of the applicable Performance Threshold, all of the Escrow Shares for the corresponding fiscal year shall be returned to the Principal Stockholder. If we achieve less than 95% of the applicable Performance Threshold, the Investors shall receive in the aggregate, on a pro rata basis (based upon the number of shares of Series A Preferred Stock or Conversion Shares owned by each such Investor as of the date of distribution of the Escrow Shares), 63,954 shares of the Escrow Shares for each percentage by which the applicable Performance Threshold was not achieved up to the total number of Escrow Shares for the applicable fiscal year. Any Escrow Shares not delivered to any Investor because such Investor no longer holds shares of Series A Preferred Stock or Conversion Shares shall be returned to the Principal Stockholder.

For the purposes of the Escrow Agreement, net income is defined in accordance with US GAAP and reported by us in our audited financial statements for each of the fiscal years ended 2009 and 2010; provided, however, that net income for each of fiscal years ended 2009 and 2010 shall be increased by any non-cash charges incurred (i) as a result of the Financing, including without limitation, as a result of the issuance and/or conversion of the Series A Preferred Stock, and the issuance and/or exercise of the Warrants, (ii) as a result of the release of the Escrow Shares to the Principal Stockholder and/or the Investors, as applicable, pursuant to the terms of the Escrow Agreement, (iii) as a result of the issuance of ordinary shares of the Principal Stockholder to Messrs. Handong Cheng and Xuanfu Liu and Ms. Li Sun (the “PRC Shareholders”), upon the exercise of options granted to the PRC Shareholders by the Principal Stockholder,

(iv) as a result of the issuance of warrants to any placement agent and its designees in connection with the Financing, (v) the exercise of any warrants to purchase Common Stock outstanding and (vi) the issuance under any performance based equity incentive plan that we adopt.

In addition, we are a party to a Lock-Up Agreement with each of our executive officers and directors (the “Affiliates”), under which the Affiliates have agreed with not to offer, sell, contract to sell, assign, transfer, hypothecate gift, pledge or grant a security interest in, or otherwise dispose of any shares of our common stock that such Affiliates presently own or may acquire after the Closing Date during the period commencing on the Closing Date and expiring on the date that is six months following the effective date of the Registration Statement (the “Lock-up Period”). Each Affiliate further agreed that during the 12-month period following the Lock-up Period, such Affiliate shall not transfer more than one-twelfth (1/12) of such Affiliate’s holding of Common Stock during any one calendar month.

CERTAIN DISCLOSURE REGARDING THE CONVERSION PRICE OF THE PREFERRED STOCK AND THE EXERCISE PRICE OF THE WARRANTS

The following is a table disclosing the amount of possible profit as of the date of sale, which could be realized by the selling stockholders as a result of any conversion price or exercise price that represents a discount to the market price on the date of sale.

	Preferred Stock	Placement Agent Warrants	Series A-1 Warrants	Series A-2 Warrants
Market Price Per Share of the Underlying Securities on Date of Sale	3.33	3.33	3.33	3.33
Conversion or Exercise Price per Share of Underlying Securities on Date of Sale	2.50	2.50	3.00	3.75
Combined Market Price of Underlying Securities on Date of Sale	13,724,928	1,097,994	7,411,461	7,405,464
Total Shares Selling Stockholders May Receive	4,121,600	329,728	2,225,664	2,225,664
Combined Conversion or Exercise Price of Underlying Stock	10,304,000	824,320	6,676,992	8,346,240
Possible Profit Due to Conversion or Exercise Discount	3,420,989	273,674	734,469	-0-

RISK FACTORS

An investment in our Common Stock is speculative and involves a high degree of risk and uncertainty. You should carefully consider the risks described below, together with the other information contained in this prospectus, including the consolidated financial statements and notes thereto, before deciding to invest in our Common Stock. Additional risks not presently known to us or that we presently consider immaterial may also adversely affect our Company. If any of the following risks occur, our business, financial condition and results of operations and the value of our Common Stock could be materially and adversely affected.

Risks Related to Our Business

The recent global economic and financial market crisis has had and may continue to have a negative effect on the market price of our business, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States, China and other parts of the world. This global economic and financial market crisis has had, and may continue to have, a negative effect on the market price of our business, the volatility of which has increased as a result of the disruptions in the financial markets. It may also impair our ability to borrow funds or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by the current economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed costs associated with our operations. Therefore, the global economic and financial market crisis could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

We have a limited operating history, which may make it difficult to evaluate our business and prospects.

We began our Internet advertising service via 28.com in 2003, and entered into the TV production and advertising with China Net TV in May 2008. Both the Internet and TV advertising platforms are targeting SME customers. The SME market in China is still in its early stages. In addition, we started our bank kiosk advertising service through Shanghai Borongdingsi for financial sector customers in 2008. Accordingly, our limited operating history and the early stage of development of the markets in which we operate makes it difficult to evaluate the viability and sustainability of our business and its acceptance by advertisers and consumers. Although our revenues have grown rapidly, we cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in operating losses.

We may be subject to, and may expend significant resources in defending against, government actions and civil suits based on the content and services we provide through our Internet, TV and bank kiosk advertising platforms.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute is fair, accurate and in full compliance with applicable laws, rules and regulations. Although we comply with the requirements by reviewing the business licenses and the profiles of our clients, clients may post advertisements about business

opportunities that are not legitimate over which we have no control. Violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator's license for its advertising business operations.

In April 2009, CCTV reported a story that a franchised store advertised on 28.com turned out to be a scam, and the fraud victim asserted she joined the store because she trusted the website. Pursuant to the PRC advertising law, Business Opportunity Online as the publisher of advertisement has the obligation to check relevant documents and verify the content of the advertisement. For commercial franchise business in China, a franchiser needs to file an application with the MOC or its local branches through the website <http://txjy.sygg.mofcom.gov.cn/>. When a franchiser issues an advertisement through Business Opportunity Online, Business Opportunity Online checks the business license, the franchiser's registration form, the trade mark certificate and other relevant documents to verify the content of the advertisement. The Internet information services regulations and the anti unfair competition regulations have similar requirements for Internet advertisement publishers. Based on the laws and regulations above, it is our view that there is neither any mandatory requirement that Business Opportunity Online bear any responsibility for the franchiser's business activities, nor any valid action or investigation that can be brought by the consumer or the government against Business Opportunity Online based on the franchiser's business activities. Nevertheless, the possibility remains that Business Opportunity Online may be required to assume civil and administrative responsibilities subject to further investigation or enforcement by competent authorities.

If advertisers or the viewing public do not accept, or lose interest in, our advertising platforms, our revenues may be negatively affected and our business may not expand or be successful.

The Internet and bank kiosk advertising platforms in China are relatively new and their potential is uncertain. We compete for advertising revenues with many forms of more established advertising media. Our success depends on the acceptance of our advertising platforms by advertisers and their continuing interest in these media as part of their advertising strategies. Our success also depends on the viewing public's continued receptiveness towards our advertising models. Advertisers may elect not to use our services if they believe that viewers are not receptive to our platforms or that our platforms do not provide sufficient value as an effective advertising medium. If a substantial number of advertisers lose interest in advertising on our platforms, we will be unable to generate sufficient revenues and cash flows to operate our business, and our financial condition and results of operations would be materially and adversely affected.

We operate in the advertising industry, which is particularly sensitive to changes in economic conditions and advertising trends.

Demand for advertising resulting advertising spending by our clients, is particularly sensitive to changes in general economic conditions. For example, advertising expenditures typically decrease during periods of economic downturn. Advertisers may reduce the money they spend to advertise on our advertising platforms for a number of reasons, including:

- a general decline in economic conditions;
- a decline in economic conditions in the particular cities where we conduct business;
- a decision to shift advertising expenditures to other available less expensive advertising media; and
- a decline in advertising spending in general.

A decrease in demand for advertising media in general, and for our advertising services in particular, would materially and adversely affect our ability to generate revenues, and have a material and adverse effect on our financial condition and results of operations.

If the Internet and, in particular, Internet marketing are not broadly adopted in China, our ability to generate revenue and sustain profitability from the website 28.com could be materially and adversely affected.

Our future revenues and profits from our online advertising agency business that we operate through 28.com are dependent in part upon advertisers in China increasingly accepting the use of the Internet as a marketing channel, which is at an early stage in China. Penetration rates for personal computers, the Internet and broadband in China are all relatively low compared to those in more developed countries. Furthermore, many Chinese Internet users are not accustomed to using the Internet for e-commerce or as a medium for other transactions. Many of our current and potential SME clients have limited experience with the Internet as a marketing channel, and have not historically devoted a significant portion of their marketing budgets to the Internet marketing and promotion. As a result, they may not consider the Internet as effective in promoting their products and services as traditional print and broadcast media.

We face significant competition, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.

Increased competition could reduce our profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as significantly greater financial, marketing or other resources, and may successfully mimic and adopt our business models. Moreover, increased competition will provide advertisers with a wider range of media and advertising service alternatives, which could lead to lower prices and decreased revenues, gross margins and profits. We cannot assure you that we will be able to successfully compete against new or existing competitors.

Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.

We have been expanding our operations and plan to continue to expand rapidly in China. To meet the demand of advertisers for a broader coverage, we must continue to expand our platforms by showing our TV productions and advertisements on more television stations, and expanding the bank kiosk platforms in terms of numbers and locations. The continued growth of our business has resulted in, and will continue to result in, substantial demand on our management, operational and other resources. In particular, the management of our growth will require, among other things:

- increased sales and sales support activities;
- improved administrative and operational systems;
- enhancements to our information technology system;
- stringent cost controls and sufficient working capital;
- strengthening of financial and management controls; and
- hiring and training of new personnel.

As we continue this effort, we may incur substantial costs and expend substantial resources. We may not be able to manage our current or future operations effectively and efficiently or compete effectively in new markets we enter. If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

Key employees are essential to growing our business.

Handong Cheng, our chief executive officer and president, Zhige Zhang, our chief financial officer and Xuanfu Liu, our chief operating officer are essential to our ability to continue to grow our business. They have established relationships within the industries in which we operate. If they were to leave us, our growth strategy might be hindered, which could limit our ability to increase revenue. However, the Company currently has no employment agreements with key employees.

In addition, we face competition for attracting skilled personnel. If we fail to attract and retain qualified personnel to meet current and future needs, this could slow our ability to grow our business, which could result in a decrease in market share.

We may need additional capital and we may not be able to obtain it at acceptable terms, or at all, which could adversely affect our liquidity and financial position.

We may need additional cash resources due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of alternative advertising media companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
 - our future results of operations, financial condition and cash flow;
- PRC governmental regulation of foreign investment in advertising service companies in China;
 - economic, political and other conditions in China; and
 - PRC governmental policies relating to foreign currency borrowings.

Our failure to protect our intellectual property rights could have a negative impact on our business.

We believe our brand, trade name, copyrights, domain name and other intellectual property are critical to our success. The success of our business depends in part upon our continued ability to use our brand, trade names and copyrights to further develop and increase brand awareness. The infringement of our trade names and copyrights could diminish the value of our brand and its market acceptance, competitive advantages or goodwill. In addition, our information and operational systems, which have not been patented or otherwise registered as our property, are a key component of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, copyrights, domain name and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. Furthermore, application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trade names, copyrights, domain name and other intellectual property rights, we may lose these rights and our business may suffer materially. Further, unauthorized use of our brand, domain name or trade names could cause brand confusion among advertisers and harm our reputation. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

We rely on computer software and hardware systems in managing our operations, the failure of which could adversely affect our business, financial condition and results of operations.

We are dependent upon our computer software and hardware systems in supporting our network and managing and monitoring programs on the network. In addition, we rely on our computer hardware for the storage, delivery and transmission of the data on our network. Any system failure which interrupts the input, retrieval and transmission of data or increases the service time could disrupt our normal operation. Any failure in our computer software or hardware systems could decrease our revenues and harm our relationships with advertisers and consumers, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We do not have a majority of independent directors serving on our board of directors, which could present the potential for conflicts of interest.

We do not have a majority of independent directors serving on our board of directors. In the absence of a majority of independent directors, our executive officers could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between us and our stockholders, generally, and the controlling officers, stockholders or directors.

We have limited insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China except for insurance on some company owned vehicles. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

If we are unable to establish appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price for shares of our Common Stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

As a public company, we will have significant additional requirements for enhanced financial reporting and internal controls. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. However, recent changes to the rules of the Securities and Exchange Commission have delayed the requirement for inclusion of such auditor attestation report in our annual report for the year ended December 31, 2009 until we file our annual report for the 2010 fiscal year. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company.

We cannot assure you that we will not, in the future, identify areas requiring improvement in our internal control over financial reporting. We cannot assure you that the measures we will take to remediate any areas in need of improvement will be successful or that we will implement and maintain adequate controls over our financial processes and reporting in the future as we continue our growth. If we are unable to establish appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price for shares of

our Common Stock.

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Lack of experience as officers of publicly-traded companies of our management team may hinder our ability to comply with Sarbanes-Oxley Act.

It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal controls and other finance staff or consultants in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the Sarbanes-Oxley Act's internal controls requirements, we may not be able to obtain the independent auditor certifications that Sarbanes-Oxley Act requires publicly-traded companies to obtain.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as new rules subsequently implemented by the SEC, have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Risks Relating to Regulation of Our Business and to Our Structure

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry, we could be subject to severe penalties.

All of our operations are conducted through the PRC Operating Entities (as defined below), and through our contractual agreements (as defined below) with each of our PRC Operating Subsidiaries (as defined below) in China. PRC regulations require any foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors have been allowed to own directly 100% of PRC companies operating an advertising business if the foreign entity has at least three years of direct operations in the advertising business outside of China or less than 100% if the foreign investor has at least two years of direct operations in the advertising industry outside of China. We do not currently directly operate an advertising business outside of China and cannot qualify under PRC regulations any earlier than two or three years after we commence any such operations outside of China or until we acquire a company that has directly operated an advertising business outside of China for the required period of time. Our PRC Operating Subsidiaries hold the requisite licenses to provide advertising services in China. Our PRC Operating Subsidiaries directly operate our advertising network. We have been and are expected to continue to be dependent on these PRC Operating Subsidiaries to operate our advertising business for the foreseeable future. We have entered into Contractual Agreements with the PRC Operating Subsidiaries, pursuant to which we, through Rise King WFOE, provide technical support and consulting services to the PRC Operating Subsidiaries. In addition, we have entered into agreements with our PRC Operating Subsidiaries and each of their shareholders which provide us with the substantial ability to control these affiliates.

If we, our existing or future PRC Operating Subsidiaries or the PRC Operating Entities are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce, or SAIC, which regulates advertising companies, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of Rise King WFOE and/or the PRC Operating Subsidiaries;
- discontinuing or restricting the operations of Rise King WFOE and/or the PRC Operating Subsidiaries;
- imposing conditions or requirements with which we, Rise King WFOE and/or our PRC Operating Subsidiaries may not be able to comply;

- requiring us or Rise King WFOE and/or PRC Operating Subsidiaries to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with the PRC Operating Subsidiaries and their shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.

We rely on contractual arrangements with our PRC Operating Subsidiaries and their shareholders to operate our advertising business. These contractual arrangements may not be as effective in providing us with control over the PRC Operating Subsidiaries as direct ownership. If we had direct ownership of the PRC Operating Subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of those companies, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, as a legal matter, if the PRC Operating Subsidiaries or any of their subsidiaries and shareholders fail to perform its or their respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you to be effective. Accordingly, it may be difficult for us to change our corporate structure or to bring claims against the PRC Operating Subsidiaries if they do not perform their obligations under its contracts with us or if any of the PRC citizens who hold the equity interest in the PRC Operating Subsidiaries do not cooperate with any such actions.

Many of these contractual arrangements are governed by PRC laws and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating entities, and our ability to conduct our business may be negatively affected.

Contractual arrangements we have entered into among the PRC Operating Subsidiaries may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our tax exemption, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.

Under PRC law, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If any of the transactions we have entered into among our subsidiaries and affiliated entities are found not to be on an arm's-length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties.

If any of our PRC Operating Subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements with the PRC Operating Entities we currently have in place in a manner that would materially and adversely affect the PRC Operating Entities' ability to pay dividends and other distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by the PRC Operating Entities only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, each of the PRC Operating Entities is

also required to set aside a portion of its net income each year to fund specific reserve funds. These reserves are not distributable as cash dividends. In addition, subject to certain cumulative limits, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends. As a result of these PRC laws and regulations, the PRC Operating Entities are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of the PRC Operating Entities to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

Risks Associated With Doing Business In China

There are substantial risks associated with doing business in China, as set forth in the following risk factors.

Our operations and assets in China are subject to significant political and economic uncertainties.

Changes in PRC laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

We derive a substantial portion of our sales from China.

Substantially all of our sales are generated from China. We anticipate that sales of our products in China will continue to represent a substantial proportion of our total sales in the near future. Any significant decline in the condition of the PRC economy could adversely affect consumer demand of our products, among other things, which in turn would have a material adverse effect on our business and financial condition.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi into foreign currencies and, if Chinese Renminbi were to decline in value, reducing our revenue in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China use their local currency as their functional currencies. Substantially all of our revenue and expenses are in Chinese Renminbi. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the Renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to the U.S. dollar had generally been stable and the Renminbi had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese Renminbi to the U.S. dollar. Under the new policy, Chinese Renminbi may fluctuate within a narrow and managed band against a basket of certain foreign currencies. As a result of this policy change, Chinese Renminbi appreciated approximately 2.5% against the U.S. dollar in 2005 and 3.3% in 2006. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese Renminbi against the U.S. dollar. We can offer no assurance that Chinese Renminbi will be stable against the U.S. dollar or any other foreign currency.

The income statements of our operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in

the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese Renminbi in the future. Because a significant amount of our future revenue may be in the form of Chinese Renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese Renminbi to fund our business activities outside of China, or to repay foreign currency obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operations.

We may have limited legal recourse under PRC laws if disputes arise under our contracts with third parties.

The Chinese government has enacted laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we can not assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

Changes in foreign exchange regulations in the PRC may affect our ability to pay dividends in foreign currency or conduct other foreign exchange business.

The Renminbi is not a freely convertible currency currently, and the restrictions on currency exchanges may limit our ability to use revenues generated in Renminbi to fund our business activities outside the PRC or to make dividends or other payments in United States dollars. The PRC government strictly regulates conversion of Renminbi into foreign currencies. Over the years, foreign exchange regulations in the PRC have significantly reduced the government's control over routine foreign exchange transactions under current accounts. In the PRC, the State Administration for Foreign Exchange, or the SAFE, regulates the conversion of the Renminbi into foreign currencies. Pursuant to

applicable PRC laws and regulations, foreign invested enterprises incorporated in the PRC are required to apply for “Foreign Exchange Registration Certificates.” Currently, conversion within the scope of the “current account” (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

Recent PRC regulations relating to mergers and acquisitions of domestic enterprises by foreign investors may increase the administrative burden we face and create regulatory uncertainties.

On August 8, 2006, the Ministry of Commerce (the “MOC”), joined by the China Securities Regulatory Commission (the “CSRC”), State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”), the State Administration of Taxation (the “SAT”), the State Administration of Industry and Commerce (the “SAIC”), and SAFE, jointly promulgated a rule entitled the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), which took effect as of September 8, 2006. This new regulation, among other things, has certain provisions that require SPVs formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock market. However, the new regulation does not expressly provide that approval from the CSRC is required for the offshore listing of a Special Purpose Vehicle or the SPV which acquires, directly or indirectly, equity interest or shares of domestic PRC entities held by domestic companies or individuals by cash payment, nor does it expressly provide that approval from CSRC is not required for the offshore listing of a SPV which has fully completed its acquisition of equity interest of domestic PRC equity prior to September 8, 2006. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval.

It is not clear whether the provisions in the new regulation regarding the offshore listing and trading of the securities of a SPV applies to an offshore company such as us which owns controlling contractual interest in the PRC Operating Entities. We believe that the M&A Rules and the CSRC approval are not required in the context of the share exchange under our transaction because (i) such share exchange is a purely foreign related transaction governed by foreign laws, not subject to the jurisdiction of PRC laws and regulations; (ii) we are not a SPV formed or controlled by PRC companies or PRC individuals; and (iii) we are owned or substantively controlled by foreigners. However, we cannot be certain that the relevant PRC government agencies, including the CSRC, would reach the same conclusion, and we still cannot rule out the possibility that CSRC may deem that the transactions effected by the share exchange circumvented the new M&A rules, the PRC Securities Law and other rules and notices.

If the CSRC or another PRC regulatory agency subsequently determines that the CSRC’s approval is required for the transaction, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, restrict or prohibit payment or remittance of dividends to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to delay or cancel the transaction.

The M&A Rules, along with foreign exchange regulations discussed in the above subsection, will be interpreted or implemented by the relevant government authorities in connection with our future offshore financings or acquisitions, and we cannot predict how they will affect our acquisition strategy. For example, our operating companies’ ability to remit dividends to us, or to engage in foreign-currency-denominated borrowings, may be conditioned upon compliance with the SAFE registration requirements by such Chinese domestic residents, over whom we may have no control. In addition, such Chinese domestic residents may be unable to complete the necessary approval and registration procedures required by the SAFE regulations. Such uncertainties may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities, and, as a result, we are dependent on our relationship with the local government in the province in which we operate our business. Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. We may have difficulty establishing adequate management, legal and financial controls in the PRC.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, some of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon some of our directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. It would also be difficult for investors to bring an original lawsuit against us or our directors or executive officers before a Chinese court based on U.S. federal securities laws or otherwise. Moreover, China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

New PRC enterprise income tax law could adversely affect our business and our net income.

On March 16, 2007, the National People's Congress of the PRC passed the new Enterprise Income Tax Law (or EIT Law), which took effect on of January 1, 2008. The new EIT Law imposes a unified income tax rate of 25.0% on all

companies established in China. Under the EIT Law, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered as a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25.0% on its global income. The new EIT Law, however, does not define the term “de facto management bodies.” If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25.0%.

With the introduction of the EIT Law, China has resumed imposition of a withholding tax (10.0% in the absence of a bilateral tax treaty or new domestic regulation reducing such withholding tax rate to a lower rate). Per the Double Tax Avoidance Arrangement between Hong Kong and Mainland China, a Hong Kong company as the investor, which is considered a “non-resident enterprise” under the EIT Law, may enjoy the reduced withholding tax rate of 5% if it holds more than 25% equity interest in its PRC subsidiary. As China Net HK is the sole shareholder of Rise King WFOE, substantially all of our income will derive from dividends we receive from Rise King WFOE through China Net HK. When we declare dividends from the income in the PRC, we can not assure whether such dividends may be taxed at a reduced withholding tax rate of 5% per the Double Tax Avoidance Arrangement between Hong Kong and Mainland China as the PRC tax authorities may regard our China Net HK as a shell company formed only for tax purposes and still deem Rise King WFOE in the PRC as the subsidiary directly owned by us. Based on the Notice on Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties, issued on February 20, 2009 by the State Administration of Taxation, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

Investors should note that the new EIT Law provides only a framework of the enterprise tax provisions, leaving many details on the definitions of numerous terms as well as the interpretation and specific applications of various provisions unclear and unspecified. Any increase in our tax rate in the future could have a material adverse effect on our financial conditions and results of operations.

Under the new EIT Law, we may be classified as a “resident enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and holders of our securities.

Under the new EIT Law, an enterprise established outside of China with its “de facto management body” in China is considered a “resident enterprise,” meaning that it can be treated the same as a Chinese enterprise for enterprise income tax purposes. The implementing rules of the new EIT Law defines “de facto management body” as an organization that exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of an enterprise. Currently no interpretation or application of the new EIT Law and its implementing rules is available, therefore it is unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that China Net is a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we will be subject to enterprise income tax at a rate of 25% on our worldwide income as well as PRC enterprise income tax reporting obligations. This would mean that income such as interest on offering proceeds and other non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the new EIT Law and its implementing rules dividends paid to us by our PRC subsidiaries would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, a 10% withholding tax will be imposed on dividends we pay to our non-PRC shareholders.

Our Chinese operating companies are obligated to withhold and pay PRC individual income tax in respect of the salaries and other income received by their employees who are subject to PRC individual income tax. If they fail to withhold or pay such individual income tax in accordance with applicable PRC regulations, they may be subject to certain sanctions and other penalties, which could have a material adverse impact on our business.

Under PRC laws, Rise King WFOE and the PRC Operating Subsidiaries will be obligated to withhold and pay individual income tax in respect of the salaries and other income received by their employees who are subject to PRC

individual income tax. Such companies may be subject to certain sanctions and other liabilities under PRC laws in case of failure to withhold and pay individual income taxes for its employees in accordance with the applicable laws.

In addition, the SAT has issued several circulars concerning employee stock options. Under these circulars, employees working in the PRC (which could include both PRC employees and expatriate employees subject to PRC individual income tax) are required to pay PRC individual income tax in respect of their income derived from exercising or otherwise disposing of their stock options. Our PRC entities will be obligated to file documents related to employee stock options with relevant tax authorities and withhold and pay individual income taxes for those employees who exercise their stock options. While tax authorities may advise us that our policy is compliant, they may change their policy, and we could be subject to sanctions.

Because Chinese laws will govern almost all of our business' material agreements, we may not be able to enforce our rights within the PRC or elsewhere, which could result in a significant loss of business, business opportunities or capital.

The Chinese legal system is similar to 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. Although legislation in the PRC over the past 25 years has significantly improved the protection afforded to various forms of foreign investment and contractual arrangements in the PRC, these laws, regulations and legal requirements are relatively new. Due to the limited volume of published judicial decisions, their non-binding nature, the short history since their enactments, the discrete understanding of the judges or government agencies of the same legal provision, inconsistent professional abilities of the judicators, and the inclination to protect local interest in the court rooms, interpretation and enforcement of PRC laws and regulations involve uncertainties, which could limit the legal protection available to us, and foreign investors, including you. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital and could have a material adverse impact on our business, prospects, financial condition, and results of operations. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in the PRC, regardless of outcome, may be protracted and result in substantial costs and diversion of resources and management attention.

Risks Related to the Offering and our Securities

Insiders have substantial control over us, and they could delay or prevent a change in our corporate control even if our other stockholders wanted it to occur.

Our executive officers, directors, and principal stockholders hold approximately 87.43% of our outstanding Common Stock. Accordingly, these stockholders are able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if our other stockholders wanted it to occur.

The Company cannot assure you that the Common Stock will become liquid or that it will be listed on a securities exchange.

Currently, the Company is eligible to be quoted on the OTC Bulletin Board. In those venues, however, an investor may find it difficult to obtain accurate quotations as to the market value of the common stock. In addition, if the Company failed to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell its securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling the Common Stock, which may further affect its liquidity. This would also make it more difficult for the Company to raise additional capital after the Offering.

There may not be sufficient liquidity in the market for our securities in order for investors to sell their securities.

There is currently only a limited public market for our Common Stock and there can be no assurance that a trading market will develop further or be maintained in the future. As of November 5, 2009, the closing bid price of our Common Stock was \$3.90 per share. As of November 5, 2009, we had approximately 67 shareholders of record of our Common Stock, not including shares held in street name. In addition, during the past two years our Common Stock has had a trading range with a low price of \$1.00 per share and a high price of \$5.00 per share.

The market price of our Common Stock may be volatile.

The market price of our Common Stock has been and will likely continue to be highly volatile, as is the stock market in general, and the market for OTC Bulletin Board quoted stocks in particular. Some of the factors that may materially affect the market price of our Common Stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our Common Stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our Common Stock.

Because the Company became public by means of a reverse merger, it may not be able to attract the attention of major brokerage firms.

Additional risks may exist since the Company became public through a “reverse merger.” Securities analysts of major brokerage firms may not provide coverage of the Company since there is little incentive to brokerage firms to recommend the purchase of its Common Stock. No assurance can be given that brokerage firms will want to conduct any secondary offerings on behalf of the Company in the future.

When the registration statement becomes effective, there will be a significant number of shares of Common Stock eligible for sale, which could depress the market price of such stock.

Following the effective date of the Financing Registration Statement, a large number of shares of our Common Stock would become available for sale in the public market, which could harm the market price of the stock. Further, shares may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect as well. In general, a person who has held restricted shares for a period of six months may, upon filing a notification with the SEC on Form 144, sell common stock into the market in an amount equal to the greater of one percent of the outstanding shares or the average weekly trading volume during the last four weeks prior to such sale.

The outstanding warrants may adversely affect us in the future and cause dilution to existing stockholders.

We currently have warrants outstanding to purchase up to 4,781,056 shares of our Common Stock. These warrants have a term ranging from three years to five years and exercise price ranges from \$2.50 to \$3.75 per share, subject to adjustment in certain circumstances. Exercise of the warrants may cause dilution in the interests of other stockholders as a result of the additional Common Stock that would be issued upon exercise. In addition, sales of the shares of our Common Stock issuable upon exercise of the warrants could have a depressive effect on the price of our stock, particularly if there is not a coinciding increase in demand by purchasers of our Common Stock. Further, the terms on which we may obtain additional financing during the period any of the warrants remain outstanding may be adversely affected by the existence of these warrants as well.

Our Common Stock is considered “penny stock.”

The SEC has adopted regulations which generally define “penny stock” to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our Common Stock is currently less than \$5.00 per share and therefore may be a “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of

brokers or dealers to sell the Common Stock and may affect your ability to sell shares.

The market for penny stocks has experienced numerous frauds and abuses which could adversely impact investors in our stock.

OTCBB securities are frequent targets of fraud or market manipulation, both because of their generally low prices and because OTCBB reporting requirements are less stringent than those of the stock exchanges or NASDAQ.

You should be aware that, according to the Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- “boiler room” practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
 - excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

We have never paid any cash dividends on our Common Stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future and any return on investment may be limited to the value of our stock. We plan to retain any future earnings to finance growth.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Shares being offered by the Selling Stockholders, although we may receive additional proceeds of up to \$15,847,552 if all of the Warrants are exercised for cash. We will not receive any additional proceeds to the extent that the Warrants are exercised by cashless exercise. The Selling Stockholders may exercise the Warrants by a cashless exercise the Warrants commencing on August 21, 2011, only if the market value of one share of Common Stock is greater than the exercise price of the applicable Warrant and the registration statement, of which this prospectus forms a part is not effective. We expect to use the proceeds received from the exercise of the Warrants, if any, for general working capital purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this prospectus are forward-looking statements that involve risks and uncertainties. The factors listed in the section captioned "Risk Factors," as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from those projected. Except as may be required by law, we undertake no obligation to update any forward-looking statement to reflect events after the date of this prospectus.

Overview

Our company (formerly known as Emazing Interactive, Inc.) was incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. From the date of our company's incorporation until June 26, 2009, when our company consummated the Share Exchange (as defined below), our company's activities were primarily concentrated in web server access and company branding in hosting web based e-games.

On June 26, 2009, we entered into a Share Exchange Agreement (the "Exchange Agreement"), with (i) China Net Online Media Group Limited, a company organized under the laws of British Virgin Islands ("China Net BVI"), (ii) China Net BVI's shareholders, Allglad Limited, a British Virgin Islands company ("Allglad"), Growgain Limited, a British Virgin Islands company ("Growgain"), Rise King Investments Limited, a British Virgin Islands company ("Rise King BVI"), Star (China) Holdings Limited, a British Virgin Islands company ("Star"), Surplus Elegant Investment Limited, a British Virgin Islands company ("Surplus"), Clear Jolly Holdings Limited, a British Virgin Islands company ("Clear" and together with Allglad, Growgain, Rise King BVI, Star and Surplus, the "China Net BVI Shareholders"), who together owned shares constituting 100% of the issued and outstanding ordinary shares of China Net BVI (the "China Net BVI Shares") and (iii) G. Edward Hancock, our principal stockholder at such time. Pursuant to the terms of the Exchange Agreement, the China Net BVI Shareholders transferred to us all of the China Net BVI Shares in exchange for the issuance of 13,790,800 shares (the "Exchange Shares") of our common stock (the "Share Exchange"). As a result of the Share Exchange, China Net BVI became our wholly owned subsidiary and we are now a holding company which, through certain contractual arrangements with operating companies in the People's Republic of China (the "PRC"), is engaged in providing advertising, marketing and communication services to small and medium companies in China.

Our wholly owned subsidiary, China Net BVI, was incorporated in the British Virgin Islands on August 13, 2007. In April 11, 2008, China Net BVI became the parent holding company of a group of companies comprised 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"). We refer to the transactions that resulted in China Net BVI becoming an indirect parent company of Rise King WFOE as the "Offshore Restructuring." Through a series of contractual agreements, we operate our business in China primarily through Business Opportunity Online (Beijing) Network Technology Co., Ltd. ("Business Opportunity Online") and Beijing CNET Online Advertising Co., Ltd. ("Beijing CNET Online"). Beijing CNET Online owns 51% of Shanghai Borongdingsi Computer Technology Co., Ltd. ("Shanghai Borongdingsi"). Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi, were incorporated on December 8, 2004, January 27, 2003 and August 3, 2005, respectively. From time to time, we refer to them collectively as the "PRC Operating Entities."

Through our PRC Operating Entities, we are now one of China's leading full-service media development and advertising platforms for the small and medium enterprise (the "SME") market. We are a service oriented business that leverages proprietary advertising technology to prepare and publish rich media enabled advertising campaigns for

clients on the internet and on television. Our goal is to strengthen our position as the leading diversified media advertising provider in China. Our multi-platform advertising network consists of www.28.com, our internet advertising portal; our TV production and advertising unit, and our newly launched bank kiosk advertising unit, which is primarily used as an advertising platform for clients in the financial services industry. Using proprietary technology, we provide additional services as a lead generator. We are also a re-seller of internet and television advertising space that we purchase in large volumes from other well-known internet portals.

Recent Developments

On August 21, 2009, we entered into a securities purchase agreement, with several investors, including institutional, accredited and non-US persons and entities (the “Investors”), pursuant to which we sold units, comprised of Series A Preferred Stock, and two series of warrants, for a purchase price of \$2.50 per unit and gross proceeds of approximately \$10.3 million. Net proceeds from the Financing were approximately \$9.5 million. We sold 4,121,600 units in the aggregate, which included (i) 4,121,600 shares of our Series A Preferred Stock, (ii) Series A-1 Warrants to purchase 2,060,800 shares of our Common Stock, at an exercise price of \$3.00 per share with a three-year term, and (ii) Series A-2 Warrants to purchase 2,060,800 shares of our Common Stock at an exercise price of \$3.75 with a five-year term. In connection with the Financing, we granted to TriPoint Global Equities, LLC warrants to purchase 329,728 shares of our Common Stock at an exercise price of \$2.50 per share, 164,864 at an exercise price of \$3.00 and 164,864 at an exercise price of \$3.75. The warrants expire on August 20, 2014.

In connection with the Financing, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the Investors in which we agreed to file a registration statement (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”) to register the shares of Common Stock underlying the Series A Preferred Stock, the Series A-1 Warrants and the Series A-2 Warrants, thirty (30) days after the closing of the Financing. We have agreed to use our best efforts to have the Registration Statement declared effective within 150 calendar days after filing, or 180 calendar days after filing in the event the Registration Statement is subject to a “full review” by the SEC.

We are required to keep the Registration Statement continuously effective under the Securities Act until such date as is the earlier of the date when all of the securities covered by that registration statement have been sold or the date on which such securities may be sold without any restriction pursuant to Rule 144 (the “Financing Effectiveness Period”). We will pay liquidated damages of 2% of each holder’s initial investment in the Units sold in the Financing per month, payable in cash, up to a maximum of 10%, if the Registration Statement is not filed or declared effective within the foregoing time periods or ceases to be effective prior to the expiration of the Financing Effectiveness Period. However, no liquidated damages shall be paid with respect to any securities being registered that we are not permitted to include in the Registration Statement due to the SEC’s application of Rule 415.

The issuance of the units was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Regulation D or Regulation S promulgated thereunder. We have relied on the status of the Investors as (i) accredited investors under Regulation D, or (ii) non-US persons under Regulation S, in claiming the exemption from registration of the units, and the securities underlying the units sold in the Financing.

Factors affecting our Operating Results

General Economic Conditions. The advertising industry is particularly sensitive to changes in economic conditions. For example, expenditures by our clients typically decrease during periods of economic downturn.

Size and Growth Potential of the Chinese Advertising Market. China has the largest advertising market in Asia, excluding Japan. It also one of the fastest growing advertising markets in the world, at a CAGR of 12.8% from 2007 to 2011. The rapid and sustained economic growth and increases in disposable and consumption in China is one of the principal drivers of this growth. The Chinese advertising market has significant potential for future growth due to relatively low levels of advertising spending per capita and as a percentage to GDP as compared to more developed countries or regions.

Growth Potential of Internet Advertising Industry, Particularly in China. According to Zenith Optimedia, the Internet is the only advertising medium that is expected to experience an increase in expenditures in 2009. This growth is expected to stem primarily from the use of search engine, rich media, video and game embedded advertisements. We

believe that the Internet advertising market in China also has significant potential for future growth due to high demand from the rapid development of franchise and chain store business and the SMEs.

Innovative Product Offerings. Our competitive landscape requires us to maintain a flow of product offerings which can both increase clients' convenience and ease of use while delivering successful advertising results. We believe that, by offering bundled services of Internet ads, television shows, and other services, we simplify the targeting process for our clients and enable them to reach a wide range of customers with complementary and mutually reinforcing advertising campaigns. Our ability to continue to develop these products and to maintain the competitive strength of our brand and services is dependent upon our ability recruit and retain talent, as well as the relative strength of the product offerings that may developed by our competitors.

Cross-Selling. Our maximization of revenue and cost synergies is dependent upon our level of success in cross-selling services to our clients. Our objective is to increase cross-selling by developing additional flexible, bundled advertising packages offering bundling and volume discounts.

Expanding Categories of Advertisers. By targeting new categories of advertisers beyond SMEs, such as the financial industry advertisers using our bank kiosk product line, we believe that we can more fully leverage the growth opportunities of our businesses. We intend to develop, seek out and consider strategic partnerships with respect to new products and services, as we are doing with banks in our kiosk program, to expand our customer base.

Seasonality. Our businesses experience fluctuations in quarterly performance. Traditionally, the first quarter from January to March has a lower number of sales reflected by our business due to the New Year holidays in China occurring during that period. This is traditionally a period where business activities are suspended for many people as they begin to prepare for the most important Chinese festival for the year. In addition, during the third quarter from July to August our business sees reduced revenues due to the fact that many Chinese workers and families take their annual summer leaves.

Basis of presentation, critical accounting policies and management estimates

- Change of reporting entity and basis of presentation

As a result of the Share Exchange on June 26, 2009, the former China Net BVI shareholders own a majority of our common stock. The transaction was regarded as a reverse merger whereby China Net BVI was considered to be the accounting acquirer as its shareholders retained control of our company after the Share Exchange, although we are the legal parent company. The share exchange was treated as a recapitalization of our company. As such, China Net BVI (and its historical financial statements) is the continuing entity for financial reporting purposes. Pursuant to the terms of the Share Exchange, Emazing Interactive, Inc. was delivered with zero assets and zero liabilities at time of closing. Following the Share Exchange, we changed our name from Emazing Interactive, Inc. to ChinaNet Online Holdings, Inc. Our financial statements have been prepared as if China Net BVI had always been the reporting company and then on the share exchange date, had changed its name and reorganized its capital stock.

- Critical accounting policies and management estimates

Our unaudited interim consolidated financial statements include the accounts of our company, and its subsidiaries and Variable Interest Entities ("VIEs"). All transactions and balances between us, our subsidiaries and VIEs have been eliminated upon consolidation. We prepared our interim consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by US GAAP for completing annual financial statements. However, management believes that the disclosures are adequate to ensure the information presented is not misleading. We prepare our financial statements in conformity with US GAAP, which requires us to make estimates and assumptions that affect the reported amounts of

assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements.

Foreign currency translation

Our functional currency is United States dollars (“US\$”), and the functional currency of our Hong Kong subsidiary is Hong Kong dollars (“HK\$”). The functional currency of our PRC operating entities is the Renminbi (“RMB”), and PRC is the primary economic environment in which our businesses operate.

For financial reporting purposes, the financial statements of our PRC operating entities, which are prepared using the RMB, are translated into our reporting currency, the U.S. dollar. Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and shareholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income of the consolidated financial statements for the respective periods.

Revenue recognition

Our revenue recognition policies are in compliance with Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”). In accordance with SAB 104, revenues are recognized when the four of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

Advertising Revenue

Advertising revenues include revenues from reselling of advertising time purchased from TV stations and internet advertising, reselling of internet advertising spaces and other advertisement related resources. No revenue from advertising-for-advertising barter transactions was recognized because the transactions did not meet the criteria for recognition in EITF abstract issue no 99-17. Advertising contracts establish the fixed price and advertising services to be provided. Pursuant to advertising contracts, our company provides advertisement placements in different formats, including but not limited to banners, links, logos, buttons, rich media and content integration. Revenue is recognized ratably over the period the advertising is provided and, as such, our company considers the services to have been delivered. We treat all elements of advertising contracts as a single unit of accounting for revenue recognition purposes. Based upon our credit assessments of customers prior to entering into contracts, we determine if collectability is reasonably assured. In situations where collectability is not deemed to be reasonably assured, we recognize revenue upon receipt of cash from customers, only after services have been provided and all other criteria for revenue recognition have been met.

Taxation

1. Income tax

We follow the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between of the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income statement in the period that includes the enactment date. We had

no deferred tax assets and liabilities recognized for the six months ended June 30, 2009 and 2008, and for the year ended December 31, 2008.

We adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”). FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. For the six month ended June 30, 2009 and 2008, and for the year ended December 31, 2008, we did not have any interest and penalties associated with tax positions and did not have any significant unrecognized uncertain tax positions.

- i) We are incorporated in the State of Nevada. Under the current law of Nevada we are not subject to state corporate income tax. We became a holding company and do not conduct any substantial operations of our own after the Share Exchange. No provision for federal corporate income tax has been made in our financial statements as have assessable profits for the six month ended June 30, 2009.
 - ii) China Net BVI was incorporated in the British Virgin Islands (“BVI”). Under the current law of the BVI, we are not subject to tax on income or capital gains. Additionally, upon payments of dividends by China Net BVI to us, no BVI withholding tax will be imposed.
 - iii) China Net HK was incorporated in Hong Kong and does not conduct any substantial operations of its own. No provision for Hong Kong profits tax have been made in our financial statements as China Net HK has no assessable profits for the six month ended June 30, 2009. Additionally, upon payments of dividends by China Net HK to its sole shareholder, China Net BVI, no Hong Kong withholding tax will be imposed.
 - iv) Our PRC operating entities, being incorporated in the PRC, are governed by the income tax law of the PRC and are subject to PRC enterprise income tax (“EIT”). Effective from January 1, 2008, the EIT rate of PRC was changed from 33% of to 25%, and applies to both domestic and foreign invested enterprises.
- Rise King WFOE is a software company qualified by the related PRC governmental authorities and was entitled to a two-year EIT exemption from its first profitable year and a 50% reduction of its applicable EIT rate, which is 25% of its taxable income for the exceeding three years, which subjects to an application filing by the Company. Rise King WFOE had a cumulative operating loss for the year ended December 31, 2008. Rise King will file the application for an income tax exemption, if it achieves an operating profit for the year ended December 31, 2009.
 - Business Opportunity Online was qualified as a High and New Technology Enterprise in Beijing High-Tech Zone in 2005. In March 2007, a new enterprise income tax law (the “New EIT”) in the PRC was enacted which was effective on January 1, 2008. The New EIT applies a uniform 25% EIT rate to both foreign invested enterprises and domestic enterprises. On April 14, 2008, relevant governmental regulatory authorities released qualification criteria, application procedures and assessment processes for “High and New Technology Enterprise” status under the New EIT which would entitle qualified and approved entities to a favorable statutory tax rate of 15%. Business Opportunity Online has not obtained the approval of its reassessment of the qualification as a “High and New Technology Enterprise” under the New EIT as of June 30, 2009. Accordingly, Business Opportunity Online accounted for its current income tax using a tax rate of 25% for the six months ended June 30, 2009 and 2008, and the year ended December 31, 2008. If Business Opportunity Online is able to re-qualify as a “High and New Technology Enterprise”, it will be entitled to the preferential tax rate of 15%. Business Opportunity Online will file the application for tax refund to the tax authorities for the fiscal year 2009 after it obtains the approval for its High and New Technology Enterprise qualification.
 - The applicable income tax rate for CNET Online Beijing was 25% for the six months ended June 30, 2009 and 2008, and the year ended December 31, 2008.

- The New EIT also imposed a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China, which were exempted under the previous enterprise income tax law and rules. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% rate. Rise King WFOE is owned by an intermediate holding company in Hong Kong and will be entitled to the 5% preferential withholding tax rate upon distribution of the dividends to this intermediate holding company.

2. Business tax and relevant surcharges

Revenue generated from our advertisement services are subject to 5.5% business tax and 3% cultural industry development surcharge of the gross service income. Revenue generated from our TV advertisement segment is subject to 5.5% business tax and 3% cultural industry development surcharge of the net service income after deducting amount paid to ending media promulgators. Revenue generated from our internet technical support services is subjected to 5.5% business tax. Business tax charged was included in cost of sales.

Share-based Compensation

We account for stock-based compensation arrangements using the fair value method in accordance with the provisions of the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (Share-Based Payment) (“SFAS 123R”). SFAS 123R is a revision of SFAS 123 (Accounting for Stock-Based Compensation), and supersedes Accounting Principles Board (“APB”) Opinion No. 25 (Accounting for Stock Issued to Employees). SFAS 123R requires that the fair value of share awards issued, modified, repurchased or cancelled after implementation, under share-based payment arrangements, be measured as of the date the award is issued, modified, repurchased or cancelled. The resulting cost is then recognized in the statement of operations and comprehensive income over the service period.

We periodically issue common stock for acquisitions and services rendered. Common stock issued in these circumstances is valued at the estimated fair market value, as determined by the management and board of directors. Our management and the board of directors consider market price quotations, recent stock offering prices and other factors in determining fair market value for purposes of valuing the common stock.

Reverse merger and common stock (restatement of the stockholders’ equity)

Pursuant to SEC Manual Item 2.6.5.4 “Reverse Acquisitions”, “in a reverse acquisition the historical shareholder’s equity of the accounting acquirer prior to the merger is retroactively restated (a recapitalization) for the equivalent number of shares received in the merger after giving effect to any difference in par value of the registrant’s and the accounting acquirer’s stock by an offset in paid in capital.” Pursuant to the terms of Share Exchange Agreement, the China Net BVI shareholders transferred to us all of the China Net BVI shares in exchange for the issuance of 13,790,800 shares of our common stock. Accordingly, we reclassified our common stock and additional paid-in-capital accounts for the year ended December 31, 2008 accordingly.

COMPARISON OF THE SIX AND THREE MONTHS ENDED JUNE 30, 2009 AND 2008

Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period. All amounts, except percentages, in thousands of US dollars.

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	For the six months ended June 30,		For the three months ended June 30,	
	2009 (US \$) (Unaudited)	2008 (US \$) (Unaudited)	2009 (US \$) (Unaudited)	2008 (US \$) (Unaudited)
Sales	\$ 19,178	\$ 6,703	\$ 9,381	\$ 5,241
Cost of sales	11,889	4,988	5,611	3,643
Gross margin	7,289	1,715	3,770	1,598
Operating expenses				
Selling expenses	2,629	582	1,166	388
General and administrative expenses	916	356	568	220
Research and development expenses	214	64	164	34
	3,759	1,002	1,898	642
Income from operations	3,530	713	1,872	956
Other income (expenses):				
Interest income	5	2	2	1
Other income	6	-	2	-
Other expenses	-	(15)	-	(15)
	11	(13)	4	(14)
Income before income tax expense	3,541	700	1,876	942
Income tax expense	957	233	571	202
Net income	2,584	467	1,305	740
Other comprehensive income				
Foreign currency translation gain	6	40	-	14
Comprehensive income	2,590	507	1,305	754
Earnings (loss) per share				
Earnings per common stock				
Basic and diluted	\$ 0.19	\$ 0.03	\$ 0.09	\$ 0.05
Weighted average number of common shares outstanding:				
Basic and diluted shares	13,845,593	13,790,800	13,899,784	13,790,800

Revenue

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

Revenue type	For the six months ended June 30,	
	2009 (Unaudited)	2008 (Unaudited)
(Amount expressed in thousands of US dollars, except percentages)		

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Internet advertisement	7,871	41.04%	4,370	65.19%
TV advertisement	10,486	54.68%	1,687	25.17%
Internet Ad. resources resell	802	4.18%	646	9.64%
Bank kiosks	19	0.10%	-	-
Total	19,178	100%	6,703	100%

Edgar Filing: ChinaNet Online Holdings, Inc. - Form S-1/A

Revenue type	For the three months ended June 30,			
	2009 (Unaudited)		2008 (Unaudited)	
	(Amount expressed in thousands of US dollars, except percentages)			
Internet advertisement	4,187	44.63%	2,874	54.84%
TV advertisement	4,744	50.57%	1,712	32.66%
Internet Ad. resources resell	431	4.60%	655	12.50%
Bank kiosks	19	0.20%	-	-
Total	9,381	100%	5,241	100%

Revenue type	For the six months ended June 30,			
	2009 (Unaudited)		2008 (Unaudited)	
	(Amount expressed in thousands of US dollars, except percentages)			
Internet advertisement	7,871	100%	4,370	100%
—From unrelated parties	7,031	89%	4,150	95%
—From related parties	840	11%	220	5%
TV advertisement	10,486	100%	1,687	100%
—From unrelated parties	9,863	94%	1,517	90%
—From related parties	623	6%	170	10%
Internet Ad. resources resell	802	100%	646	100%
—From unrelated parties	802	100%	646	100%
—From related parties	-	-	-	-
Bank kiosks	19	100%	-	-
—From unrelated parties	19	100%	-	-
—From related parties	-	-	-	-
Total	19,178	100%	6,703	100%
—From unrelated parties	17,715	92%	6,313	94%
—From related parties	1,463	8%	390	6%

Revenue type	For the three months ended June 30,			
	2009 (Unaudited)		2008 (Unaudited)	
	(Amount expressed in thousands of US dollars, except percentages)			
Internet advertisement	4,187	100%	2,874	100%
—From unrelated parties	3,596	86%	2,654	92%
—From related parties	591	14%	220	8%
TV advertisement	4,744	100%	1,712	100%
—From unrelated parties	4,366	92%	1,542	90%
—From related parties	378	8%	170	10%
Internet Ad. resources resell	431	100%	655	100%
—From unrelated parties	431	100%	655	100%

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—From related parties	-	-	-	-
Bank kiosks	19	100%	-	-
—From unrelated parties	19	100%	-	-
—From related parties	-	-	-	-
Total	9,381	100%	5,241	100%
—From unrelated parties	8,412	90%	4,851	93%
—From related parties	969	10%	390	7%

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Total Revenues: Our total revenues increased significantly to US\$ 19.2 million for the six months ended June 30, 2009 from US\$ 6.7 million for the same period of 2008. For the second quarter of 2009, our total revenues also increased significantly to US\$ 9.4 million from US\$ 5.2 million for the same period of 2008.

We derive the majority of our advertising service revenues from the sale of advertising space and provision of the related technical support on our portal website www.28.com; and from the sale of advertising time purchased from different TV stations to unrelated third parties and to some of our related parties. We report our advertising revenue between related and unrelated parties because historically about 5%-10% of our advertising service revenues came from clients related to some of our shareholders of our PRC operating entities. Our advertising services to related parties were provided in the ordinary course of business on the same terms as those provided to our unrelated advertising clients on an arm's-length basis. We expect that our internet advertising service revenue and TV advertising service revenue will continue to be the primary source and constitute the substantial majority of our revenues for the foreseeable future.

Our advertising service revenues are recorded net of any sales discounts. These discounts include volume discounts and other customary incentives offered to our advertising clients, including additional advertising time for their advertisements if we have unused places available in our website and represent the difference between our official list price and the amount we charge our advertising clients.

We typically sign advertising contracts with our advertising clients that require us to place the advertisements on our portal website for specified places and specified periods; or place the advertisements during our purchased advertisement time in specific TV programs for specified periods. We recognize revenues as the advertisement airs over the contractual term based on the schedule agreed upon with our clients.

- We achieved a significant increase (about 80%) in internet advertising revenues to US\$ 7.9 million for the six months ended June 30, 2009 from US\$ 4.4 million for the same period of 2008. This is primarily as a result of (1) the successful brand building effort for www.28.com we made in 2007 and 2008 both on TV and in other well-known portal websites in China; (2) more mature client service technologies; and (3) a more experienced sale team.
- We also achieved a significant revenue increase (about 522%) in TV advertising, a business that we started in May 2008, to US\$ 10 million for the six months ended June 30, 2009 from US\$ 1.7 million for the same period in 2008. We generated this US\$ 10 million of TV advertising revenue by selling about 14,000 minutes of advertising time we purchased from about ten provincial TV stations.
- Our resale of internet advertising resources is also a segment that we launched in May 2008. This business is mainly comprised of our resale of a portion of the internet resources that we purchase from other portal websites to our existing internet advertising clients, in order to promote our existing clients' businesses through sponsored search, search engine traffic generation techniques and portal resources of other well-known portal websites. We achieved US\$ 0.8 million of this revenue for the six months ended June 30, 2009 from US\$ 0.6 million for the same period of 2008. We do not consider this segment to be a core business and revenue source, because it does not promote the www.28.com brand and generates low to even negative margin due to the high purchase cost of internet resources from other well-known portal websites.
- As of June 30, 2009, the bank kiosks advertising business is still in the test-run stage. We will spend more resources to expand the bank kiosks advertising business in the second half year of 2009 through further client and central control system development.

Cost of revenues: Our cost of revenues consists of costs directly related to the offering of our advertising services. The following table sets forth our cost of revenues, divided into four segments, by amount and gross profit ratio for the periods indicated, with inter-segment transactions eliminated:

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	For the six months ended June 30,					
	2009 (Unaudited)			2008 (Unaudited)		
	(Amount expressed in thousands of US dollars, except percentages)					
	Revenue	Cost	GP ratio	Revenue	Cost	GP ratio
Internet advertisement	7,871	2,111	73%	4,370	2,186	50%
TV advertisement	10,486	8,986	14%	1,687	1,434	15%
Internet Ad. resources resell	802	775	3%	646	1,368	(112)%
Bank kiosk	19	1	95%	-	-	-
Others	-	16	N/A	-	-	-
Total	19,178	11,889	38%	6,703	4,988	26%

	For the three months ended June 30,					
	2009 (Unaudited)			2008 (Unaudited)		
	(Amount expressed in thousands of US dollars, except percentages)					
	Revenue	Cost	GP ratio	Revenue	Cost	GP ratio
Internet advertisement	4,187	1,253	70%	2,874	799	72%
TV advertisement	4,744	3,945	17%	1,712	1,456	15%
Internet Ad. resources resell	431	411	5%	655	1,388	(112)%
Bank kiosk	19	1	95%	-	-	N/A
Others	-	1	N/A	-	-	N/A
Total	9,381	5,611	40%	5,241	3,643	30%

Our total cost of revenues increased significantly to US\$ 12 million for the six months ended June 30, 2009 from US\$ 5 million for the same period of 2008. For the second quarter of 2009, our total cost of revenues also increased significantly to US\$ 5.6 million from US\$ 3.6 million for the same period of 2008. These increases in costs were in line with the significant increase of our total revenues for the above periods.

Our cost of revenues related to the offering of our advertising services mainly consists of internet resources purchased from other portal websites, technical services related to lead generation, sponsored search resources purchased, TV advertisement time costs purchased from TV stations, and business taxes and surcharges.

- Internet resources cost is the largest component of our cost of revenue for internet advertisement revenue. We purchased these resources from other well-known portal websites in China, such as: Baidu, Tengxun (QQ), Google, 163.com, Sina and Sohu, to help our internet advertisement clients to get better exposure and to generate more visits from their advertisements placed on our portal website. We accomplish these objectives through sponsored search, advanced tracking, advanced traffic generation technologies, and search engine optimization technologies in connection with the well-known portal websites indicated above. Our internet resources cost for internet advertising revenue was US\$ 2.1 million and US\$ 2.2 million for the six months ended 2009 and 2008, respectively, and US\$ 1.3 million and US\$ 0.8 million for the three months ended June 30, 2009 and 2008, respectively. Our average gross profit ratio for internet advertising services is about from 70%-80%. We had a relatively lower gross profit ratio, 50%, for the six months ended June 30, 2008, mainly as a result of the fact that we had not yet generated a stable client base at that time. With relatively limited revenue generated, the cost spent in the first six months of 2008 was not yet offset by an internet advertising business that had achieved the economy of scale that we had in the first six months of 2009.

- TV advertisement time cost is the largest component of our cost of revenue for TV advertisement revenue. We purchase TV advertisement time from about ten different provincial TV stations and resell it to our TV advertisement clients through infomercials produced by us. Our TV advertisement time cost was US\$ 9 million and US\$ 1.5 million for the six months ended 2009 and 2008, respectively, and US\$ 3.9 million and US\$ 1.5 million for the three months ended June 30, 2009 and 2008, respectively, which were in line with the increase of our TV advertising revenue for the above mentioned periods. Our average gross profit ratio for TV advertising business is about 15%.
- Our resale of internet advertising resources is also a segment that we launched in May 2008. We purchase advertising resources from other portal websites (such as Sina, Sohu, Baidu, 163, and Google, etc.) in large volumes, allowing us to enjoy a more favorable discount on rates. We normally purchase these internet resources for providing value-added services to our internet advertising clients on our own portal website www.28.com. However, besides placing advertisements on www.28.com, some of our advertising clients also want to use other direct channels for their promotions, so they purchase internet resources from us because, through us, they have access to lower rates as compared with market price. The gross profit ratio for this business is relatively low (about 3%-5%) compared with our other segments. In 2008, with less experience in running an internet advertising business on www.28.com, we over purchased internet resources and could not use the resources to generate sufficient revenue to cover our costs due to our lack of a stable client base at that time. That is the main reason for the negative gross margin we had in this business sector for the six months ended June 30, 2008. However, this situation improved significantly in the second half year of 2008, because we successfully increased our client base at that time, and brought more revenue into this business sector accordingly.

Gross Profit: As a result of the foregoing, our gross profit was US\$ 7.3 million for the six months ended June 30, 2009 compared to US\$ 1.7 million for the same period of 2008, and US\$ 3.8 million and US\$ 1.6 million for the three months ended June 30, 2009 and 2008, respectively. According to our past experience, our comprehensive gross margin for the four segments of our business is about 35%-40%.

Operating Expenses and Net Income: Our operating expenses consist of selling expenses, general and administrative expenses and research and development expenses. The following tables set forth our operating expenses, divided into their major categories by amount and as a percentage of our total revenues for the periods indicated.

	For the six months ended June 30,			
	2009 (Unaudited)		2008 (Unaudited)	
	(Amount expressed in thousands of US dollars, except percentages)			
	Amount	% of total revenue	Amount	% of total revenue
Total Revenue	19,178	100%	6,703	100%
Gross Profit	7,289	38%	1,715	26%
Selling expenses	2,629	14%	582	9%
General and administrative expenses	916	5%	356	5%
Research and development expenses	214	1%	64	1%
Total operating expenses	3,759	20%	1,002	15%

For the three months ended June 30,	
2009 (Unaudited)	2008 (Unaudited)

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(Amount expressed in thousands of US dollars,
except percentages)

	Amount	% of total revenue	Amount	% of total revenue
Total Revenue	9,381	100%	5,241	100%
Gross Profit	3,770	40%	1,598	30%
Selling expenses	1,166	12%	388	7%
General and administrative expenses	568	6%	220	4%
Research and development expenses	164	2%	34	1%
Total operating expenses	1,898	20%	642	12%

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Operating Expenses: Our operating expenses increased significantly to US\$ 3.8 million for the six months ended June 30, 2009 from US\$ 1 million for the same period of 2008, and increased to US\$ 1.9 million for the three months ended June 30, 2009 from US\$ 0.6 million for the same period of 2008.

- **Selling expenses:** Selling expenses increased to US\$ 2.6 million for the six months ended June 30, 2009 from US\$ 0.6 million for the same period of 2008, and increased to US\$ 1.2 million for the three months ended June 30, 2009 from US\$ 0.4 million for the same period of 2008. The increase of our selling expenses were mainly due to (1) increase of brand development expense for www.28.com; (2) increase of staff performance bonus due to increase of our revenue; (3) increase of travelling expenses and other marketing expense due to expansion of our revenue; and (4) increase of staff salary and benefit due to expansion of our sales force.

Our selling expenses primarily consist of brand development advertising expenses we pay to TV stations for the television promotion of www.28.com, other advertising and promotional expenses, staff salaries, benefit and performance bonuses, website server hosting and broadband leasing expenses, and travel and communication expenses. Among the selling expenses, our website brand development expenses on television accounted for 70%-80% of the total selling expenses for each of three and six month periods in 2008 and 2009. As we continue to expand our client base, we will increase our sales force accordingly, which will result in an increase in selling expenses. In general, we expect selling expenses to remain relatively stable as a percentage of total revenues.

- **General and administrative expenses:** general and administrative expenses increased to US\$ 0.9 million for the six months ended June 30, 2009 from US\$ 0.4 million for the same period of 2008, and increased to US\$ 0.6 million for the three months ended June 30, 2009 from US\$ 0.2 million for the same period of 2008. The increase in our general and administrative expenses was mainly due to (1) the increase in staff salaries and benefits due to expansion of the business; (2) the increase in office expenses, entertainment expenses, and travel expenses due to expansion of the business; (3) the increase in professional services charges related to reverse merger transaction, and (4) the increase in share-based compensation expenses recognized for of the issuance of our common stock in exchange for professional services. We recognized an aggregate of US\$ 150,000 in compensation expenses in the second quarter of 2009 for our issuance of common stock to Tripoint Capital Advisors, LLC and Richever Limited for the professional services provided by them or their affiliates. We have US\$ 18,000 in the aggregate of unrecognized share-based compensation expenses relating to our issuance of common stock to our investor relations service provider, J&M Group, LLC, that is subject to vesting provisions. This compensation cost will be expensed as the common stock vests.

Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance, utilities and other office expenses. We expect that our general and administrative expenses will increase in future periods as we hire additional personnel and incur additional costs in connection with the expansion of our business and incur increased professional services costs in connection with disclosure requirements under applicable securities laws, and our efforts to continuing to improve our internal control systems in-line with the expansion of our business.

- **Research and development expenses:** Research and development expenses increased to US\$ 0.2 million for the six months ended June 30, 2009 from US\$ 0.06 million for the same period of 2008. This change was mainly due to the increase of development cost to our client services based internet technology in 2008.

Our research and development expenses primarily consist of salaries and benefits for the research and development staff, equipment depreciation expenses, and office utilities and supplies allocated to our research and development department. We expect that our research and development expenses will increase in future period as we will expand and optimize our portal website and upgrade our advertising management software.

Operating Profit (Loss): As a result of the foregoing, our operating profit increased significantly to US\$ 3.5 million for the six months ended June 30, 2009 from US\$ 0.7 million for the same period of 2008, and increased to US\$ 1.9 million for the three months ended June 30, 2009 from US\$ 0.9 million for the same period of 2008.

Interest Income: Our interest income increased to US\$ 0.005 million for the six months ended June 30, 2009 from US\$ 0.002 million for the same period of 2008, primarily as a result of higher cash and cash equivalent balances generated from our operating and financing activities.

Other Income and Other Expenses: Other income and other expenses represent miscellaneous non-operating related income and expenses occurred.

Income Taxes: We recognized an income tax expense of US\$ 0.96 million for the six months ended June 30, 2009 as compared to US\$ 0.2 million for the same period of 2008.

Net Income: As a result of the foregoing, our net income amounted to US\$ 2.6 million for the six months ended June 30, 2009 as compared to US\$ 0.5 million for the same period of 2008. And we achieved a net income of US\$ 1.3 million for the three months ended June 30, 2009 as compared to US\$ 0.7 million for the same period of 2008.

Liquidity and Capital Resources

Cash and cash equivalents represent cash on hand and deposits held at call with banks. We consider all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2009, we had cash and cash equivalents of US\$3.5 million.

Our liquidity needs include (i) net cash used in operating activities that consists of (a) cash required to fund the initial build-out and continued expansion of our network and (b) our working capital needs, which include advanced payment for advertising time purchase from TV station and for internet resources providers, payment of our operating expenses and financing of our accounts receivable; and (ii) net cash used in investing activities that consists of the investments in computers and other office equipments. To date, we have financed our liquidity need primarily through proceeds from our operating activities.

The following table provides detailed information about our net cash flow for the periods indicated

	Six months ended June 30,	
	2009	2008
	(Unaudited)	(Unaudited)
	Amount in thousands of US dollars	
Net cash provided by operating activities	2,711	513
Net cash used in investing activities	(101)	(26)
Net cash provided by (used in) financing actives	(1,794)	1,357
Effect of foreign currency exchange rate changes on cash	7	73
Net increase in cash and cash equivalents	823	1,917

Net cash provided by operating activities: Our net cash provided by operating activities increased to US\$ 2.7 million for the six months ended June 30, 2009 from US\$ 0.5 million for the same period of 2008. This is mainly resulting from the increase in our net profit.

Net cash used in investing activities: Our net cash used in investing activities increased to US\$ 0.1 million for the six months ended June 30, 2009 from US\$ 0.03 million for the same period of 2008. This is because, during 2009, our company purchased more computers and office equipment as a result of the increase in our staff.

Net cash provided by (used in) financing activities: Our net cash used in financing activities increased to US\$ 1.8 million for the six months ended June 30, 2009 compared with a net cash provided in financing activities amounting US\$ 1.4 million for the same period of 2008. Our net cash used in financing activities for the six months ended June 30, 2009 was mainly a repayment of the short-term loan we borrowed from third parties in 2008 which amounted to US\$ 1.2 million. We also used US\$ 0.3 million to cancel and retire 4,400,000 shares of our common stock immediately prior to the reverse merger transaction. Net cash provided in financing activities for the six months ended June 30, 2008 was mainly from short-term loan we borrowed from third parties in that period.

Results of Operations

Total Revenues: Our total revenues increased significantly from US\$7.6 million in 2007 to US\$21.5 million in 2008. This increase of approximately 183% was mainly the result of the following factors:

1 Our new TV advertising services segment began in May 2008 and resulted in roughly US\$7 million revenue in 2008. We generated this US\$7 million of TV advertising revenue by selling about 15,000 minutes of advertising time that we purchased from about ten provincial TV stations to about 230-240 of our TV advertisement clients in 2008. Approximately 60 percent of our TV advertising clients were existing Internet advertising clients. The other 40 percent were new clients that were developed by our sales team.

1 Our Internet advertising revenues also increased by over 4% to US\$11.3 million in 2008 from US\$7.6 million in 2007. This was primarily the result of a successful brand building effort for 28.com that started in 2007 using both TV and the other well-known portal websites in China, more mature client service technologies, and a more experienced sale team.

1 In May 2008, we initiated an Internet advertisement agency that produced US\$3 million of revenue. This business unit focuses on the re-sale certain Internet resources that are purchased from other portal websites. These resources include sponsored search, search engine traffic generation techniques and other portal resources to help our clients promote their businesses. Although this business contributed about 14% of our total revenue in 2008, it is not considered a core business since it does not contribute in the brand building of 28.com and has low or even negative margins due to the high purchase cost of these Internet resources.

Cost of revenues: Our total cost of revenues increased significantly to US\$13.8 million in 2008 from US\$ 4.7 million in 2007. This increase of approximately 194% was mainly the result of the following factors:

1 Our Internet resources cost for Internet advertising revenue was approximately US\$4.7 million and US\$4.7 million (excluding business tax) in 2008 and 2007 respectively. In 2007, because we were formerly an Internet advertising agency that resold Internet advertising space on third-party site before we established our own portal website, we had less experience in running an Internet advertising business on our own portal website 28.com. In 2007, due to our relative inexperience, we over-purchased Internet resources and could not use the resources to generate sufficient revenue due to the lack of a stable client base. However, as we began developing 28.com and gained a better understanding of the Internet advertising marketplace, we changed our strategy and used these over-purchased resources to promote 28.com to many well known Chinese portal websites (including Sina, Baidu, Sohu, QQ, etc.). We believe that this resulted in the significant increase of our revenue and client base in the following year 2008.

1 Our TV advertisement business launched in May 2008. As a result, our TV advertising time purchased from TV stations increased from zero in 2007 to roughly US\$5.9 million (excluding business tax) in 2008. Management believes that this increase is in line with new revenue generated by our TV advertising business unit.

1 In May 2008, we also launched our Internet advertisement agency. This new business unit had cost of revenues of approximately US\$3.1 million (excluding business tax) in 2008. These costs were associated with Internet advertising resources that we purchased from other portal websites (including Sina, Baidu, 163 and Google.). We normally purchase these Internet resources to provide value-added services to our Internet advertising clients who use 28.com. However, besides placing advertisements on 28.com, some of our advertising clients also seek direct channels for their promotion. As such, they purchase Internet resources from us because we can provide a lower price compared with market price for these direct channels. These resold resources include portal resources on other portal website that directly link to our client's website and sponsored search resources.

1 Our business tax and surcharges increased significantly to US\$0.8 million in 2008 from US\$0.3 million in 2007. This increase was a direct result of the increase in our revenues. Business tax and surcharges have not increased as significantly as our total revenue because business tax and surcharges for TV advertising revenues are calculated net of service income after deducting the amount paid to ending media providers as stipulated in the related business tax law of PRC.

Gross Profit: As a result of the foregoing, our gross profit was US\$7.7 million in 2008 as compared to US\$2.9 million in 2007. According to our experience, the comprehensive gross margin for our four segments of revenue is about 35%-40%.

1 The gross margin of our Internet advertising revenue increased to 59% in 2008 from 38% in 2007. With the successful brand building effort that we made in 2007, 28.com has already been recognized as one of the most well known websites for SMEs and investors to find business opportunities and business parties in China. This brand effect allowed us to significantly reduce the amount Internet sources that we need to purchase from other portal website to maintain the same visit volume that we achieved via 28.com.

1 The gross margin of our TV advertising revenue is relatively stable at about 12%-15%, due to the relatively fixed time cost purchased from TV stations and the relatively stable selling price to our clients.

1 Internet advertising agency resale business is not our core business, and the gross margin for this part of business is relatively low at about 2%.

1 The gross margin of our bank kiosk unit is about 80%. This relatively high margin is achievable because of the higher fees generated from the larger, more sophisticated class of advertisers and the higher-end business outlets featured in this business. Our advertising clients in this business segment are banks, insurance companies and large auto manufactures.

Operating Expenses: Our operating expenses increased significantly to US\$3.9 million in 2008 from US\$2.6 million in 2007. This increase of \$1.3 million or 50% was due to the following factors.

1 Selling expenses: Selling expenses increased to US\$2.7 million in 2008 from US\$2.1 million in 2007. The increase in our selling expenses was mainly due to increased brand development expenses for 28.com, higher staff performance bonuses caused by increased revenues, traveling expenses and other marketing expense due to expansion of our revenue and staff salary and benefits due to expansion of our sales force.

1 General and administrative expenses: General and administrative expenses increased significantly in 2008 to US\$1 million from US\$0.4 million in 2007. The increase in our general and administrative expenses was mainly due to increased staff salaries and benefits increased office, entertainment and travel expenses, in each case due to expansion of the business, and professional service charges due to upcoming SEC reporting and filing requirements.

1 Research and development expenses. Research and development expenses increased to US\$0.2 million in 2008 from US\$0.1 million in 2007. This increase was a result of development costs related to our client services based Internet technology in 2008.

Operating Profit (Loss): As a result of the foregoing, our operating profit increased significantly to US\$3.7 million in 2008 from an operating loss of US\$0.2 million in 2007.

Interest Income: Our interest income increased to US\$0.008 million in 2008 from US\$0.002 million in 2007. This increase was primarily a result of higher cash and cash equivalent balances generated from our operating and financing activities.

Income Taxes: We recognized an income tax expense of approximately US\$0.96 million in 2008 as compared to US\$0.4 million in 2007. Although we had a net loss in 2007, the brand development cost that we paid for promoting 28.com which is over certain percentage of our total revenue in 2007 was considered as non-deductible expenses for income tax expenses computation.

Net Income: As a result of the foregoing, our net income amounted to US\$2.8 million in 2008 as compared to a net loss of US\$0.2 million in 2007.

OFF BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

The functional currency of our Company is United States dollars (“US\$”), and the functional currency of our Hong Kong subsidiary, China Net HK, is Hong Kong dollars (“HK\$”). The functional currency of our Company’s PRC Operating Entities is the Renminbi, and PRC is the primary economic environment in which we operate. The value of stockholders’ investment in our stock will be affected by the foreign exchange rate between US\$, HK\$ and RMB. To the extent we hold assets denominated in U.S. dollars any appreciation of the RMB against the U.S. dollar could result in a change to our statement of operations and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of RMB against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of stockholders’ investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the price of our stock.

Our exposure to foreign exchange risk primarily relates to currency gains or losses resulting from timing differences between signing of sales contracts and settling of these contracts. Furthermore, we translate monetary assets and liabilities denominated in other currencies into RMB, the functional currency of our operating business. Our results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the foreign exchange rate at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in our statement of shareholders’ equity. We have not used any forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

Interest Rate Risk

Changes in interest rates may affect the interest paid (or earned) and therefore affect our cash flows and results of operations. However, we do not believe that this interest rate change risk is significant.

Inflation

Inflation has not had a material impact on the Company’s business in recent years.

Currency Exchange Fluctuations

All of the Company's revenues are denominated in RMB, as are expenses. The value of the RMB-to-US\$ and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including US\$, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to US\$ had generally been stable and the RMB had appreciated slightly against the US\$. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of RMB to the US\$. Under the new policy, RMB may fluctuate within a narrow and managed band against a basket of certain foreign currencies. Recently there has been increased political pressure on the Chinese government to decouple the RMB from the US\$. At the recent quarterly regular meeting of People's Bank of China, its Currency Policy Committee affirmed the effects of the reform on RMB exchange rate. Since February 2006, the new currency rate system has been operated; the currency rate of RMB has become more flexible while basically maintaining stable and the expectation for a larger appreciation range is shrinking. The Company has never engaged in currency hedging operations and has no present intention to do so.

Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions as described below:

- The Company's business is characterized by rapid technological change, new product and service development, and evolving industry standards and regulations. Inherent in the Company's business are various risks and uncertainties, including the impact from the volatility of the stock market, limited operating history, uncertain profitability and the ability to raise additional capital.
- All of the Company's revenue is derived from China. Changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition.
- If the Company is unable to derive any revenues from China, it would have a significant, financially disruptive effect on the normal operations of the Company.

DESCRIPTION OF THE BUSINESS

Business Overview

The Company is a holding company that conducts its primary businesses through its subsidiaries and operating companies, Business Opportunity Online, Beijing CNET Online, and Shanghai Borongdongsi. We are one of China's leading full-service media development and advertising platforms for the small and medium enterprise (the "SME") market. We are a service oriented business that leverages proprietary advertising technology to prepare and publish rich media enabled advertising campaigns for clients on the Internet and on television. Our goal is to strengthen our position as the leading diversified media advertising provider in China. Our multi-platform advertising network consists of the website www.28.com ("28.com"), our Internet advertising portal, ChinaNet TV, our TV production and advertising unit, and our newly launched bank kiosk advertising unit, which is primarily used as an advertising platform for clients in the financial services industry. Using proprietary technology, we provide additional services as a lead generator. We also have pursued a strategy as a re-seller of Internet and television advertising space that we purchase in bulk.

We have provided advertising and lead generation services to over 500 clients in a variety of consumer focused industries. Our media campaign service combines both Internet and television advertising, thereby maximizing advertising exposure for our clients. Through the high traffic internet portal 28.com, operated through Business Opportunity Online, companies and entrepreneurs advertise their products, services and business opportunities. 28.com offers campaign management tools for our clients including lead generation and capture, advanced tracking, search engine optimization, resource scheduling, and content management. Through the 28.com site our customers can build sales channels and develop relationships directly with sales agents, distributors, resellers and/or franchisees. It also functions as a one-stop destination for end-users seeking new business opportunities. Through our ChinaNet TV division, operated through Beijing CNET Online, we have in-house television productions and distribution capabilities. We create and distribute television shows that are typically 10 or 20 minutes in length and broadcast on local television stations. Airtime is purchased in 40 minute blocks which air two to four segments each. The television shows are comprised of advertisements, similar to infomercials, but include promotions for several clients during the allotted time. We have also commenced production, on a lesser scale, of web video advertisements for clients to be placed on 28.com.

In May 2008, we launched our new bank kiosk division, operated through Shanghai Borongdongsi, which provides interactive LCD ad displays targeting banking customers. In cooperation with the China Construction Bank, we placed 200 interactive kiosks in its branches throughout Henan Province. Each kiosk has an LCD advertising display panel, which provides advertising aimed at bank customers. The kiosk also provides Internet access on a separate screen so that customers can perform basic non-cash banking functions such as transferring money, purchasing annuities and/or insurance, and paying bills.

We derive our revenue principally by:

- charging our clients fixed monthly fees to advertise on 28.com;
- charging productions fees for television and web video spots;
- selling advertising time slots on our television shows and bank kiosks;
- reselling Internet space and television space at a discount to the direct cost of any individual space or time slot, but at a mark-up to our cost due to purchase of these items in bulk; and
- collecting fees associated with lead generation.

The five largest industries in terms of revenue in which our advertising clients operate are (1) food and beverage, (2) women accessories, (3) footwear, apparel and garments, (4) home goods and construction materials, and (5)

environmental protection equipment. Advertisers from these industries together accounted for approximately 79% of our revenue in 2008.

Since we commenced our current business operations in 2003, we have experienced significant growth in our network and in our financial results. We generated total revenues of \$21.5 million in 2008 compared to \$7.6 million in 2007 and net income of \$3.2 million in 2008 compared to a net loss of \$0.2 million in 2007. As of the three months ended June 30, 2009, our total revenues increased significantly to US\$9.4 million from US\$5.2 million for the three months ended June 30, 2008.

Our Corporate History and Background

We were incorporated in the State of Texas in April 2006 and re-domiciled to become a Nevada corporation in October 2006. From the date of our incorporation until June 26, 2009, when we consummated the Share Exchange (as defined below), our business development activities were primarily concentrated in web server access and company branding in hosting web based e-games.

Our wholly owned subsidiary, China Net Online Media Limited was incorporated in the British Virgin Islands on August 13, 2007 (“China Net”). In April 11, 2008, China Net became the parent holding company of a group of companies comprised 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 People's Republic of China (“Rise King WFOE”). We refer to the transactions that resulted in China Net becoming an indirect parent company of Rise King WFOE as the “Offshore Restructuring.” We operate our business in China primarily through Business Opportunity Online (Beijing) Network Technology Co., Ltd. (“Business Opportunity Online”), Beijing CNET Online Advertising Co., Ltd. (“Beijing CNET Online”), and Shanghai Borongdingsi Computer Technology Co., Ltd. (“Shanghai Borongdingsi”). Business Opportunity Online, Beijing CNET Online and Shanghai Borongdingsi, were incorporated on December 8, 2004, January 27, 2003 and August 3, 2005, respectively. From time to time, we refer to them collectively as the “PRC Operating Entities”.

Shanghai Borongdingsi is owned 51% by Beijing CNET Online. Beijing CNET Online and Shanghai Borongdingsi entered into a cooperation agreement in June 2008, followed up with a supplementary agreement in December 2008, to conduct e-banking advertisement business. The business is based on an e-banking cooperation agreement between Shanghai Borongdingsi and Henan provincial branch of China Construction Bank which allows Shanghai Borongdingsi or its designated party to conduct in-door advertisement business within the business outlets throughout Henan Province. The e-banking cooperation agreement has a term of eight years starting August 2008. However, Shanghai Borongdingsi was not able to conduct the advertisement as a stand-alone business due to the lack of an advertisement business license and supporting financial resources. Pursuant to the aforementioned cooperation agreements, Beijing CNET Online committed to purchase equipment, and to provide working capital, technical and other related support to Shanghai Borongdingsi. Beijing CNET Online owns the equipment used in the kiosk business, is entitled to sign contracts in its name on behalf of the business, and holds the right to collect the advertisement revenue generated from the kiosk business exclusively until the recovery of the cost of purchase of the equipment. Thereafter, Beijing CNET Online has agreed to distribute 49% of the succeeding net profit generated from the e-banking advertising business, if any, to the minority shareholders of Shanghai Borongdingsi.

Restructuring

In October 2008, a restructuring plan was developed (the “Restructuring”). The Restructuring was accomplished in two steps. The first step was for Rise King WFOE to acquire control over Business Opportunity Online and Beijing CNET Online (collectively the “PRC Operating Subsidiaries”) by entering into a series of contracts (the “Contractual Agreements”), which enabled Rise King WFOE to operate the business and manage the affairs of the PRC Operating Subsidiaries. Both of the PRC Operating Subsidiaries at that time and currently are owned by Messrs. Handong Cheng, Xuanfu Liu and Ms. Li Sun (the “PRC Shareholders”). Messrs. Cheng and Liu, are now our Chief Executive Officer and Chief Operating Officer, respectively. After the PRC Restructuring was consummated, the second step was for China Net to enter into and complete a transaction with a U.S. public reporting company, whereby that company would acquire China Net, China Net HK and Rise King WFOE, and control the PRC Operating Subsidiaries (the “China Net Companies”).

Legal Structure of the PRC Restructuring

The PRC Restructuring was consummated in a manner so as not to violate PRC laws relating to restrictions on foreign ownership of businesses in certain industries in the PRC and the PRC M&A regulations.

The Foreign Investment Industrial Guidance Catalogue jointly issued by the Ministry of Commerce (“MOFCOM”) and the National Development and Reform Commission in 2007 classified various industries/business into three different categories: (i) encouraged for foreign investment, (ii) restricted to foreign investment, and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed industries/business permitted to have foreign investment. Except for those expressly provided restrictions, encouraged and permitted industries/business are usually open to foreign investment and ownership. With regard to those industries/business restricted to or prohibited from foreign investment, there is always a limitation on foreign investment and ownership.

The business of the PRC Operating Subsidiaries falls under the class of a business that provides Internet content or information services, a type of value added telecommunication services, for which restrictions upon foreign ownership apply, which means Rise King WFOE is not allowed to do the business the PRC Operating Subsidiaries companies are currently pursuing. Advertising business is open to foreign investment but one of the requirements is that the foreign investors of a WFOE shall have been carrying out advertising business for over three years pursuant to the Foreign Investment Advertising Measures as amended by MOFCOM and the State Administration of Industry and Commerce (“SAIC”) on August 22, 2008. Rise King WFOE is not allowed to engage in the advertising business

because its shareholder, China Net HK, does not meet such requirements. In order to control the business and operations of the PRC Operating Subsidiaries, and consolidate the financial results of the two companies in a manner that does not violate current PRC laws, Rise King WFOE executed the Contractual Agreements with the PRC Shareholders and each of the PRC Operating Subsidiaries. The Contractual Agreements allow us through Rise King WFOE to, among other things, secure significant rights to influence the two companies' business operations, policies and management, approve all matters requiring shareholder approval, and the right to receive 100% of the income earned by the PRC Operating Subsidiaries. In return, Rise King WFOE provides consulting services to the PRC Operating Subsidiaries. In addition, to ensure that the PRC Operating Subsidiaries and the PRC Shareholders perform their obligations under the Contractual Arrangements, the PRC Shareholders have pledged to Rise King WFOE all of their equity interests in the PRC Operating Subsidiaries. They have also entered into an option agreement with Rise King WFOE which provides that at such time that current restrictions under PRC law on foreign ownership of Chinese companies engaging in the Internet content or information services in China are lifted, Rise King WFOE may exercise its option to purchase the equity interests in the PRC Operating Subsidiaries directly.

Each of the PRC Shareholders entered into a share transfer agreement (the “Share Transfer Agreement”) with Mr. Yang Li, the sole shareholder of Rise King BVI, which is a 55% shareholder of China Net. The PRC Shareholders have been granted the incentive options for the contributions that they have made and will continue to make to Rise King BVI. Under the Share Transfer Agreements Mr. Li granted to each of the PRC Shareholders an option to acquire, in the aggregate 10,000 shares of Rise King BVI, representing 100% of the issued and outstanding shares of Rise King BVI, provided that certain financial performance thresholds were met by the China Net. The Share Transfer Agreement was formalized and entered into on April 28, 2009. Subject to registering with the State Administration of Foreign Exchange (“SAFE”) prior to the exercise and issuance of the Option Shares under the Share Transfer Agreements, which is an administrative task, there is no prohibition under PRC laws for the PRC Shareholders to earn an interest in Rise King BVI after the PRC Restructuring is consummated in compliance with PRC law.

Pursuant to the Share Transfer Agreement, the Option Shares vest and become exercisable in one-third increments upon the China Net Companies attaining consolidated gross revenue performance targets for fiscal 2009, the six month period ended June 30, 2010 and the six month period ended December 31, 2010 of RMB 100 million, RMB 60 million and RMB 60 million. If the China Net Companies achieve the performance targets the exercise price will be \$1.00 per share. If the targets are not met, the exercise price shall increase to \$2.00 per shares. Therefore, as of February 14, 2011, 100% of the Option Shares will be exercisable.

Accounting Treatment of the Restructuring

The Restructuring is accounted for as a transaction between entities under common control in a manner similar to pooling of interests, with no adjustment to the historical basis of the assets and liabilities of the PRC Operating Subsidiaries. The operations of the Entities are consolidated as if the current corporate structure had been in existence throughout the period presented in the audited financial statements. The Restructuring is accounted for in this manner because pursuant to an Entrustment Agreement dated June 5, 2009 (the “Entrustment Agreement”) between Rise King BVI and the PRC Shareholders, Rise King BVI granted to the PRC Shareholders, on a collective basis, managerial control over each of the China Net Companies by delegating to the PRC Shareholders its shareholder rights, including the right to vote, and its rights to designate management of the China Net Company. The Entrustment Agreement, together with the Contractual Arrangements demonstrate the ability of the PRC Shareholders to continue to control Business Opportunity Online and Beijing CNET Online, which are under our common control.

Below is a summary of the material terms of the Contractual Agreements.

Exclusive Business Cooperation Agreements

Pursuant to Exclusive Business Cooperation Agreements entered into by and between Rise King WFOE and each of the PRC Operating Subsidiaries in October 2008, Rise King WFOE has the exclusive right to provide to the PRC Operating Subsidiaries complete technical support, business support and related consulting services, which include, among other things, technical services, business consultations, equipment or property leasing, marketing consultancy and product research. Each PRC Operating Subsidiary has agreed to pay an annual service fee to Rise King WFOE equal to 100% of its audited total amount of operational income each year. Each PRC Operating Subsidiary has also agreed to pay a monthly service fee to Rise King WFOE equal to 100% of the net income generated on a monthly basis. The payment and terms of payment are fixed to ensure that Rise King WFOE obtains 100% of the net income for that month, although adjustments may be made upon approval by Rise King WFOE to provide for operational needs. If at year end, after an audit of the financial statements of any PRC Operating Subsidiary, there is determined to be any shortfall in the payment of 100% of the annual net income, such PRC Operating Subsidiary must pay such shortfall to Rise King WFOE. Each agreement has a ten-year term, subject to renewal and early termination in accordance with the terms therein.

Exclusive Option Agreements

Under Exclusive Option Agreements entered into by and among Rise King WFOE, each of the PRC Shareholders, dated as of October 8, 2008, each of the PRC Shareholders irrevocably granted to Rise King WFOE or its designated person an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of their respective equity interest in any PRC Operating Subsidiary for a purchase price of RMB 10 or a purchase price to be adjusted to be in compliance with applicable PRC laws and regulations. Rise King WFOE or its designated person has the sole discretion to decide when to exercise the option, whether in part or in full. Each of these agreements has a ten-year term, subject to renewal at the election of Rise King WFOE.

Equity Pledge Agreements

Under the Equity Pledge Agreements entered into by and among Rise King WFOE, the PRC Operating Subsidiaries and each of the PRC Shareholders, dated as of October 8, 2008, the PRC Shareholders pledge, all of their equity interests in PRC Operating Subsidiaries to guarantee Beijing CNET Online's performance of its obligations under the Exclusive Business Cooperation Agreement. If Beijing CNET Online or any of the PRC Shareholders breaches his/her respective contractual obligations under this agreement, or upon the occurrence of one of the events regarded as an event of default under each such agreement, Rise King WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests. The PRC Shareholders of the PRC Operating Subsidiaries agree not to dispose of the pledged equity interests or take any actions that would prejudice Rise King WFOE's interest, and to notify Rise King WFOE of any events or upon receipt of any notices which may affect Rise King WFOE's interest in the pledge. Each of the equity pledge agreements will be valid until all the payments due under the Exclusive Business Cooperation Agreement have been fulfilled.

Irrevocable Powers of Attorney

The PRC Shareholders have each executed an irrevocable power of attorney, dated as of October 8, 2008, to appoint Rise King WFOE as their exclusive attorneys-in-fact to vote on their behalf on all PRC Operating Subsidiary matters requiring shareholder approval. The term of each power of attorney is valid so long as such shareholder is a shareholder of the respective PRC Operating Subsidiary.

Share Exchange

On June 26, 2009, the Company entered into a Share Exchange Agreement (the "Exchange Agreement"), with (i) ChinaNet BVI, (ii) ChinaNet BVI's shareholders, Allglad Limited, a British Virgin Islands company ("Allglad"), Growgain Limited, a British Virgin Islands company ("Growgain"), Rise King Investments Limited, a British Virgin Islands company ("Rise King BVI"), Star (China) Holdings Limited, a British Virgin Islands company ("Star"), Surplus Elegant Investment Limited, a British Virgin Islands company ("Surplus"), Clear Jolly Holdings Limited, a British Virgin Islands company ("Clear" and together with Allglad, Growgain, Rise King BVI, Star and Surplus, the "ChinaNet BVI Shareholders"), who together own shares constituting 100% of the issued and outstanding ordinary shares of ChinaNet BVI (the "ChinaNet BVI Shares"), and (iii) G. Edward Hancock, the former principal stockholder of the Company. Pursuant to the terms of the Exchange Agreement, the ChinaNet BVI Shareholders transferred to the Company all of the ChinaNet BVI Shares in exchange for the issuance of 13,790,800 (the "Exchange Shares") shares of Common Stock (the "Share Exchange"). As a result of the Share Exchange, ChinaNet 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 PRC, is engaged in providing advertising, marketing and communication services to small and medium companies in China.

Immediately prior to the Share Exchange, we cancelled and retired 4,400,000 shares of our issued and outstanding Common Stock (the "Cancelled Shares") (reducing our issued and outstanding shares to 1,383,500), and issued 600,000

shares of our Common Stock in the aggregate to certain third parties in consideration for services rendered (resulting in 1,983,500 shares of issued and outstanding Common Stock immediately prior to the Share Exchange). A cash amount of \$300,000, previously deposited by us into an escrow account was paid to G. Edward Hancock, our former majority shareholder and owner of the Cancelled Shares, as consideration for cancelling the Cancelled Shares in connection with the Share Exchange. As a result of the cancellation of the Cancelled Shares, the share issuance described above, and the Share Exchange, we had 15,774,300 shares issued and outstanding immediately following the Share Exchange.

In connection with the Share Exchange, we entered into a Registration Rights Agreement dated June 26, 2009 with certain of our stockholders signatory thereto. Pursuant to the Registration Rights Agreement, we agreed to provide those stockholders signatory thereto, for a 90-day period from the date of signing, piggyback registration rights under the Securities Act on a portion of their shares. In the event that we do not file such registration statement within the 90-day period, the stockholders holding a majority of the securities registrable under the Registration Rights Agreement will have a demand registration right. There are no other penalties or liquidated damages (in securities of the Company, cash or otherwise) as a result of the Company not successfully filing a registration statement within the 90-day period or pursuant to the terms of the demand.

Name Change

Prior to July 14, 2009, our company name was Emazing Interactive, Inc. On July 14, 2009, the Company caused to be formed a corporation under the laws of the State of Nevada called ChinaNet Online Holdings, Inc. (the "Merger Sub") and acquired one hundred shares of its common stock for cash. As such, Merger Sub was merged with and into the Company. As a result of the merger, the separate existence of the Merger Sub ceased. As a further result of the merger, our corporate name was changed to "ChinaNet Online Holdings, Inc." We are the surviving corporation in the merger and, except for the name change provided for in the Agreement and Plan of Merger, there was no change in our directors, officers, capital structure or business.

2009 Financing

On August 21, 2009 (the "Closing Date"), we entered into a securities purchase agreement (the "Purchase Agreement"), with several investors, including institutional, accredited and non-US persons and entities (the "Investors"), pursuant to which we sold units, comprised of 10% Series A Convertible Preferred Stock, par value \$.001 per share (the "Series A Preferred Stock"), and two series of warrants, for a purchase price of \$2.50 per unit and gross proceeds of approximately \$10.3 million (the "Financing"). Net proceeds from the Financing were approximately \$9.5 million. We sold 4,121,600 units in the aggregate, which included (i) 4,121,600 shares of our Series A Preferred Stock, (ii) Series A-1 Warrants to purchase 2,060,800 shares of Common Stock at an exercise price of \$3.00 per share with a three-year term, and (ii) Series A-2 Warrants to purchase 2,060,800 shares of Common Stock at an exercise price of \$3.75 with a five-year term. In connection with the Financing, we issued to TriPoint Global Equities, LLC warrants to purchase 329,728 shares of our Common Stock at an exercise price of \$2.50 per share, 164,864 at an exercise price of \$3.00 and 164,864 at an exercise price of \$3.75. The warrants expire on August 20, 2014 .

In connection with the Financing, we entered into a registration rights agreement (the "Registration Rights Agreement") with the Investors in which we agreed to file a registration statement (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") to register the Common Stock underlying the Series A Preferred Stock, the Series A-1 Warrants and the Series A-2 Warrants, thirty (30) days after the closing of the Financing. We have agreed to use our best efforts to have the Registration Statement declared effective within 150 calendar days after filing, or 180 calendar days after filing in the event the Registration Statement is subject to a "full review" by the SEC.

We are required to keep the Registration Statement continuously effective under the Securities Act until such date as is the earlier of the date when all of the securities covered by that registration statement have been sold or the date on which such securities may be sold without any restriction pursuant to Rule 144 (the "Financing Effectiveness Period"). We will pay liquidated damages of 2% of each holder's initial investment in the units sold in the Financing per month, payable in cash, up to a maximum of 10%, if the Registration Statement is not filed or declared effective within the foregoing time periods or ceases to be effective prior to the expiration of the Financing Effectiveness Period. However, no liquidated damages shall be paid with respect to any securities being registered that we are not permitted to include in the Registration Statement due to the SEC's application of Rule 415.

In connection with the Financing, we entered into a securities escrow agreement with the Investors (the “Escrow Agreement”), pursuant to which Rise King Investment Limited, a British Virgin Islands company (the “Principal Stockholder”), initially placed 2,558,160 shares of Common Stock (the “Escrow Shares”) into an escrow account. Of the Escrow Shares, 1,279,080 shares (equivalent to 50% of the Escrow Shares) are being held as security for the achievement of audited net income equal to or greater than \$7.7 million for the fiscal year 2009 (the “2009 Performance Threshold”) and the remaining 1,279,080 of the Esrow Shares are being held as security for the achievement of audited net income equal to or greater than \$14 million for the fiscal year 2010 (the “2010 Performance Threshold”).

If we achieve at least 95% of the applicable Performance Threshold, all of the Escrow Shares for the corresponding fiscal year shall be returned to the Principal Stockholder. If we achieve less than 95% of the applicable Performance Threshold, the Investors shall receive in the aggregate, on a pro rata basis (based upon the number of shares of Series A Preferred Stock or Conversion Shares owned by each such Investor as of the date of distribution of the Escrow Shares), 63,954 shares of the Escrow Shares for each percentage by which the applicable Performance Threshold was not achieved up to the total number of Escrow Shares for the applicable fiscal year. Any Escrow Shares not delivered to any Investor because such Investor no longer holds shares of Series A Preferred Stock or Conversion Shares shall be returned to the Principal Stockholder.

For the purposes of the Escrow Agreement, net income is defined in accordance with US GAAP and reported by us in our audited financial statements for each of the fiscal years ended 2009 and 2010; provided, however, that net income for each of fiscal years ended 2009 and 2010 shall be increased by any non-cash charges incurred (i) as a result of the Financing, including without limitation, as a result of the issuance and/or conversion of the Series A Preferred Stock, and the issuance and/or exercise of the Warrants, (ii) as a result of the release of the Escrow Shares to the Principal Stockholder and/or the Investors, as applicable, pursuant to the terms of the Escrow Agreement, (iii) as a result of the issuance of ordinary shares of the Principal Stockholder to Messrs. Handong Cheng and Xuanfu Liu and Ms. Li Sun (the "PRC Shareholders"), upon the exercise of options granted to the PRC Shareholders by the Principal Stockholder, (iv) as a result of the issuance of warrants to any placement agent and its designees in connection with the Financing, (v) the exercise of any warrants to purchase Common Stock outstanding and (vi) the issuance under any performance based equity incentive plan that we adopt.

In addition, we are a party to a Lock-Up Agreement with each of our executive officers and directors (the "Affiliates"), under which the Affiliates have agreed with not to offer, sell, contract to sell, assign, transfer, hypothecate gift, pledge or grant a security interest in, or otherwise dispose of any shares of our common stock that such Affiliates presently own or may acquire after the Closing Date during the period commencing on the Closing Date and expiring on the date that is six months following the effective date of the Registration Statement (the "Lock-up Period"). Each Affiliate further agreed that during the 12-month period following the Lock-up Period, such Affiliate shall not transfer more than one-twelfth (1/12) of such Affiliate's holding of Common Stock during any one calendar month.

Industry and Market Overview

Overview of the Advertising Market in China

China has the largest advertising market in Asia, excluding Japan. According to ZenithOptimedia in 2007, China's advertising market was the fifth largest in the world by media expenditure, which was approximately \$15.4 billion, accounting for 15.6% of the total advertising spending in the Asia-Pacific region. ZenithOptimedia also projected that the advertising market in China will be one of the fastest growing advertising markets in the world, at a CAGR of 12.8% from 2007 to 2011. By 2011, China is projected to account for 19.6% of the total advertising spending in the Asia-Pacific region.

The growth of China's advertising market is driven by a number of factors, including the rapid and sustained economic growth and increases in disposable income and consumption in China. According to ZenithOptimedia, China was the third largest economy in the world in 2007 in terms of GDP, which amounted to US\$3.1 trillion. According to the National Bureau of Statistics of China, the annual disposable income per capita in urban households increased from RMB 13,786 in 2007 to RMB 15,781 in 2008, representing an increase of 14.5%.

We believe the advertising market in China has significant potential for future growth due to relatively low levels of advertising spending per capita and as a percentage of GDP compared to more developed countries or regions. The following table sets forth the advertising spending per capita and as a percentage of GDP in 2007 in China compared

to more developed countries or regions:

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Advertising Spending in 2007

	Per Capita (US\$)	As a % of GDP
China	\$ 11.62	0.5%
Hong Kong	438.63	1.5%
South Korea	206.71	1.0%
Japan	320.76	0.9%
Asia Pacific (weighted average)	29.98	0.8%
United States	586.11	1.3%
United Kingdom	419.79	0.9%

Source: ZenithOptimedia (December, 2008)

Overview of the Internet Advertising Industry

According to ZenithOptimedia, the Internet is the only advertising medium that is expected to experience an increase in expenditures in 2009. This growth is expected to stem primarily from the use of search engine, rich media, video and game embedded advertisements. The growth of Internet advertising is expected to be 11.3% in 2010 and 15.3% in 2011, and according to the iResearch China Merchant Website Research Report, is expected to reach \$5.8 billion in 2012.

The diagram below depicts annual size & growth of Chinese Internet advertising market from 2001 to 2012:

High Demand for the Internet Advertising in China

We believe that the Internet advertising market in China also has significant potential for future growth due to high demand from the rapid development of franchise and chain store business and the SMEs. According to the 2008 China Franchise Development Report by China Chain Store & Franchise Development Report, there were approximately 3,000 franchise enterprises and 260,000 chain stores in China by the end of 2007, and the number of franchise enterprises and chain stores is expected to increase to 4,000 and 320,000, respectively by 2010.

The development of the SME market is still in its early stages and since their sales channels and distribution networks are still underdeveloped, they are driven to search for new participants by utilizing Internet advertising. The SMEs tend to be smaller, less-developed brands primarily focused on restaurants, garments, building materials, home appliances, and entertainment with low start-up costs within a range of \$1,000-\$15,000. The Chinese government has promulgated a series of laws and regulations to protect and promote the development of SMEs which appeals to entrepreneurs looking to benefit from the central government's support of increased domestic demand. SMEs are now responsible for about 60% of China's industrial output and employment of about 75% of urban Chinese workforce. SMEs are creating the most new urban jobs, and they are the main destination for workers laid-off from state-owned enterprises (SOEs) that re-enter the workforce.

Our Principal Products and Services

Our products and services include:

- Bundled advertising campaign services, comprised of 28.com, our Internet advertising portal, and our television and web advertisement services;
- Agency services, whereby we re-sell to our customers web advertising space on third-party Internet sites and television advertising space; and
 - Resale of Internet Advertising resources; and
 - In-bank advertising services conducted through our network of kiosks located in bank branches.

Internet Advertising

We founded 28.com in 2003. 28.com is a leading Internet site for information about small business opportunities in China. It was one of the earliest entrants in this sector, allowing it to currently hold a 30% market share in China. Our revenue from 28.com is twice as big as our closest competitor, u88.cn. We have provided more than 500 long-term clients advertising business opportunities on the site. The platform provides advertisers with the tools to build sales channels and develop relationships directly with sales agents, distributors, resellers and/or franchisees. 28.com has the following features which enable it to be an attractive platform for the advertisers:

- Allows entrepreneurs interested in inexpensive franchise and business opportunities to find in-depth details about these opportunities in various industries;
- Provides one-stop shopping for SMEs and entrepreneurs by providing customized services such as design, website setup, and advertisement placement through promoting;
- Bundles with 28.com video production, advanced traffic generation techniques and search-engine optimization.

28.com charges its clients fixed monthly fees for ad placements on its homepage at an average monthly price of \$3,000. The site has more than 500 long term clients and the total revenue per month reaches approximately \$1.5 million in 2008. This segment accounted for 52% of our revenue in 2008 and 100% of our revenue in 2007.

Television Advertising

As part of our media campaign services, for each client we produce and distribute television shows that are comprised of advertisements similar to infomercials, but include promotions for several clients during the allotted time. Our clients pay us for editorial coverage and advertising spots. We are one of the larger producers of television shows of this nature in China, with an estimated total show time that is expected to reach 30,000 minutes in 2009 and 100,000 minutes in 2010. The shows produced by our TV unit are distributed during airtime purchased on the biggest national satellite television stations including CCTV, Hunan TV, Jiangxi TV, Shandong TV, Guangdong TV, Fujian TV, Guangxi TV, Mongolia TV, Yunnan TV, Tianjin TV and Heilongjiang TV. The brand of shows produced by us are

entitled “Gold List,” “Online Business Opportunities,” “The Charm of Wealth,” “Venture Express,” “Start” and “Run’s Ro
Wealth.” This segment accounted for 32.6% of our revenue in 2008.

Resale of Internet Advertising Resources

We resell to our new clients sponsored search resources and advertising portal resources purchased from other portal websites. These websites include Baidu, Tengxun (QQ), Google, Sina, Sohu and other advertising clients. This segment accounted for 14.3% of our revenue in 2008.

Bank Kiosks

We operate our bank kiosk advertising network, launched in 2008, through Shanghai Borongdingsi. We place our kiosk machines, which include a large, LCD advertising display, in bank branches to target banking patrons. We market our LCD display network to advertisers in the financial services and insurance industries. As of June 1, 2009, we had approximately 200 flat-panel displays placed in branches of China Construction Bank in Henan Province and 2,000 kiosks are expected to be placed in 17 cities by the end of 2009. The kiosks are useful to the banks because, in addition to the LCD advertising display, they provide bank customers with free Internet access to on-line banking services, thereby potentially shortening wait times in branches for teller services. We believe bank kiosks are a cost effective solution for advertisers because the interactive client interface captures information for follow up and also due to the ability to update content remotely.

Our client base for bank kiosk advertising includes, China Telecom, China Mobile, China Construction Bank, Ping An of China, China Unicom, China International Fund Management Co., Ltd., Toyota, PICC, Guangzhou Honda and Audi.

Our Competitive Strengths

Over our six year history, we believe that we have built a strong track record of significant competitive strengths such as:

Innovative Operations

- Client-based innovation. Our services, which bundle for a set fee Internet ads, television shows and other services, including lead generation, simplifies the targeting process for our clients by allowing them to use one vendor for their Internet and television ad buys.
- Target market innovation and expansion of audience base. We believe that by offering multiple advertising media platforms, we enable advertisers to reach a wide range of consumers with complementary and mutually reinforcing advertising campaigns. We are better able to attract advertisers who want to reach targeted consumer groups through a number of different advertising media in different venues and at different times of the day.

Strong Technological Advantages

- Award winning R&D team. We have a R&D team with extensive experience in China's advertising and marketing industry. Bin Zhang, Vice President of China Net TV, has been actively engaged in technology research and development in this area since 1998.
- Advanced campaign tracking & monitoring tools. We have deployed advanced tracking, search engine optimization, resource scheduling, content management and ad campaign management tools so as to achieve effective and efficient advertising effects.
- Valuable intellectual property. We have three copyright certificates and property rights for three software products in connection with the Internet advertising business which were developed by our research and development team.

- Experienced management team. We have an experienced management team. In particular, Handong Cheng, our founder, chairman and chief executive officer has over ten years' experience in management. He demonstrated his entrepreneurship and business leadership by starting up our business and he has successfully grown our business to become a pioneer in online media marketing and advertising services. He also secured our status as the sole strategic alliance partner of China Construction Bank with respect to bank kiosk advertising. Zhige Zhang, our chief financial officer has over six years' experience in software development and Internet ad technology.

First Mover Advantages

- Early Market Entrant as a vertically integrated ad portal and Internet agency. We have over 4 years of operations as a vertically integrated ad portal and ad agency. We have 6 years of experience as an Internet advertising agency. We commenced our Internet advertising services business in 2003 and was among the first companies in China to create a site and a business focused on Internet advertising. We rapidly established a sizeable nationwide network, secured a significant market share and enhanced awareness of our brand. Our early entry into the market has also enabled us to accumulate a significant amount of knowledge and experience in this nascent segment of the advertising industry.
- Early mover advantage in bank kiosk. We are one of earlier advertising agents to have established an in-bank advertising network. We believe that the establishment of our in-bank kiosk gives us a competitive edge over competing networks as well as over many other forms of traditional advertising.
- Exclusive Strategic Partnership with Top Chinese banks. In 2008, we entered into an eight-year strategic partnership with China Construction Bank to be its strategic partner in the establishment of a nationwide network of bank kiosks displaying our clients' advertising on large LCD screens and providing bank customers with free internet access to on-line banking services. We pay for the kiosks and then provide them to China Construction Bank for free in exchange for the exclusive right to display advertising on the kiosks. We have already placed 200 kiosks at branches in Henan Province. We are also negotiating similar deals with Bank of Communications and Agricultural Bank of China. We believe exclusivity with the top Chinese banks will create higher barriers to entry for potential competitors.

Growth Strategy

Our objectives are to strengthen our position as the leading Internet advertising and marketing services and diversified media advertising network in China and continue to achieve rapid growth. We intend to achieve these objectives by implementing the following strategies:

Nationally Expand Our Bank Kiosk Platform

We intend to aggressively expand our bank kiosk platform in order to appeal to our financial industry advertisers and increase our revenues in this business line. To achieve this goal, we intend to increase the number of bank kiosks. We intend to aggressively enter into new strategic partnerships with other banks to achieve this result.

Continue to Expand Internet Advertising through Adding New Modules into Our 28.com Network

We intend to add new modules into the 28.com site, such as customer relationship management (CRM), supply chain management and enterprise resources planning (ERP) systems in order to enhance the functionality of our Internet advertising network.

Leverage our integrated platform to increase operational and cross-selling synergies

We plan to maximize opportunities for our business to increase both revenue and cost synergies. We intend to increase cross-selling by developing additional flexible, bundled advertising packages that allow advertisers to reach consumers by complementary and reinforcing media. At the same time, we intend to further leverage the existing elements of our integrated media platform to enhance the platform's attractiveness to advertisers. Advertisers can launch a coordinated campaign across multiple media while enjoying cost savings from our bundling and volume discounts.

Promote Our Brand Name and Augment Our Service Offerings to Attract a Wider Client Base and Increase Revenues

Enhancing our brand name in the industry will allow us to solidify and broaden our client base by growing market awareness of our services and our ability to target discrete consumer groups more effectively than mass media. We believe the low cost of reaching consumers with higher-than-average disposable incomes through our network and our development of additional advertising media platforms and channels within our network can enable our customers to reach that goal. As we increase our advertising client base and increase sales, demand for and sale of time slots and frame space on our network will grow.

Our Advertising Clients; Sales and Marketing

Our Advertising Clients

- The quality and coverage of our network has attracted a broad base of advertising clients. As of June 1, 2009, more than 500 long term customers purchased advertising time slots on our 28.com portal, China Net TV and our bank kiosks. We derive all of our revenues from charging our clients fixed monthly fees to advertise on 28.com;
 - charging productions fees for television and web video spots;
 - selling advertising time slots on our television shows and bank kiosks;
- reselling Internet space and television space at a discount to the direct cost of any individual space or time slot, but at a mark-up to our cost due to purchase of these items in bulk; and
 - collecting fees associated with lead generation.

For the year ended December 31, 2008, we derived 52.5% of our revenues from our Internet advertising and 32.6% from our TV advertising.

The following table sets forth a breakdown of our revenue from Internet advertising by industry for the year ended December 31, 2008:

Industry	Percentage of total revenue
Food and beverage	25.0%
Women Accessories	9.0%
Footwear, apparel and garments	19.0%
Home Goods and Construction Materials	13.0%
Environmental Protection Equipment	13.0%
Cosmetic and Health Care	8.0%
Education Network	6.0%
Others	7.0%
Total	100.0%

Sales and Marketing

Sales and Marketing. We employ an experienced advertising sales force. We provide in-house education and training to our sales force to ensure they provide our current and prospective clients with comprehensive information about our services, the advantages of using our advertising networks as marketing channels, and relevant information regarding the advertising industry. We also market our advertising services from time to time by placing advertisements on television, and acting as sponsor to third-party programming as well as to our shows.

Market Research. We believe our advertising clients derive substantial value from our ability to provide advertising services targeted at specific segments of consumer markets. Market research is an important part of evaluating the effectiveness and value of our business to advertisers. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to evaluate new and existing advertising channels. We also purchase or commission studies containing relevant market study data from reputable third-party market research firms, iResearch Consulting Co., Ltd. We typically consult such studies to assist us in evaluating the effectiveness of our network to our advertisers. A number of these studies contain research on the numbers and socio-economic and demographic profiles of the people who visit our network.

Suppliers

The primary hardware required for the operation of our business consists of servers and other firmware with which we operate 28.com, video production and editing equipment for our television programming, and components for our bank kiosks, including the LCD displays. We also develop and install software in our displays to assist us with the configuration, editing and operation of our advertising content cycles. Maintaining a steady supply of these kiosks and their proprietary LCD displays is important to our operations and the growth of our advertising network. We purchase our television displays from third party manufacturers who build these components according to our specifications. We select component suppliers based on price and quality. As there are several other qualified alternative suppliers for our equipment, our obligation to our current suppliers is not exclusive. We have never experienced any material delay or interruption in the supply of our digital television displays.

We deploy advanced traffic generation techniques, search-engine optimization and other technologies that assist advertisers, advertising agencies and web publishers in creating and delivering Internet ads, monitoring and analyzing website traffic, tracking the performance of advertising campaigns and implementing direct marketing.

Research and Development

We intend to continue to optimize our Standard Operating Environment (the “SOE”) technology in order to reduce cost and time to deploy, configure, maintain, support and manage computer servers and system. Whether or not we deploy newer technology will depend upon cost and network security. We also continue to develop proprietary software and systems in connection with the operation of and provision of services through 28.com to enhance ease of use. In addition, we focus on enhancing related software systems enabling us to track and monitor advertiser demands.

Intellectual Property

We have three software copyright certificates issued by the State Copyright Office of the PRC (“SCO”) as below:

Name of Softwares	Version	Registration Number
Software V1.0 of General Monitoring and Management Platform on Internet Advertising Effect	V1.0	2008SRBJ4073
Software V1.0 of Effect-based Search Engine Service Platform	V1.0	2008SRBJ4084
Software V1.0 of General Analysis and Management Platform on Internet Based Advertising Message	V1.0	2008SRBJ4084

With this intellectual property, we can facilitate our provision of services that are in demand by the appropriate customers and can track end users to help our customers assess and adjust their marketing strategies.

Competition

We compete with other advertising companies in China including companies that operate Internet advertising portals or television advertising media networks, such as u88.cn 3158.com 08.cn and 78.cn. We compete for advertising clients primarily on the basis of network size and coverage, location, price, the range of services that we offer and our brand name. We also compete for overall advertising spending with other alternative advertising media companies, such as wireless telecommunications, street furniture, billboard, frame and public transport advertising companies, and with traditional advertising media, such as newspapers, magazines and radio.

Legal Proceedings

We are currently not a party to any legal or administrative proceedings and are not aware of any pending or threatened legal or administrative proceedings against us in all material aspects. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Government Regulation

The PRC government imposes extensive controls and regulations over the media industry, including on television, radio, newspapers, magazines, advertising, media content production, and the market research industry. This section summarizes the principal PRC regulations that are relevant to our lines of business.

Regulations on the Advertising Industry in China

Foreign Investments in Advertising

Under the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by the SAIC and MOFCOM on March 2, 2004, or the 2004 Provision, foreign investors can invest in PRC advertising companies either through wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% equity interest in PRC advertising companies. However, the foreign investors must have at least three years of direct operations outside China in the advertising industry as their core business. This requirement is reduced to two years if foreign investment in the advertising company is in the form of a joint venture. Such requirement is also provided similarly in the newly promulgated regulation that replaced the 2004 Provision as of October 1, 2008, except that according to the new regulation, the establishment of wholly foreign-owned advertising companies must be approved by the SAIC or its authorized provincial counterparts and provincial MOFCOM instead of the SAIC and MOFCOM only. Foreign-invested advertising companies can engage in advertising design, production, publishing and agency, provided that certain conditions are met and necessary approvals are obtained.

We have not engaged in direct operations outside China in the advertising industry as our core business. Therefore, our subsidiary in China, Rise King WFOE, is ineligible to apply for the required licenses for providing advertising services in China. Our advertising business is operated by Business Opportunity Online and Beijing CNET Online in China. We have been, and are expected to continue to be, dependent on these companies to operate our advertising business. We do not have any equity interest in our PRC Operating Entities, but Rise King WFOE, receives the economic benefits of the same through the Contractual Arrangements.

We have been advised by our PRC counsel, that each of the Contractual Agreements complies, and immediately after the completion of the transactions contemplated herein, will comply with all applicable PRC laws and regulations and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations. However, there exist substantial uncertainties regarding the application, interpretation and enforcement of current and future PRC laws and regulations and its potential effect on its corporate structure and contractual arrangements. The interpretation of these laws and regulations are subject to the discretion of competent PRC authorities. There can be no assurance that the PRC regulatory authorities will not take a view different from the opinions of our PRC counsel and determine that its corporate structure and contractual arrangements violate PRC laws, rules and regulations. In the event that the PRC regulatory authorities determine in their discretion that our corporate structure and contractual arrangements violate applicable PRC laws, rules and regulations, including restrictions on foreign investment in the advertising industry in the future, We may be subject to severe penalties, including an order to cease its business operations.

Business License for Advertising Companies

On October 27, 1994, the Tenth Session of the Standing Committee of the Eighth National People's Congress adopted the Advertising Law which became effective on February 1, 1995. According to the currently effective Advertising Law and its various implementing rules, companies engaging in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes within its scope the operation of an advertising business. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. We have obtained such a business license from the local branches of the SAIC as required by existing PRC regulations. We do not expect to encounter any difficulties in maintaining the business license. However, if we seriously violate the relevant advertising laws and regulations, the SAIC or its local branches may revoke our business licenses.

Outdoors

The Advertising Law in China stipulates that the exhibition and display of outdoor advertisements must comply with certain requirements. It provides that the exhibition and display of outdoors advertisements must not:

- utilize traffic safety facilities and traffic signs;
- impede the use of public facilities, traffic safety facilities and traffic signs;
- obstruct commercial and public activities or create an unpleasant sight in urban areas;
- be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; or
- be placed in areas prohibited by the local governments from having outdoor advertisements.

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998 and May 22, 2006, which also governs the outdoor advertising industry in China. Under these regulations, outdoor advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Outdoor Advertising Registration Certificate for such advertisement. The content, quantity, format, specifications, periods, distributors' name, and locations of dissemination of the outdoor advertisement must be submitted for registration with the local SAIC. A change of registration with local SAICs must be effected in the event of a change in the distributor, the location of dissemination, the periods, the content, the format, or the specifications of the advertisements. It is unclear whether the SAIC, or any of its local branches in the municipalities and provinces covered by our network, will deem our business as outdoor advertising business, and

thus require us to obtain the Outdoor Advertising Registration Certificate. If the PRC government determines that we were obligated to complete outdoor advertisement registration as an outdoor advertising network operator, we may be subject to administrative sanctions, including discontinuation of its business for failure to complete such registration.”

In addition, on December 6, 2007, the State Administration of Radio, Film and Television (“SARFT”) promulgated the December 2007 Notice pursuant to which the broadcasting of audio and visual programs, including news, drama series, sports, technology, entertainment and other programs, through radio and television networks, the Internet and other information systems affixed to vehicles and buildings and in airports, bus and railway stations, shopping malls, banks, hospitals and other outdoor public media would be subject to approval by the SARFT. The December 2007 Notice required the local branches of SARFT to investigate and record any organization or company engaging in the activities described in the December 2007 Notice without permission, to send written notices to such organizations or companies demanding their compliance with the December 2007 Notice, and to report the results of such investigations to SARFT by January 15, 2008. We have not yet received any notice from the SARFT or any of its local branches demanding compliance with the December 2007 Notice. We may, however, be required to obtain an approval from SARFT under the December 2007 Notice, or may be required to remove entertainment programs from its advertising network.

Advertising Content

PRC advertising laws, rules and regulations set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceutical products, medical procedures, alcohol, tobacco, and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws or regulations, must be submitted to relevant authorities for content approval prior to dissemination.

Advertisers, advertising operators, including advertising agencies, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws, rules and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branches may revoke violators’ licenses or permits for their advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business.

We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements displayed on our media network. However, there can be no assurance that each advertisement displayed on our network complies with relevant PRC advertising laws and regulations. Failure to comply with PRC laws and regulations relating to advertisement content restrictions governing the advertising industry in China may result in severe penalties.

Regulation on Intellectual Property

Regulation on Trademark

The Trademark Law of the PRC was adopted at the 24th meeting of the Standing Committee of the Fifth National People's Congress on August 23, 1982 and amended on February 22, 1993 and October 27, 2001. The Trademark Law sets out the guidelines on administration of trademarks and protection of the exclusive rights of trademark owners. In order to enjoy an exclusive right to use a trademark, one must register the trademark with the Trademark Bureau of the SAIC and obtain a registration certificate.

Regulation on Patents

The Patent Law of the PRC was adopted at the 4th Meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984 and subsequently amended in 1992 and 2000. The Patent Law extends protection to three kinds of patents: invention patents, utility patents and design patents. According to the Implementing Regulations of the Patent Law, promulgated by the State Council of the PRC on December 28, 2002 and effective on February 1, 2003, an invention patent refers to a new technical solution relating to a product, a process or improvement. When compared to existing technology, an invention patent has prominent substantive features and represents notable progress. A utility patent refers to any new technical solution relating to the shape, the structure, or their combination, of a product. Utility patents are granted for products only, not processes. A design patent (or industrial design) refers to any new design of the shape, pattern or color of a product or their combinations, that create an aesthetic feeling and are suitable for industrial application. Inventors or designers must register with the State Intellectual Property Office to obtain patent protection. The term of protection is twenty years for invention patents and ten years for utility patents and design patents. Unauthorized use of patent constitutes an infringement and the patent holders are entitled to claims of damages, including royalties, to the extent reasonable, and lost profits.

Regulation on Copyright

The Copyright Law of the PRC was adopted at the 15th Meeting of the Standing Committee of the Seventh National People's Congress on September 7, 1990 and amended on October 27, 2001. Unlike patent and trademark protection, copyrighted works do not require registration for protection in China. However, copyright owners may wish to voluntarily register with China's National Copyright Administration to establish evidence of ownership in the event enforcement actions become necessary. Consent from the copyright owners and payment of royalties are required for the use of copyrighted works. Copyrights of movies or other audio or video works usually expire fifty years after their first publication. We believe that we are in compliance with the PRC regulations on copyright.

Regulations on Foreign Currency Exchange

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules promulgated on August 25, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, the 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 SAFE or its local branch for conversion of the Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in Renminbi. Domestic companies or individuals can repatriate foreign currency payments received from abroad or deposit these payments abroad subject to applicable regulations that expressly require repatriation within certain period. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Foreign currencies received under current account items can be either retained or sold to financial institutions engaged in the foreign exchange settlement or sales business without prior approval from SAFE by complying with relevant regulations. Foreign exchange income under capital account can be retained or sold to financial institutions engaged in foreign exchange settlement and sales business, with prior approval from SAFE unless otherwise provided.

Our business operations, which are subject to the foreign currency exchange regulations, have all been in accordance with these regulations. We will take steps to ensure that our future operations are in compliance with these regulations.

Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or Circular No. 75, issued on October 21, 2005 and effective on November 1, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, shall register with the local branch of SAFE before it establishes or controls an overseas SPV for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to an SPV, or engages in overseas financing after contributing assets or equity interests to an SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local SAFE branch; and (iii) when the SPV undergoes a material event outside China, such as a change in share capital, or merger or acquisition, the PRC resident shall, within 30 days of the occurrence of such event, register such change with the local branch of SAFE. PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. Such deadline has been further extended by the Circular 106.

Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities in capital accounts and its ability to distribute dividends to the SPV. On May 29, 2007, SAFE issued Circular 106 as the implementing rules of Circular 75, which provides more detailed provisions and requirements for the registration procedures.

On December 25, 2006, the People's Bank of China promulgated the "Measures for the Administration of Individual Foreign Exchange," and on January 5, 2007, SAFE promulgated the implementation rules on those measures. These regulations became effective on February 1, 2007. Pursuant to these regulations, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share option plan are required, through a qualified PRC agent which may be the PRC subsidiary of such overseas listed company, to register with the SAFE and complete certain other procedures related to the share option or share option plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. In addition, Circular 106 requires a PRC resident to make the SPV filing together with the employee stock option filing. Moreover, the PRC resident is required to make an amendment to the previous filings when he or she exercises his or her employee stock options.

Dividend Distribution

The principal laws, rules and regulations governing dividends paid by PRC operating subsidiaries include the Company Law of the PRC (1993), as amended in 2006, the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, PRC subsidiaries, including wholly owned foreign enterprises, or WFOEs, and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, its PRC significant subsidiaries, including WFOEs and domestic companies, are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their statutory capital reserve fund until the cumulative amount of such reserve reaches 50% of their respective registered capital. These reserves are not distributable as cash dividends.

Tax

On March 16, 2007, the Fifth Session of the Tenth National People's Congress of PRC passed the Enterprise Income Tax Law of the People's Republic of China, or EIT Law, which became effective on January 1, 2008. On November 28, 2007, the State Council at the 197th Executive Meeting passed the Regulation on the Implementation of the Income Tax Law of the People's Republic of China, which became effective on January 1, 2008. The EIT Law adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the existing tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the EIT Law.

Under the EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the EIT Law and the Implementation Rules, enterprises established under PRC laws, or enterprises established outside China whose "de facto management bodies" are located in China, are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. According to the Implementation Rules, "de facto management body" refers to a managing body that in practice exercises overall management and control over the production and business, personnel, accounting and assets of an enterprise. Our management is currently based in China and is expected to remain in China in the future. In addition, although the EIT Law provides that "dividends,

bonuses and other equity investment proceeds between qualified resident enterprises” is exempted income, and the Implementation Rules refer to “dividends, bonuses and other equity investment proceeds between qualified resident enterprises” as the investment proceeds obtained by a resident enterprise from its direct investment in another resident enterprise, however, it is unclear whether our circumstance is eligible for exemption.

Furthermore, the EIT Law and Implementation Rules provide that the “non-resident enterprises” are subject to the enterprise income tax rate of 10% on their income sourced from China, if such “non-resident enterprises” (i) do not have establishments or premises of business in China or (ii) have establishments or premises of business in China, but the relevant income does not have actual connection with their establishments or premises of business in China. Such income tax may be exempted or reduced by the State Council of the PRC or pursuant to a tax treaty between China and the jurisdictions in which its non-PRC shareholders reside. Under the Double Tax Avoidance Arrangement between Hong Kong and Mainland China, if the Hong Kong resident enterprise owns more than 25% of the equity interest in a company in China, the 10% withholding tax on the dividends the Hong Kong resident enterprise received from such company in China is reduced to 5%. If China Net HK is considered to be a Hong Kong resident enterprise under the Double Tax Avoidance Arrangement and is considered to be a “non-resident enterprise” under the EIT Law, the dividends paid to us by Rise King WFOE may be subject to the reduced income tax rate of 5% under the Double Tax Avoidance Arrangement. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, issued on February 20, 2009 by the State Administration of Taxation, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

We are in the process of evaluating the impact of the EIT Law on our results of operations. Any significant income tax expenses may have a material adverse effect on our net income in 2008 and beyond. Reduction or elimination of the financial subsidies or preferential tax treatments we currently enjoy or imposition of additional taxes on us or our subsidiary in China may significantly increase our income tax expense and materially reduce our net income.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, including CSRC, MOC, SAT, SASAC, SAIC and SAFE, jointly promulgated the M&A Rules, which became effective on September 8, 2006, to regulate foreign investment in PRC domestic enterprises. The M&A Rules provide that the MOC must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exist: (i) the transaction involves an important industry in China; (ii) the transaction may affect national “economic security”; or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The M&A Rules also contain a provision requiring offshore SPVs formed for the purpose of the overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and procedures for obtaining any required approval from the CSRC.

To date, the application of the M&A Rules is unclear. Our PRC counsel, has advised us that:

- the CSRC approval requirement applies to SPVs that acquire equity interests in PRC companies through share exchanges and cash, and seek overseas listings; and
- based on their understanding of the current PRC laws, rules and regulations and the M&A Rules, unless there are new PRC laws and regulations or clear requirements from the CSRC in any form that require the prior approval of the CSRC for the listing and trading of any overseas SPV’s securities on an overseas stock exchange, the M&A Rules do not require that we obtain prior CSRC approval because: (i) the Share Exchange is a purely foreign related transaction governed by foreign laws, not subject to the jurisdiction of PRC laws and regulations; (ii) we are not a special purpose vehicle formed or controlled by PRC companies or PRC individuals; and (iii) we are owned or substantively controlled by foreigners.

However, the interpretation and application of the M&A Rules remain unclear, and the PRC government authorities have the sole discretion to determine whether the transaction is subject to the approval of the CSRC, especially when taking into consideration of the performance-based incentive option arrangement by way of the Share Transfer Agreements. If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval is required for the transaction, we cannot predict how long it would take to obtain the approval. In addition, we may need to apply for a remedial approval from the CSRC and may be subject to certain administrative or other sanctions from these regulatory agencies.

Further, new rules and regulations or relevant interpretations may be issued from time to time that may require us to obtain retroactive approval from the CSRC in connection with the business combination. If this were to occur, our failure to obtain or delay in obtaining the CSRC approval for the business combination would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. These sanctions could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, results of operations and financial condition.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval is required for the business combination, we may need to apply for a remedial approval from the CSRC and may be subject to certain administrative punishments or other sanctions from these regulatory agencies. New rules and regulations or relevant interpretations may require that we retroactively obtain approval from the CSRC in connection with the business combination. If this were to occur, our failure to obtain or delay in obtaining the CSRC approval for the transaction would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. These sanctions could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, results of operations and financial condition.

The M&A Rules also established additional procedures and requirements expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. These rules may also require the approval from the MOC where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including MOC approval, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

Property

The following table summarizes the location of real property we lease. We do not own any real property.

Item	Address	Leased/Owned
1	No. 3 Min, Zhuang Road, Building 6, Yu Quan Hui Gu Tusparh, Haidan District, Beijing, PRC, 1st Floor	Leased
2	No. 3 Min, Zhuang Road, Building 6, Yu Quan Hui Gu Tusparh, Haidan District, Beijing, PRC, 2nd Floor	Leased
3	No. 3 Min, Zhuang Road, Building 6, Yu Quan Hui Gu Tusparh, Haidan District, Beijing, PRC, Basement	Leased

Employees

As of November 5, 2009, we have 240 full-time employees, 96 of which are in sales and marketing, 48 in operations and support, 36 in management and 60 in technology and R & D.

We are compliant with local prevailing wage, contractor licensing and insurance regulations, and have good relations with our employees.

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans. We are required under PRC laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

Generally we enter into a standard employment contract with our officers and managers for a set period of years and a standard employment contract with other employees for a set period of years. According to these contracts, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment with us. Furthermore, the employment contracts with officers or managers include a covenant that prohibits officers or managers from engaging in any activities that compete with our business for two years after the period of employment.

Corporation Information

Our principal executive offices are located at No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC. Our telephone number at this address is (86 10) 51600828 and our fax number is (86 10) 51600328. For more information, see www.chinanet-online.com.

DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers and Directors

The following discussion sets forth information regarding the executive officers and directors of the Company as of the date of this prospectus. The board of directors is comprised of only one class. All of the directors will serve until the next annual meeting of shareholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. To date we have not had an annual meeting. Provided below is a brief description of our executive officers' and directors' business experience during the past five years.

Name	Age	Position
Handong Cheng	38	Chairman of the Board, Chief Executive Officer and President
Zhige Zhang	35	Chief Financial Officer, Treasurer and Director
Kotoi Horofumi	46	Director
Xuanfu Liu	43	Chief Operating Officer and Secretary
Hai Cui	39	Vice President, Head of Bank Kiosk Unit
Wen Hu	40	Vice President, Head of Television Operations
Li Wang	45	Vice President, Head of Human Resources
Bing Zhang	39	Vice President, Head of Business Development and Administration
Min Wu	36	Finance Director
Xinwei Liu	33	Vice General Manager, Head of 28.com
Hongli Xu	40	Chief Technology Officer

Handong Cheng, Chief Executive Office, President and Director

Mr. Cheng has served as Chief Executive Officer of China Net since September 2007. Prior to that role, from October 2003 to September 2007, Mr. Cheng acted as President of China Net Online Advertising Limited. Mr. Cheng holds and EMBA from Guanhua School of Management in Beijing, and a degree in economic law from the College of Law of Wuhan University.

Zhige Zhang, Chief Financial Officer, Treasurer and Director

Mr. Zhang has served as Chief Financial Officer of China Net since January 2009. Prior to that role, from January 2008 to January 2009, Mr. Zhang served as Executive Director of China Net. From January 2007 to December 2007, Mr. Zhang was Director and Vice President of Fu Jian Rong Ji Software Limited. From August 2002 to December 2006, Mr. Zhang acted as Chief Operating Officer of Beijing HSHZ Information System Engineering Company. Mr. Zhang holds a degree in industry design from Guilin University of Electronic Technology.

Kotoi Horofumi, Director

Mr. Horofumi is the President of SJ Holdings, Inc. and has served as President since July 2009. From June 2001 to July 2009, Mr. Horofumi served as Vice President of SJ Holdings Inc. Mr. Horofumi holds a Ph.D. in Information Technology from the University of Tokyo.

Xuanfu Liu, Chief Operating Officer and Secretary

Mr. Liu joined Business Opportunity Online as a Vice President in January 2004, and has served as Chief Operating Officer of China Net since September 2007. Prior to joining Business Opportunity Online, Mr. Liu acted as a human resources officer at Chang Jiang Wired Electricity Factory in Wuhan, China. Mr. Liu is the brother of Xinwei Liu.

Hai Cui, Vice President

Mr. Cui, has served as a Vice President and Head of the Bank Kiosk Unit since 2008. Prior to serving in that role, from 2005 to 2007, Mr. Cui served as a director and General Manager of Shanghai Borongdingsi. From 2001 to 2005, Mr. Cui was General Manager of Guang Zhou Hui Gang Technology Co., Limited. Mr. Cui holds a M.S. in Computer Engineering from the College of Information Engineering, University of Zhengzhou.

Wen Hu, Vice President

Mr. Hu has served as a Vice President and Head of Television Operations since October 2007. Prior to serving as a Vice President of China Net, from October 2005 to September 2007, Mr. Hu acted as Vice General Manager of China Net. Prior to joining China Net, from March 1999 to February 2004, Mr. Hu was Vice General Manager of Beijing Te Li Jie Tidy Technology Limited. Mr. Hu graduated in 1991 from Hu Bei Xiao Gan City Radio and Television University.

Li Wang, Vice President

Ms. Wang has served as a Vice President and Head of Human Resources since September 2007. Prior to serving in that role, from August 2005 to August 2007, Ms. Wang acted as Senior Financial Director of China Net Online Advertising Limited. From November 2001 to July 2005, Ms. Wang acted as Financial Director for Tidynet Cleaning Technology Limited, Beijing. Ms. Wang holds a degree in accounting from Hu Bei Xiao Gan District Business School (now Xiao Gan Professional Technology College).

Bing Zhang, Vice President

Mr. Zhang, has served as a Vice President and Head of Business Development and Administration since 2008. Prior to serving in that role, from 2004 to 2007, Mr. Zhang acted as a Senior Consultant to China Net Online Advertising Limited. From 2001 to 2003, Mr. Zhang acted as General Manager for Shanghai JOINNS Company. Mr. Zhang holds a M.S. in Chemical Engineering Technology from School of Chemical Engineering, University of Zhengzhou.

Min Wu, Finance Director

Ms. Wu has served as Finance Director and principal accounting officer of China Net since February 2009. Prior to serving in that role, from May 2005 to December 2007, Ms. Wu acted as Financial Manager of Neotel Telecom Engineering Co., Limited. From February 2001 to May 2003, Ms. Wu was an accountant with Shenzhen Branch of Shanghai Pudong Development Bank. Ms. Wu holds a degree in business management from South Central University of Finance and Law, and a MBA from University of Science and Technology, Beijing.

Hongli Xu, Chief Technology Officer

Mr. Xu served as Project Manager at ThinkingPower Technology Co., Ltd., from 2004 to 2006, an e-government software company focused on the broadcasting and television industry, where Mr. Xu oversaw the development and management of a full suite of software products designed to improve government interactions with citizens and businesses. From 2001 to 2004, Mr. Xu was Product Manager at Acer Digital Services (China) Company, the world's third largest PC manufacturer, where he was in charge of internet product development for several of the Company's subsidiaries. From 1998 to 2000, Mr. Xu served as Project Manager at Colored Ribbons Information System Co., Ltd, a software development company focused on the electron industry, where he was directly responsible for analyzing, designing, and testing business application solutions and software products. Mr. Xu created the first B2B website in

China, "CCEC.com." Mr. Xu holds a Bachelor Degree in Software from Dalian University of Technology.

Xinwei Liu, Vice General Manager

Mr. Liu has served as Vice General Manager and Head of 28.com since 2005. Prior to becoming Vice General Manager of China Net, from 2003 to 2005, Mr. Liu acted as Managing Director of the China Net Advertising Department. Mr. Liu is the brother of Mr. Xuanfu Liu.

Family Relationships

There are no family relationships between any of our directors or executive officers except that Mr. Xinwei Liu is the brother of Mr. Xuanfu Liu.

Code of Ethics

Our Board of Directors plans to adopt in the near future a formal Code of Conduct and Ethics (the "Code") that would apply to all of our employees, officers and directors. The Code will cover compliance with law; fair and honest dealings with the company, with competitors and with others; fair and honest disclosure to the public; and procedures for compliance with the Code.

Board Composition

The Board of Directors is currently composed of three members. All actions of the Board of Directors require the approval of a majority of the directors in attendance at a meeting at which a quorum is present. A quorum is a majority of the Board of Directors.

Audit Committee Financial Expert

Our Board of Directors currently acts as our audit committee. We currently do not have a member of the Board of Directors who qualifies as an “audit committee financial expert” as defined in Item 401(h) of Regulation S-K and is “independent” as the term is used in Item 7(d)(3) (iv) of Schedule 14A under the Exchange Act. Our Board of Directors is in the process of searching for a suitable candidate for this position.

Audit Committee

We have not yet appointed an audit committee. At the present time, we believe that the members of the board of directors are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting.

Policy Regarding Board Attendance

Our directors are expected to attend board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. Our directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so.

Shareholder Communications

The Company has a process for shareholders who wish to communicate with the board of directors. Shareholders who wish to communicate with the Board may write to it at the Company’s address given above. These communications will be reviewed by one or more employees of the Company designated by the Board, who will determine whether they should be presented to the Board. The purpose of this screening is to allow the Board to avoid having to consider irrelevant or inappropriate communications.

Background and Compensation Philosophy

Our Board of Directors has not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. No pre-established, objective performance goals or metrics have been used by the Board of Directors in determining the compensation of our executive officers.

Elements of Compensation

Some of our executive officers receive a base salary to compensate them for services rendered during the year. Our policy of compensating our certain executives with a cash salary has served the Company well. Because of our history of attracting and retaining executive talent, we do not believe it is necessary at this time to provide our executives equity incentives, or other benefits for the Company to continue to be successful.

Base Salary and Bonus . The value of base salary and bonus for each our executive reflects his skill set and the market value of that skill set in the sole discretion of the Board of Director.

Equity Incentives . The Company and its subsidiaries have not established an equity based incentive program and have not granted stock based awards as a component of compensation. In the future, we may make awards under an equity incentive plan pursuant to which awards may be granted if our Compensation Committee determines that it is in the best interest of the Company and its stockholders to do so.

Retirement Benefits. Our executive officers are not presently entitled to company-sponsored retirement benefits.

Perquisites . We have not provided our executive officers with any material perquisites and other personal benefits and, therefore, we do not view perquisites as a significant or necessary element of our executive's compensation.

Deferred Compensation . We do not provide our executives the opportunity to defer receipt of annual compensation.

Summary Compensation Table

The following table sets forth all cash compensation paid by the Company, as well as certain other compensation paid or accrued, for each of the last two fiscal years of our company to each named executive officers.

Summary Compensation of Named Executive Officers

Name and Principal Position	Fiscal Year	Salary (\$)	All Other Compensation (\$)	Total (\$)
G. Edward Hancock Former President	2008	6,300		6,300
	2007	3,232		3,232
Handong Cheng, Chairman of the Board, President, Chief Executive Officer	2008	12,009		12,009
	2007	8,824		8,824
Zhige Zhang, Chief Financial Officer, Treasurer and Secretary	2008	-		-
	2007	-		-
Xuanfu Liu Chief Operating Officer and Secretary	2008	-		-
	2007	-		-
Hai Cui Vice President, Head of Bank Kiosk Unit	2008	-		-
	2007	-		-
Wen Hu Vice President, Head of Television Operations	2008	7,531		7,531
	2007	-		-
Li Wang Vice President, Head of Human Resources	2008	8,999		8,999
	2007	6,096		6,096
Bing Zhang Vice President, Head of Business Development and Administration	2008	-		-
	2007	-		-
Min Wu Finance Director	2008	-		-
	2007	-		-
Xinwei Liu	2008	9,729		9,729

Vice General Manager, 28.com	2007	7,721	7,721
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During each of the last two fiscal years, none of our other officers had salary and bonus greater than \$12,009. In addition, our executive officers and/or their respective affiliates will be reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our Board of Directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

Employment Agreements

We do not currently have any employment agreements with any of our employees, officers or directors. We are currently negotiating definitive employment agreements with our executive officers.

Director Compensation

Our directors are reimbursed for expenses incurred by them in connection with attending board of directors' meetings, but they do not receive any other compensation for serving on the board of directors

Bonuses and Deferred Compensation

We do not have any bonus, deferred compensation or retirement plan. All decisions regarding compensation are determined by our Board of Directors.

Options and Stock Appreciation Rights

We do not currently have a stock option or other equity incentive plan. We may adopt one or more such programs in the future.

Payment of Post-Termination Compensation

The Company does not have change-in-control agreements with any of its directors or executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of November 5, 2009 by (i) each person (or group of affiliated persons) who is known by us to own more than five percent of the outstanding shares of our common stock, (ii) each director and executive officer, and (iii) all of our directors and executive officers and director nominees as a group. As of November 5, 2009, we had 15,774,300 shares of Common Stock issued and outstanding.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Unless otherwise noted, the principal address of each of the stockholders, directors and officers listed below is No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195.

All share ownership figures include shares of our Common Stock issuable upon securities convertible or exchangeable into shares of our Common Stock within sixty (60) days of November 5, 2009, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Shares of Common Stock
Rise King Investments Limited (1) (6)	7,434,940	47.13%
Star (China) Holdings Limited (2)	1,279,080	8.11%
Surplus Elegant Investment Limited (3)	1,879,080	11.91%
Allglad Limited (4)	1,279,080	8.11%
Clear Jolly Holdings Limited (5)	1,279,080	8.11%
Li Sun (6)	7,434,940	47.13%
Handong Cheng (6)	7,434,940	47.13%
Xuanfu Liu (6)	7,434,940	47.13%
Kotoi Horofumi (7)	1,279,080	8.11%
Sansar Capital Management (8)	2,000,000	11.25%
Taylor International Fund, Ltd. (9)	1,100,000	6.6%
Zhige Zhang	-	*

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Hai Cui	-	*
Wen Hu	-	*
Li Wang	-	*
Bing Zhang	-	*
Min Wu	-	*
Xinwei Liu	-	*
Hongli Xu	-	*
All Directors and Executive Officers, as a group (6) (7)	8,714,020	55.24%

* Less than one percent

- (1) The business address of Rise King Investments Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.
- (2) The business address of Star (China) Holdings Limited is P.O. Box 957, Offshore Incorporations, Center, Road Town, Tortola, British Virgin Islands.
- (3) The business address of Surplus Elegant Investments Limited is Portcullis Trustnet Chambers, Road Town, Tortola, British Virgin Islands.
- (4) The Business address of Allglad Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.
- (5) The business address of Clear Jolly Holdings Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.
- (6) In accordance with an Entrustment Agreement, dated June 5, 2009, by and between Rise King Investments Limited (“Rise King”) and Handong Cheng, Xuanfu Liu and Li Sun (collectively, the “Grantees”), Rise King collectively delegated to the Grantees its direct or indirect rights as a stockholder of China Net Online Media Group Limited, CNET Online Technology Limited, Rise King Century Technology Development (Beijing) Co., Ltd., or any subsidiaries of such companies (collectively, the “Covered Companies”), including the direct or indirect right to vote any equity interest in the Covered Companies, or to designate the management of such companies. As a result of the delegation of authority under the Entrustment Agreement, Mr. Cheng, Mr. Liu and Ms. Sun may be deemed to be beneficial owners of the shares of our common stock held by Rise King. Each of Mr. Cheng, Mr. Liu and Ms. Sun disclaim such beneficial ownership, and this prospectus shall not be deemed to be an admission that Mr. Cheng, Mr. Liu or Ms. Sun is the beneficial owner of any such shares for any purpose.
- (7) Kotoi Horofumi is the controlling shareholder of Star (China) Holdings Limited and may be deemed to be an indirect beneficial owner of any shares directly held by such entity. Mr. Horofumi disclaims such beneficial ownership, and this prospectus shall not be deemed an admission that Mr. Horofumi is the beneficial owner of any such shares for any purpose.
- (8) Consists of 1,000,000 shares underlying Series A Preferred Stock and Series A-1 and Series A-2 Warrants to purchase up to 1,000,000 shares of our Common Stock, subject to a 9.99% limitation on beneficial ownership of our Common Stock as more fully described in note 2 to the Selling Stockholder table below. Mr. Sanjay Motwani, portfolio manager has voting and dispositive power over the shares held by Sansar Capital Management. Mr. Motwani may be deemed to beneficially own the shares of Common Stock held by Sansar Capital Management. Mr. Motwani disclaims beneficial ownership of such shares. The address for Sansar Capital Management is 135 E 57th Street 23rd Floor, New York, NY 10022, U. S. A.

- (9) Consists of 100,000 shares of Common Stock, 500,000 shares underlying Series A Preferred Stock and Series A-1 and Series A-2 Warrants to purchase up to 500,000 shares of our Common Stock, subject to a 9.99% limitation on beneficial ownership of our Common Stock as more fully described in note 2 to the Selling Stockholder table below. Stephen S. Taylor, portfolio manager has voting and dispositive power over the shares held by Taylor International Fund Ltd. Mr. Taylor may be deemed to beneficially own the shares of Common Stock held by Taylor International Fund, Ltd. Mr. Taylor disclaims beneficial ownership of such shares. The address for Taylor International Fund, Ltd. is 714 South Dearborn Street, 2nd floor, Chicago, IL 60605.

Changes in Control

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

PRC law currently limits foreign equity ownership of companies that provide value-added telecommunication services and advertisement services (in case the parent company is not qualified). To comply with these foreign ownership restrictions, we operate our business in China through a series of contractual arrangements with the PRC Operating Subsidiaries and its shareholders. Some of the shareholders of the PRC Operating Subsidiaries are also our directors and executive officers. These agreements are summarized as follows:

Exclusive Business Cooperation Agreements

Pursuant to Exclusive Business Cooperation Agreements entered into by and between Rise King WFOE and each of the PRC Operating Subsidiaries in October 2008, Rise King WFOE has the exclusive right to provide to the PRC Operating Subsidiaries complete technical support, business support and related consulting services, which include, among other things, technical services, business consultations, equipment or property leasing, marketing consultancy and product research. Each PRC Operating Subsidiary has agreed to pay an annual service fee to Rise King WFOE equal to 100% of its audited total amount of operational income each year. Each PRC Operating Subsidiary has also agreed to pay a monthly service fee to Rise King WFOE equal to 100% of the net income generated on a monthly basis. The payment and terms of payment are fixed to ensure that Rise King WFOE obtains 100% of the net income for that month, although adjustments may be made upon approval by Rise King WFOE to provide for operational needs. If at year end, after an audit of the financial statements of any PRC Operating Subsidiary, there is determined to be any shortfall in the payment of 100% of the annual net income, such PRC Operating Subsidiary must pay such shortfall to Rise King WFOE. Each agreement has a ten-year term, subject to renewal and early termination in accordance with the terms therein.

Exclusive Option Agreements

Under Exclusive Option Agreements entered into by and among Rise King WFOE, each of the PRC Shareholders, dated as of October 8, 2008, each of the PRC Shareholders irrevocably granted to Rise King WFOE or its designated person an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of their respective equity interest in any PRC Operating Subsidiary for a purchase price of RMB 10 or a purchase price to be adjusted to be in compliance with applicable PRC laws and regulations. Rise King WFOE or its designated person has the sole discretion to decide when to exercise the option, whether in part or in full. Each of these agreements has a ten-year term, subject to renewal at the election of Rise King WFOE.

Equity Pledge Agreements

Under the Equity Pledge Agreements entered into by and among Rise King WFOE, the PRC Operating Subsidiaries and each of the PRC Shareholders, dated as of October 8, 2008, the PRC Shareholders pledge, all of their equity interests in PRC Operating Subsidiaries to guarantee Beijing CNET Online's performance of its obligations under the Exclusive Business Cooperation Agreement. If Beijing CNET Online or any of the PRC Shareholders breaches his/her respective contractual obligations under this agreement, or upon the occurrence of one of the events regarded as an event of default under each such agreement, Rise King WFOE, as pledgee, will be entitled to certain rights, including the right to dispose of the pledged equity interests. The PRC Shareholders of the PRC Operating Subsidiaries agree not to dispose of the pledged equity interests or take any actions that would prejudice Rise King WFOE's interest, and to notify Rise King WFOE of any events or upon receipt of any notices which may affect Rise King WFOE's interest in the pledge. Each of the equity pledge agreements will be valid until all the payments due under the Exclusive Business Cooperation Agreement have been fulfilled.

Irrevocable Powers of Attorney

The PRC Shareholders have each executed an irrevocable powers of attorney, dated as of October 8, 2008, to appoint Rise King WFOE as their exclusive attorneys-in-fact to vote on their behalf on all PRC Operating Subsidiary matters requiring shareholder approval. The term of each power of attorney is valid so long as such shareholder is a shareholder of the respective PRC Operating Subsidiary.

Entrustment Agreement

In accordance with an Entrustment Agreement, dated June 5, 2009, by and between Rise King Investments Limited (“Rise King”) and Handong Cheng, Xuanfu Liu, and Li Sun (collectively, the “Grantees”), Rise King collectively delegated to the Grantees its direct or indirect rights as a stockholder of China Net Online Media Group Limited, CNET Online Technology Limited, Rise King Century Technology Development (Beijing) Co., Ltd., or any subsidiaries of such companies (collectively, the “Covered Companies”), including the direct or indirect right to vote any equity interest in the Covered Companies, or to designate the management of such companies. As a result of the delegation of authority under the Entrustment Agreement, Mr. Cheng, Mr. Liu and Ms. Sun may be deemed to be beneficial owners of the shares of our common stock held by Rise King. Each of Mr. Cheng, Mr. Liu and Ms. Sun disclaim such beneficial ownership, and this Current Report shall not be deemed to be an admission that Mr. Cheng, Mr. Liu, or Ms. Sun is the beneficial owner of any such shares for any purpose.

Share Transfer Agreement

Each of the PRC Shareholders entered into a share transfer agreement (the “Share Transfer Agreements”) with Mr. Yang Li, the sole shareholder of Rise King BVI, which is a 55% shareholder of China Net for purpose of granting incentive options to the PRC Shareholders for the contributions that they have made and will continue to make to Rise King BVI. Under the Share Transfer Agreements, Mr. Li granted to each of the PRC Shareholders an option to acquire, in the aggregate 10,000 shares of Rise King BVI (4,600 by Mr. Handong Cheng, 3,600 by Mr. Xuanfu Liu and 1,800 by Ms. Li Sun), representing 100% of the issued and outstanding shares of Rise King BVI, at a purchase price of \$1 per share (the par value of Rise King BVI’s common stock), provided that certain financial performance thresholds are met by the China Net Companies.

Under the terms of each Share Transfer Agreement, the PRC Shareholders will have the right to purchase the aggregate 10,000 shares of Rise King BVI as follows: (1) one-third of the shares at \$1 per share if the China Net Companies generate at least RMB 100,000,000 of gross revenue for the twelve-month period from January 1, 2009 to December 31, 2009; (2) one-third of the shares at \$1 per share when the China Net Companies generate at least RMB 60,000,000 of gross revenue for the six-month period from January 1, 2010 to June 30, 2010; and (3) one-third of the shares at \$1 per share when the China Net Companies generate at least RMB 60,000,000 of gross revenue for the six-month period from July 1, 2010 to December 31, 2010. In the event that the China Net Companies do not achieve any of the performance targets specified above, the PRC Shareholders may exercise the applicable option at the alternative exercise price of \$2 per share. If the PRC Shareholders purchase all shares eligible for purchase under the Share Transfer Agreement, the PRC Shareholders will become China Net’s controlling shareholders through their beneficial ownership of Rise King BVI.

The Share Transfer Agreements were entered into on April 28, 2009. Subject to registering with the State Administration of Foreign Exchange (SAFE) prior to the exercise and issuance of the option shares under the Share Transfer Agreements, which is an administrative task, there is no prohibition under PRC laws for the PRC Shareholders to earn an interest in Rise King BVI after the PRC Restructuring is consummated in compliance with PRC law.

Policies and Procedures for Review, Approval or Ratification of Transactions with Related Persons

It is the Company’s policy that the Company will not enter into transactions required to be disclosed under item 404 of the SEC’s Regulation S-K unless the Board of Directors first reviews and approves the transactions.

Promoters and Certain Control Persons

The Company has not had a promoter at any time during the past five years. Other than shares of the Company received as part of the Share Exchange or compensation or reimbursement of expenses in connection with job responsibilities at the Company, as the case may be, none of the persons or entities that may be deemed to have acquired control of the Company as a result of the Share Exchange have received anything of value from the Company during the past five years. Other than the shares of China Net BVI received in the Share Exchange, the Company has not received any assets from such persons during the past five years.

SELLING STOCKHOLDERS

We are registering for resale shares of our Common Stock that are issued and outstanding, and shares of Common Stock underlying our Preferred Stock and Warrants held by the Selling Stockholders identified below. We are registering the shares to permit the Selling Stockholders and their pledgees, donees, transferees and other successors-in-interest that receive their shares from a Selling Stockholder as a gift, partnership distribution or other non-sale related transfer after the date of this prospectus to resell the shares when and as they deem appropriate in the manner described in the "Plan of Distribution". As of the date of this prospectus there are 15,774,300 shares of common stock issued and outstanding.

The following table sets forth:

- the name of the Selling Stockholders,
- the number of shares of our Common Stock that the Selling Stockholders beneficially owned prior to the offering for resale of the shares under this prospectus,
- the maximum number of shares of our Common Stock that may be offered for resale for the account of the Selling Stockholders under this prospectus, and
- the number and percentage of shares of our Common Stock to be beneficially owned by the Selling Stockholders after the offering of the shares (assuming all of the offered shares are sold by the Selling Stockholders).

Material Relationships with the Company

G. Edward Hancock is a former officer and director of ours, and Star (China) Holdings Limited's sole stockholder is one of our directors, J and M Group, LLC, and Chesapeake Group, are engaged as investor and public relations firms, Matthew Hayden, is a principal of HC International, which is also engaged as one of our public relations firms, TriPoint Global Equities, LLC ("TriPoint Global"), is one of our financial advisors and was the placement agent in the Financing, and TriPoint Capital Advisors, is one of our financial advisors.

Securities Issued in the Financing Transaction

The Selling Stockholders listed under the heading "Holders of Common Stock Underlying 10% Series A Convertible Preferred Stock and Series A-1 and Series A-2 Warrants," are registering the shares of Common Stock underlying the Preferred Stock and Warrants issued in the Financing consummated on August 21, 2009, which is more fully described in the section "Recent Development" on page 6. Immediately prior to the issuance of the shares in the Placement, there were 15,774,300 shares of common stock issued and outstanding, of which 7,060,280 shares were held by persons other than selling shareholders, affiliates of ours, or affiliates of the selling shareholders. On August 20, 2009, the trading day immediately prior to the consummation of the Placement, the closing market price per share of our common stock was \$3.60, and as of November 5, 2009, the closing market price per share of our common stock was \$3.80.

Securities Issued in the Share Exchange Transaction

Star (China) Holdings Limited, Surplus Elegant Investment Limited, Growgain Limited, Allglad Limited and Clear Jolly Holdings Limited, who are listed as Selling Stockholders under the heading "Holders of Common Stock," are registering certain of the shares of Common Stock they were issued in connection with the Share Exchange consummated on June 26, 2009, which is more fully described in the section entitled "Description of the Business,"

under the heading “Share Exchange” on page 44. Immediately prior to the issuance of the shares in the Share Exchange, there were 1,983,500 shares of common stock issued and outstanding, of which 1,313,500 shares were held by persons other than selling shareholders, affiliates of ours, or affiliates of the selling shareholders. On June 25, 2009, the trading day immediately prior to the consummation of the Share Exchange, the closing market price per share of our common stock was [\$1.00], and as of November 5, 2009, the closing market price per share of our common stock was \$3.80.

Securities Issued to Other Holders of Common Stock

The following table provides information with respect to the transactions in which certain of the Selling Stockholders who are listed under the heading “Holders of Common Stock” received their shares, prior to the Share Exchange Transaction.

	Date of Transaction	# shares issued	# shares outstanding prior to issuance	# of shares outstanding prior to issuance held by persons other than selling shareholders, affiliates of the Company or affiliates of the selling shareholders	Percentage of total issued and outstanding securities that were issued in the transaction	Market Price per Share of Common Stock immediately prior to the transaction	Current Market Price per Share of Common Stock as of November 5, 2009
G. Edward Hancock	04/11/2006	5,000,000	0	0	0	\$ 1.00	\$ 3.80
Mark Smith	07/05/2008	10,000	5,743,500	743,500	0.013%	\$ 1.00	\$ 3.80
Charles Driscoll	11/14/2008	10,000	5,753,500	743,500	0.013%	\$ 1.00	\$ 3.80
Charles Smith	12/30/2008	13,000	5,763,500	743,500	0.017%	\$ 1.00	\$ 3.80
Charles W Smith	12/30/2008	2,000	5,763,500	743,500	0.003%	\$ 1.00	\$ 3.80
Kathy Donahoe	12/31/2008	5,000	5,778,500	743,500	0.007%	\$ 1.00	\$ 3.80
Tripoint Capital Advisors	6/26/2009	300,000	1,383,500*	1,353,500	0.222%	\$ 1.00	\$ 3.80

J and M Group LLC	6/26/2009	120,000	1,383,500	1,353,500	0.089%	\$	1.00	\$	3.80
Richever Limited	6/26/2009	300,000	1,383,500	1,353,500	0.222%	\$	1.00	\$	3.80

* Reflects the number of shares of Common Stock issued and outstanding after the cancellation of 4,400,000 shares on June 25, 2009.

Securities Issued as Compensation for Placement Agent Services

We entered into a placement agency agreement (the "Placement Agent Agreement") with TriPoint Global on December 14, 2008. Pursuant to the terms of the Placement Agent Agreement, TriPoint Global received as compensation for its services rendered as placement agent in the Financing (i) a cash fee in the amount of \$721,280, equal to 7% of the gross proceeds of the Financing; (ii) a management fee in the amount of \$51,520, equal to 0.5% of the gross proceeds of the Financing; and (iii) warrants to purchase up to 659,456 shares of Common Stock, equal to 8% of the aggregate number of units sold in the Financing. Tripoint Global assigned, in the aggregate 218,921, of the warrants it received to:

- Chatsworth Securities LLC, who acted as a sub-placement agent and certain of its employees,
- Syndicated Capital, Inc., who acted as a sub-placement agent and certain of its employees, and
- certain employees of Tripoint Global.

Immediately prior to the consummation of the Placement, there were 15,774,300 shares of common stock issued and outstanding, of which 7,060,280 shares were held by persons other than selling shareholders, affiliates of ours, or affiliates of the selling shareholders. On August 20, 2009, the trading day immediately prior to the consummation of the Placement, the closing market price per share of our common stock was \$3.60, and as of November 5, 2009, the closing market price per share of our common stock was \$3.80.

John Finley, Brian Corbman, Patrick Gaynes, Jason Stein, Michael Graichen, Andrew Kramer, Nicole Whang, Brett Sherman, Karl Birkenfeld, Hebe Xu are employees of TriPoint Global. Michael S. Dimeo is an employee of Syndicated Capital. Swatick Majumdar, James Welch, Ralph DiFiore and Joel Matcovsky are employees of Chatsworth Securities LLC.

Tripoint Global, Chatsworth Securities, LLC and Syndicated Capital, Inc. are broker-dealers, and Paul Hickey, Greg Freihofner and the employees of Tripoint Global, Chatsworth Securities and Syndicated Capital, who are identified as Selling Stockholders, are affiliates of a broker-dealer. They each have advised us that the securities were acquired in the ordinary course of business and, at the time, they had no agreements or understandings, directly or indirectly, with any person to distribute the shares. None of the other Selling Stockholders has any agreement or understanding to distribute any of the shares being registered.

Each Selling Stockholder may offer for sale all or part of the shares from time to time. The table below assumes that the Selling Stockholders will sell all of the shares offered for sale. A Selling Stockholder is under no obligation, however, to sell any shares pursuant to this prospectus.

Name of Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to Offering (1)	Percentage Ownership Prior to Offering	Maximum Number of Shares of Common Stock to be Sold (2)	Number of Shares of Common Stock Owned After Offering	Percentage Ownership After Offering (3)
Holders of Common Stock Underlying 10% Series A Convertible Preferred Stock and Series A-1 and Series A-2 Warrants					
Jayhawk Private Equity Fund II, L.P. (4)	800,000	4.83%	800,000	-0-	-0-
Blue Earth Fund, LP. (5)	800,000	4.83%	800,000	-0-	-0-
Taylor International Fund, Ltd. (6)	1,100,000	6.6%	1,000,000	-0-	-0-
Silver Rock II, Ltd.(7)	200,000	1.25%	200,000	-0-	-0-
Ancora Greater China Fund, LP (8)	200,000	1.25%	200,000	-0-	-0-
Eric E. Shear (9)	40,000	*	40,000	-0-	-0-
Bruice A. Shear (10)	40,000	*	40,000	-0-	-0-
Tangiers Investors, LP (11)	20,000	*	20,000	-0-	-0-
Charles M. Ognar (12)	160,000	1.00%	160,000	-0-	-0-
Dynacap Global Capital Fund II LP (13)	32,000	*	32,000	-0-	-0-
Michael Cohen (14)	200,000	1.25%	200,000	-0-	-0-
Trillion Growth China LP (15)	168,000	1.05%	168,000	-0-	-0-
BBS Capital Fund, LP (16)	400,000	2.47%	400,000	-0-	-0-
Sansar Capital Management (17)	2,000,000	11.25%	2,000,000	-0-	-0-
Richard D. Squires (18)	160,000	1.00%	160,000	-0-	-0-
Paul Hickey (19)	160,000	1.00%	160,000	-0-	-0-
Kevin M. Goldstein (20)	8,000	*	8,000	-0-	-0-
Daybreak Special Situations Master Fund, Ltd. (21)	120,000	*	120,000	-0-	-0-
Kinder Investments L.P. (22)	280,000	1.74%	280,000	-0-	-0-
SPI Hawaii Investments, LP (23)	240,000	1.50%	240,000	-0-	-0-
Alpha Capital (24)	120,000	*	120,000	-0-	-0-
Greg Freihofner (25)	40,000	*	40,000	-0-	-0-
The USX China Fund (26)	80,000	*	80,000	-0-	-0-
Ferghan O'Regan (27)	120,000	*	120,000	-0-	-0-
Herbert Verse (28)	20,000	*	20,000	-0-	-0-
Jesper Kronborg (29)	20,000	*	20,000	-0-	-0-
Peter Nordin Aps (30)	20,000	*	20,000	-0-	-0-

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Henrick Gumaelius (31)	40,000	*	40,000	-0-	-0-
PK Solutions AB (32)	28,000	*	28,000	-0-	-0-
Enebybergs Revisionsbyra AB (33)	40,000	*	40,000	-0-	-0-
PJ Levay Lawrence (34)	60,000	*	60,000	-0-	-0-
Peter Gustafsson (35)	28,000	*	28,000	-0-	-0-
Robin Whaite (36)	119,200	*	119,200	-0-	-0-
Garolf AB (37)	80,000	*	80,000	-0-	-0-
Olive or Twist Limited (38)	40,000	*	40,000	-0-	-0-
Allan C. Lichtenberg (39)	40,000	*	40,000	-0-	-0-
SPI Dallas Investments, LP (40)	80,000	*	80,000	-0-	-0-
Hua-Mei 21st Century Partners (41)	160,000	1.00%	160,000	-0-	-0-
Guerrilla Partners (42)	80,000	*	80,000	-0-	-0-
Holder of Common Stock					
Kathy Donahoe (43)	5,000	*	5,000	-0-	-0-
Charles Driscoll (44)	10,000	*	10,000	-0-	-0-
Charles Herlocher (45)	2,500	*	2,500	-0-	-0-
Michael Goode (46)	2,000	*	2,000	-0-	-0-
Charles Smith (47)	5,000	*	5,000	-0-	-0-
Charles W. Smith (48)	2,000	*	2,000	-0-	-0-
Mark Smith (49)	10,000	*	10,000	-0-	-0-
TriPoint Capital Advisors (50)	200,000	1.27%	200,000	-0-	-0-
G. Edward Hancock (51)	30,000	*	30,000	-0-	-0-
J and M Group, LLC (52)	55,000	*	55,000	-0-	-0-
Richever Limited (53)	300,000	1.90%	300,000	-0-	-0-
Star (China) Holdings Limited (54)	1,279,080	8.11%	426,360	852,720	5.41%
Surplus Elegant Investment Limited (55)	1,879,080	11.91%	626,360	1,252,720	7.94%
Growgain Limited (56)	519,540	3.29%	213,180	306,360	1.94%
Allglad Limited (57)	1,279,080	8.11%	426,360	852,720	5.41%
Clear Jolly Holdings Limited (58)	1,279,080	8.11%	426,360	852,720	5.41%
Michael Johnson (59)	45,000	*	45,000	-0-	-0-
Matthew Hayden (60)	75,000	*	75,000	-0-	-0-
Chesapeake Group (61)	65,000	*	65,000	-0-	-0-
Stephen S. Taylor (61A)	100,000	*	100,000	-0-	-0-
Placement Agent Warrants					
TriPoint Global Equities, LLC (62)	440,535	2.72%	440,535	-0-	-0-
John Finley (63)	47,741	*	47,741	-0-	-0-
Brian Corbman (64)	768	*	768	-0-	-0-
Patrick Gaynes (65)	1,612	*	1,612	-0-	-0-
Jason Stein (66)	4,937	*	4,937	-0-	-0-
Michael Graichen (67)	4,721	*	4,721	-0-	-0-
Andrew Kramer (68)	34,277	*	34,277	-0-	-0-
Nicole Whang (69)	8,572	*	8,572	-0-	-0-
Brett Sherman (70)	2,968	*	2,968	-0-	-0-

Karl Birkenfeld (71)	7,392	*	7,392	-0-
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