

China Finance Online Co. LTD
Form 20-F/A
January 10, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F/A
(Amendment No. 1)**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Date of event requiring this shell company report

Commission file number: **000-50975**

CHINA FINANCE ONLINE CO. LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Hong Kong

(Jurisdiction of incorporation or organization)

**17th Floor of Fuzhuo Plaza A,
No. 28 Xuanwai Street, Xicheng District,
Beijing, China 100052**

(Address of principal executive offices)

Jun Wang, Chief Financial Officer

Telephone: + (86 10) 83363003

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Facsimile: + (86 10) 83363188

17th Floor of Fuzhuo Plaza A,

No. 28 Xuanwai Street, Xicheng District,

Beijing, China 100052

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

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

Title of each class	Name of each exchange on which registered
None	None

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

American Depositary Shares, each representing 5 ordinary shares*

(Title of Class)

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 118,098,018 ordinary shares.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

EXPLANATORY NOTE

This Amendment No. 1 (“Amendment No. 1”) to our Annual Report on Form 20-F for the year ended December 31, 2015, originally filed with the Securities and Exchange Commission on April 27, 2016 (“2015 Form 20-F”), is being filed solely for the purpose of furnishing a revised audit report of BDO China Shu Lun Pan Certified Public Accountants LLP that is for all financial statement periods included in the consolidated financial statements as required by Rule 2-01 of Regulation S-X. The revised audit report together with the consolidated financial statements for China Finance Online Co. Limited, its subsidiaries, its variable interest entities (“VIEs”) and its VIE’s subsidiaries are included at the end of this Amendment No.1. The revised audit report clearly indicates it covers our consolidated balance sheets as of ended December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. No other changes have been made in the consolidated financial statements previously filed or in the footnotes thereto.

Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the 2015 Form 20-F, or reflect any events that have occurred after the 2015 Form 20-F was originally filed. The Company’s 2015 Form 20-F, as amended by this Amendment No. 1, continues to speak as of the initial filing date of the 2015 Form 20-F.

ITEM 19. EXHIBITS

Exhibit

Number Description of Document

- | | |
|------|--|
| 12.1 | Certification of the principal executive officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 12.2 | Certification of the Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 13.1 | Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 15.1 | Consent of BDO China Shu Lun Pan Certified Public Accountants LLP |

CHINA FINANCE ONLINE CO. LIMITED

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to the annual report on its behalf.

CHINA FINANCE ONLINE
CO. LIMITED

Date: January 10, 2017

/s/ Jun Wang

Name: Jun Wang

Title: Chief Financial Officer

CHINA FINANCE ONLINE CO. LIMITED

Report of Independent Registered Public Accounting Firm
and Consolidated Financial Statements
For the years ended December 31, 2013, 2014 and 2015

CHINA FINANCE ONLINE CO. LIMITED

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CHINA FINANCE ONLINE CO. LIMITED
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
China Finance Online Co. Limited.

We have audited the accompanying consolidated balance sheets of China Finance Online Co. Limited, its subsidiaries, its variable interest entities ("VIEs") and its VIEs' subsidiaries (the "Group") as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audit of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Schedule I. These financial statements and financial statement schedule are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Finance Online Co. Limited, its subsidiaries, its VIEs and its VIEs' subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/BDO China Shu Lun Pan Certified Public Accountants LLP

Beijing, China

April 27, 2016

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CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED BALANCE SHEETS

(In U.S. dollars, except share-related data)

Assets	December 31,	
	2014	2015
Current assets:		
Cash and cash equivalents	\$32,538,513	\$85,734,048
Restricted cash	5,498	-
Prepaid expenses and other current assets	8,540,863	3,488,647
Trust bank balances held on behalf of customers	11,922,216	14,167,606
Consideration receivable	13,400,882	-
Accounts receivable - margin clients, net of allowance for doubtful accounts of nil and nil in 2014 and 2015, respectively	1,698,861	4,367,417
Accounts receivable - others, net of allowance for doubtful accounts of \$43,077 and \$40,592 in 2014 and 2015, respectively	12,885,493	12,007,714
Loan receivable	10,295,800	-
Deferred tax assets, current	926,081	969,464
Total current assets	92,214,207	120,734,896
Property and equipment, net	4,862,949	5,789,534
Acquired intangible assets, net	2,185,280	1,539,534
Cost method investment	1,217,617	554,392
Equity method investment, net	-	1,228,269
Rental deposits	1,387,653	1,422,626
Goodwill	7,089,780	6,699,620
Guarantee fund deposits	4,874,332	6,076,036
Deferred tax assets, non-current	71,540	20,250
Total assets	\$113,903,358	\$144,065,157
Liabilities and shareholders' equity		
Current liabilities:		
Deferred revenue, current (including deferred revenue, current of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$2,954,098 and \$5,058,018 as of December 31, 2014 and December 31, 2015, respectively)	\$4,935,972	\$6,658,689
Accrued expenses and other current liabilities (including accrued expenses and othercurrent liabilities of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$6,282,466 and \$13,035,773 as of December 31, 2014 and December 31, 2015, respectively)	8,837,734	15,655,425
Amounts due to customers for the trust bank balances held on their behalf (including amounts due to customers for the trust bank balances held on their behalf of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$398,936 and \$565,605 as of December 31, 2014 and December 31, 2015, respectively)	11,922,216	14,167,606

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Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$1,997,774 and \$3,387,125 as of December 31, 2014 and December 31, 2015, respectively)	9,852,491	5,493,728
Income taxes payable (including income taxes payable of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$300,679 and \$1,752,812 as of December 31, 2014 and December 31, 2015, respectively)	314,270	1,768,347
Deferred tax liabilities, current (including deferred tax liabilities, current of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$578,006 and \$13,067 as of December 31, 2014 and December 31, 2015, respectively)	580,197	15,132
Total current liabilities	36,442,880	43,758,927
Deferred revenue, non-current (including deferred revenue, non-current of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$353,035 and \$187,041 as of December 31, 2014 and December 31, 2015, respectively)	1,372,722	691,922
Deferred tax liabilities, non-current (including deferred tax liabilities, non-current of the consolidated variable interest entities without recourse to China Finance Online Co. Limited \$546,320 and \$384,883 as of December 31, 2014 and December 31, 2015, respectively)	546,320	384,883
Total liabilities	38,361,922	44,835,732

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CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED BALANCE SHEETS - continued**(In U.S. dollars, except share-related data)**

	December 31,	
	2014	2015
Commitments and contingencies (Note 25)		
Equity:		
China Finance Online Co. Limited shareholder's equity:		
Ordinary shares (112,417,933 and 118,098,018 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	56,386,606	56,856,000
Additional paid-in capital	24,207,606	28,145,846
Accumulated other comprehensive income	12,064,338	8,597,295
Retained deficits	(28,043,186)	(5,560,770)
Total China Finance Online Co. Limited shareholders' equity	64,615,364	88,038,371
Noncontrolling interest	10,926,072	11,191,054
Total equity	75,541,436	99,229,425
Total liabilities and equity	\$ 113,903,358	\$ 144,065,157

The accompanying notes are an integral part of these consolidated financial statements.

CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In U.S. dollars, except share-related data)

	Years ended December 31,		
	2013	2014	2015
Net revenues	\$52,738,077	\$83,695,885	\$107,404,766
Cost of revenues	10,570,070	20,352,729	19,738,737
Gross profit	42,168,007	63,343,156	87,666,029
Operating expenses:			
General and administrative (including share-based compensation of \$2,985,112, \$4,533,562 and \$6,395,451 for 2013, 2014 and 2015, respectively)	15,210,102	17,592,119	17,993,787
Product development (including share-based compensation of \$39,574, \$113,292 and \$(217,695) for 2013, 2014 and 2015, respectively)	9,032,327	11,147,873	10,738,730
Sales and marketing (including share-based compensation of \$10,436, \$52,099 and \$(121,723) for 2013, 2014 and 2015, respectively)	30,588,236	43,761,473	46,474,107
Loss from impairment of intangible assets	-	1,802,125	250,360
Loss from impairment of goodwill	-	8,149,525	-
Total operating expenses	54,830,665	82,453,115	75,456,984
Government subsidies	11,187	659,417	251,828
Income (loss) from operations	(12,651,471)	(18,450,542)	12,460,873
Interest income	1,340,563	4,044,288	2,648,026
Interest expense	(196,458)	(12,311)	(514)
Exchange gain (loss), net	556,757	(112,672)	(766,162)
Gain on the interest sold and retained noncontrolling investment	-	-	9,999,801
Gain from sales of cost method investment	-	4,337,736	4,648,302
Gain (loss) from equity method investment	2,773,839	-	(66,970)
Short-term investment income	132,069	58,451	216,025
Other income (expense), net	(29,131)	18,236	(937,431)
Income (loss) before income tax expense	(8,073,832)	(10,116,814)	28,201,950
Income tax expense	(100,058)	(513,914)	(1,384,262)
Net income (loss)	\$(8,173,890)	\$(10,630,728)	\$26,817,688
Less: net income (loss) attributable to the noncontrolling interest	399,238	(3,462,879)	4,335,272
Net income (loss) attributable to China Finance Online Co. Limited	\$(8,573,128)	\$(7,167,849)	\$22,482,416
Net income (loss) per share attributable to China Finance Online Co. Limited			
Basic	\$(0.08)	\$(0.07)	\$0.20
Diluted	\$(0.08)	\$(0.07)	\$0.18

Weighted average shares used in calculating net income (loss) per share			
Basic	109,019,513	109,385,712	110,997,871
Diluted	109,019,513	109,385,712	125,129,763
Other comprehensive income (loss), net of tax:			
Changes in foreign currency translation adjustment	1,195,795	(221,277)	(3,467,043)
Other comprehensive income (loss), net of tax	1,195,795	(221,277)	(3,467,043)
Comprehensive income (loss)	(6,978,095)	(10,852,005)	23,350,645
Less: net income (loss) attributable to the noncontrolling interest	399,238	(3,462,879)	4,335,272
Comprehensive income (loss) attributable to China Finance Online Co. Limited	\$(7,377,333)	\$(7,389,126)	\$19,015,373

The accompanying notes are an integral part of these consolidated financial statements.

CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF

SHAREHOLDERS' EQUITY

(In U.S. dollars, except share-related data)

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensivedeficits income (loss)	Retained deficits
	Shares	Amount			
Balance as of January 1, 2013	110,955,383	\$ 14,328	\$ 81,163,244	\$ 11,089,820	\$(12,302,209)
Exercise of share options by employees	190,250	25	30,415	-	-
Share-based compensation	-	-	2,960,746	-	-
Business combination	-	-	191,861	-	-
Foreign currency translation adjustment	-	-	-	1,195,795	-
Net income (loss)	-	-	-	-	(8,573,128)
Balance as of December 31, 2013	111,145,633	\$ 14,353	\$ 84,346,266	\$ 12,285,615	\$(20,875,337)
Transfer share premium to share capital (Note)	-	55,718,184	(55,718,184)	-	-
Exercise of share options by employees	1,164,300	654,055	-	-	-
Restricted shares issued	108,000	14	-	-	-
Share-based compensation	-	-	4,540,257	-	-
Business restructure	-	-	(8,960,733)	-	-
Dividends paid to noncontrolling shareholders	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	(221,277)	-
Net loss	-	-	-	-	(7,167,849)
Balance as of December 31, 2014	112,417,933	\$ 56,386,606	\$ 24,207,606	\$ 12,064,338	\$(28,043,186)
Issuance of ordinary shares for the plan of share options and restricted shares	4,000,000	520	-	-	-
Exercise of share options by employees	435,000	293,654	-	-	-
Exercise of share options by nonemployees	1,095,000	175,200	-	-	-
Restricted shares issued	150,085	20	-	-	-
Share-based compensation	-	-	5,331,748	-	-
Changes in noncontrolling ownership interest	-	-	(1,393,508)	-	-
Dividends paid to noncontrolling shareholders	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	(3,467,043)	-
Paid-in capital from noncontrolling shareholders	-	-	-	-	-
Net income	-	-	-	-	22,482,416
Balance as of December 31, 2015	118,098,018	\$ 56,856,000	\$ 28,145,846	\$ 8,597,295	\$(5,560,770)

Note: Under Hong Kong Companies Ordinance (Cap.622), which came into force on March 3, 2014, the concept of authorized share capital no longer exists. In accordance with the said Ordinance, the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relevant entitlement of any of the shareholders as a result of this transition. In addition, in accordance with the transitional provisions set out in section 37 of Schedule 11 to the said Ordinance, any amount outstanding to the credit of the share premium has become part of the Company's share capital.

The accompanying notes are an integral part of these consolidated financial statements.

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CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In U.S. dollars)

	Years ended December 31,		
	2013	2014	2015
Operating activities:			
Net income (loss)	\$(8,173,890)	\$(10,630,728)	\$26,817,688
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation	3,035,122	4,698,953	6,056,033
Depreciation and amortization	2,164,992	1,973,423	1,649,136
Provision of allowance for doubtful accounts	521,567	(193,832)	74
Gain (loss) from equity method investment	(2,773,839)	-	66,970
Gain from short-term investments	(132,069)	(58,451)	(216,025)
Deferred taxes	(357,014)	(106,900)	(502,052)
Loss on disposal of property and equipment	163,963	194,136	390,296
Gain from sales of cost method investment	-	(4,337,736)	(4,648,302)
Loss from impairment of intangible assets	-	1,802,125	250,360
Loss from impairment of goodwill	-	8,149,525	-
Gain from business restructure	-	(90,666)	-
Gain on the interest sold and retained noncontrolling investment	-	-	(9,999,801)
Changes in assets and liabilities:			
Accounts receivable, others	(8,132,005)	2,371,865	586,009
Accounts receivable, margin clients	8,933,007	4,413,011	(2,666,812)
Prepaid expenses and other current assets	1,131,750	(1,284,341)	369,290
Advances to employees	1,071,769	-	-
Trust bank balances held on behalf of customers	(1,181,312)	(1,928,568)	(2,267,808)
Restricted cash	7,143	(1,560)	5,403
Rental deposits	(273,402)	(368,933)	(204,811)
Guarantee deposit funds	(4,881,966)	865,963	(1,576,128)
Amounts due from noncontrolling shareholders	-	(1,821,928)	2,690,941
Deferred revenue	(2,866,258)	(1,749,432)	1,794,179
Account payable	11,666,365	(2,671,121)	(5,182,939)
Accrued expenses and other current liabilities	(1,189,465)	161,455	2,596,050
Amounts due to customers for the trust bank balance held on their behalf	1,181,312	1,928,568	2,267,808
Income taxes payable	242,886	(142,692)	1,541,421
Net cash provided by operating activities	158,656	1,172,136	19,816,980
Investing activities:			
Purchase of property and equipment	(833,921)	(3,158,042)	(3,350,260)
Purchase of intangible assets	(578,624)	(81,378)	-
Acquisition of businesses (net of cash acquired of \$121,044, nil and \$14,463 for the years ended December 31, 2013, 2014, and 2015, respectively)	(3,627,963)	(705,180)	14,463

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Business restructure (Note 4)	-	(2,873,988)	(354,284)
Proceeds from disposal of affiliates (Note 13)	-	-	8,463,170
Acquisition of equity method investment	(21,525,608)	-	(327,263)
Proceeds from transfer of equity method investment	11,445,202	-	12,765,427
Loan given to equity method investee	(20,461,773)	-	-
Repayment of loans given to equity method investee	10,247,235	-	9,807,585
Proceeds from transfer equity interest to noncontrolling shareholders	-	-	72,271
Advances related to disposal of subsidiaries (Note 18 (i))	-	-	5,299,758
Purchase of short-term investments	(83,911,858)	(90,694,201)	(105,354,947)
Proceeds from sales of short-term investments	86,716,413	90,764,098	105,562,667
Acquisition of cost method investment	(309,698)	(81,378)	-
Proceeds from sales of cost method investment	-	2,168,868	7,959,237
Restricted cash	29,282,705	-	-
Loan receivable	994,459	-	-
Proceeds from disposal of fixed assets	140,942	63,038	-
Net cash provided by (used in) investing activities	7,577,511	(4,598,163)	40,557,824
Financing activities:			
Proceeds from stock options exercised by employees	640	654,069	294,193
Proceeds from stock options exercised by nonemployees	-	-	175,200
Proceeds from paid-in capital of noncontrolling shareholders	1,397,616	-	488,155
Repayment of short-term loan	(13,536,161)	-	-
Dividends paid to noncontrolling shareholders	-	(1,025,788)	(6,549,628)
Net cash used in financing activities	(12,137,905)	(371,719)	(5,592,080)
Effect of exchange rate changes	(133,308)	(34,691)	(1,587,189)

CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS**(In U.S. dollars)**

	Years ended December 31,		
	2013	2014	2015
Net (decrease) increase in cash and cash equivalents	(4,535,046)	(3,832,437)	53,195,535
Cash and cash equivalents, beginning of year	40,905,996	36,370,950	32,538,513
Cash and cash equivalents, end of year	36,370,950	32,538,513	85,734,048
Supplemental disclosure of cash flow information			
Income taxes paid	\$81,188	\$758,006	\$682,232
Interest paid	\$174,353	\$5,130	\$514

The accompanying notes are an integral part of these consolidated financial statements.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Finance Online Co. Limited ("China Finance Online" or the "Company") was incorporated in Hong Kong on November 2, 1998. China Finance Online, its subsidiaries, its variable interest entities ("VIEs") and its VIEs' subsidiaries (collectively, the "Group") is a leading web-based financial services company in China.

The Company provides Chinese retail investors with online access to securities, commodities and wealth management products, as well as financial database and analytics services to institutional customers. The Company's prominent flagship portal site *www.jrj.com* is ranked among the top financial websites in China. Leveraging our extensive experience and robust internet capabilities, the Company is adapting and strategically transitioning its business to the new environment by rapidly building Investment Masters (iTougu) and Yinglibao, the Company's two newest businesses, into leading one-stop financial products and services platforms for individual investors in China.

In 2015, the Company integrated its web-based trading platform, *Securities Master (Zhengquantong)*, and *Yinglibao*, its internet-based financial platform that integrates cash management solutions and mutual fund distribution, into *iTougu* which facilitates communication between securities investment advisors and their respective clients and followers in real-time and for 24 hours a day, and enabling a vast number of Chinese individual investors to obtain private advice from thousands of securities investment advisors. The Company also continued to diversify its product offerings on the wealth management platform, *Yinglibao*. The Company also provides our rapidly growing commodities brokerage services (formerly known as precious metals business) in mainland China along with brokerage services in Hong Kong in order to address market demand for alternative investment opportunities. We further diversified our product offering in the commodities brokerage services with the launch of a heavy oil brokerage business in 2015.

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

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

Details of China Finance Online's significant subsidiaries, VIEs and VIEs' subsidiaries as of December 31, 2015 were as follows:

<u>Company name</u>	<u>Place of incorporation or establishment</u>	<u>Date of incorporation or acquisition</u>	<u>legal ownership interest</u>
Subsidiaries:			
China Finance Online (Beijing) Co., Ltd. ("CFO Beijing")	Beijing, PRC	Jul. 9, 1998	100%
Fortune Software (Beijing) Co., Ltd. ("CFO Software")	Beijing, PRC	Dec. 7, 2004	100%
Shenzhen Genius Information Technology Co., Ltd. ("CFO Genius")	Shenzhen, PRC	Sep. 21, 2006	100%
Zhengyong Information & Technology (Shanghai) Co., Ltd. ("CFO Zhengyong")	Shanghai, PRC	Aug. 17, 2008	100%
Zhengtong Information Technology (Shanghai) Co., Ltd ("CFO Zhengtong")	Shanghai, PRC	Jun. 24, 2008	100%
iSTAR Financial Holdings Limited ("iSTAR Financial Holdings")	BVI	Jul. 16, 2007	85%
iSTAR International Securities Co. Limited ("iSTAR Securities")	Hong Kong, PRC	Nov. 23, 2007	85%
iSTAR International Futures Co. Limited ("iSTAR Futures")	Hong Kong, PRC	Apr. 16, 2008	85%
iSTAR International Wealth Management Co. Limited ("iSTAR Wealth Management")	Hong Kong, PRC	Oct. 8, 2008	85%
iSTAR International Credit Co. Limited ("iSTAR Credit")	Hong Kong, PRC	Feb. 10, 2012	85%
Variable interest entities:			
Beijing Fuhua Innovation Technology Development Co., Ltd. ("CFO Fuhua")	Beijing, PRC	Dec. 31, 2000	Nil
Shanghai Chongzhi Co., Ltd. ("CFO Chongzhi")	Shanghai, PRC	Jun. 6, 2008	Nil
Fortune (Beijing) Qicheng Technology Co., Ltd. ("CFO Qicheng")	Beijing, PRC	Dec. 18, 2009	Nil
Shenzhen Newrand Securities Advisory and Investment Co., Ltd. ("CFO Newrand ")	Shenzhen, PRC	Oct. 17, 2008	Nil
Shanghai Stockstar Wealth Management Co., Ltd. ("Stockstar Wealth Management")	Shanghai, PRC	Apr. 12, 2011	Nil
Beijing Chuangying Advisory and Investment Co., Ltd. ("CFO Chuangying")	Beijing, PRC	Jan. 9, 2009	Nil
Subsidiaries of variable interest entities:			
Shanghai Meining Computer Software Co., Ltd. ("CFO Meining")	Shanghai, PRC	Oct. 1, 2006	Nil
Shenzhen Newrand Securities Training Center ("CFO Newrand Training")	Shenzhen, PRC	Oct. 17, 2008	Nil
Fortune (Beijing) Huiying Investment Consulting Co., Ltd. ("CFO Huiying")	Beijing, PRC	Dec. 18, 2009	Nil
Shenzhen Tahoe Investment and Development Co., Ltd ("CFO Tahoe")	Shenzhen, PRC	Sep. 30, 2013	Nil

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Shenzhen Shangtong Software Co., Ltd. ("CFO Shenzhen Shangtong")	Shenzhen, PRC	Sep. 23, 2009	Nil
Zhengjin (Fujian) Precious Metals Investment Co., Ltd. ("CFO Zhengjin Fujian")	Fujian, PRC	Jan. 6, 2013	Nil
Zhengjin (Shanghai) Precious Metals Investment Co., Ltd. ("CFO Zhengjin Shanghai")	Shanghai, PRC	Dec. 12, 2013	Nil
Zhengjin (Tianjin) Precious Metals Investment Co., Ltd. ("CFO Zhengjin Tianjin")	Tianjin, PRC	Jul. 23, 2013	Nil
Henghui (Tianjin) Precious Metals Investment Co., Ltd. ("CFO Henghui")	Tianjin, PRC	Sep. 30, 2013	Nil
Zhengjin (Beijing) Wisdom Petroleum and Chemical Investment Management Co., Ltd. ("CFO Zhengjin Beijing")	Beijing, PRC	Jan. 13, 2014	Nil
Yinglibao (Beijing) Technology Co., Ltd. ("CFO Yinglibao")	Beijing, PRC	Jan. 15, 2014	Nil
Zhengjin (Qingdao) Wisdom Trading Co., Ltd. ("CFO Zhengjin Qingdao")	Qingdao, PRC	Sep. 4, 2014	Nil
Zhengjin (Jiangsu) Precious Metals Co., Ltd. ("CFO Zhengjin Jiangsu")	Nanjing, PRC	Nov. 19, 2014	Nil
iTougu (Beijing) Network Technology Co., Ltd. ("CFO iTougu")	Beijing, PRC	Dec. 8, 2014	Nil
Tibet Fortune Jinyuan Network Technology Co., Ltd. ("CFO Tibet")	Tibet, PRC	Aug. 22, 2015	Nil
Shanghai Guiwo Information Technology Co., Ltd. ("CFO Guiwo")	Shanghai, PRC	Apr. 1, 2015	Nil

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The consolidated financial statements of the Group include the financial statements of the Company and its controlled operating entities including the subsidiaries and the variable interest entities for which the Company is the primary beneficiary. A variable interest entity is the entity in which the Company, through contractual arrangements as the primary beneficiary, bears the risks of, and enjoys the rewards normally associated with ownership of the entity.

People's Republic of China ("PRC") regulations prohibit or restrict direct foreign ownership of business entities providing certain services in PRC, such as internet content service and securities investment advisory service. In order to comply with these regulations, China Finance Online, through its subsidiaries, entered into contractual arrangements with the Company's VIEs and their equity owners who are PRC citizens.

The Group made loans to the shareholders of the VIEs solely for the purposes of capitalizing the VIEs. Pursuant to the loan agreements, these loans can only be repaid by transferring all of their interests in the VIEs to the Group or a third party designated by the Group. The Group has entered into proxy agreements or power of attorney and exclusive equity purchase option agreements with the VIEs and nominee shareholders of the VIEs through the Company's wholly owned significant subsidiaries including CFO Beijing, CFO Software, CFO Zhengyong and CFO Zhenotong (collectively, the "WFOEs" and each a "WFOE"). The foregoing agreements provide the WFOEs the right to direct the activities that most significantly affect the economic performance of the VIEs and to acquire the equity interests in the VIEs when permitted by the PRC laws, respectively. Certain exclusive agreements have been entered into with the VIEs through the WFOEs, which obligate the WFOEs to absorb the majority of the risk of loss from the VIEs' activities and entitle the WFOEs to receive the majority of their residual returns. In addition, the Group has entered into share pledge agreements for the equity interests in the VIEs held by the shareholders of the VIEs.

Despite the lack of technical majority ownership, the agreements with the VIEs provide the WFOEs with effective control over and the ability to receive substantially all of the economic benefits of its VIEs, resembling a parent-subsidiary relationship between the WFOEs and the VIEs. The shareholders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIEs to the WFOEs. In addition, through the other exclusive agreements, which consist of strategic consulting services agreement, technical support services agreement and operating support services agreement, the WFOEs demonstrate their ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. The VIEs are subject to operating risks, which determine the variability of the Company's interest in those entities. Based on these contractual

arrangements, the Company consolidates the VIEs as required by SEC Regulation SX-3A-02 and Accounting Standards Codification ("ASC") Topic 810 ("ASC 810") because the Company holds all the variable interests of the VIEs through the WFOEs.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and the WFOEs are further described below.

Exclusive technology consulting and management service agreement

Pursuant to a series of technology support and service agreements, the WOFEs retain exclusive right to provide the VIEs and their subsidiaries technology support and consulting services and exclusive management consulting service. As a result of these services, the WOFEs are entitled to charge the VIEs and their subsidiaries annual service fees. The terms of the strategic consulting services agreement, the technical support services agreement and the operating support services agreement are twenty, ten and ten years, respectively, and these agreements will be automatically renewed on applicable expiration dates, unless the contracting WOFE informs the corresponding VIE its intention to terminate such contract one month prior to the applicable expiration date. Notwithstanding the foregoing, none of the parties has a right to terminate the service contracts. The principal services agreements that the WOFEs have entered into with VIEs include:

- strategic consulting services agreement, pursuant to which the amount of the fee to be charged is 30% of each VIE's income before tax;
- technical support services agreement, pursuant to which the amount of the fee to be charged is 30% of each VIE's income before tax; and
- operating support services agreement, pursuant to which the amount of the fee to be charged is 40% of each VIE's income before tax.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Exclusive purchase right agreement on the equity interest of the VIEs

Pursuant to the purchase option agreement, the WOFEs have the unconditional right to purchase the entire equity interest in, or all the assets of the VIEs at a price equal to the total principal amount of the loan lent by the WOFEs to the shareholders of the VIEs when and if such purchase is permitted by the PRC law or the current shareholders of the VIEs cease to be directors or employees of the VIEs. The term of the exclusive purchase right agreement is perpetual and can be terminated at the discretion of the WOFEs.

Power of attorney

Pursuant to the power of attorney, each of the shareholders of the VIEs have executed an irrevocable power of attorney assigning the WOFEs or individuals designated by the WOFEs as their attorney-in-fact to vote on their behalf on all matters of the VIEs requiring shareholder approval under PRC laws and regulations and the articles of association of VIEs.

The Articles of Incorporation of the VIE state that the major rights of the shareholders include the right to appoint directors, the general manager and other senior management. Therefore, through the irrevocable power of attorney arrangement, the WOFEs have the ability to exercise effective control over the VIEs through shareholder votes and, through such votes, to also control the composition of the board of directors. In addition, the senior management team of the VIEs is the same as that of the WOFEs. The term of the power of attorney is twenty years and will be automatically renewed on the expiration date. The contract can be terminated at the discretion of the WOFEs.

Pledge agreement

Pursuant to the equity pledge agreement between the WOFEs and the shareholders of the VIEs, the shareholders of the VIEs pledged all of their equity interests in the VIEs to the WOFEs to guarantee the VIEs' performance of its obligations under the exclusive technology consulting and service agreement. If the VIEs breach their contractual obligations under that agreement, the WOFEs, as the pledge, will be entitled to certain rights, including the rights to sell the pledged equity interests. The shareholders of the VIEs agree that, without prior written consent of the WOFEs, they will not transfer, sell, and dispose of or create any encumbrance on their equity interest in the VIEs. The term of the pledge agreement is twenty years and will be automatically renewed on the expiration date, unless the WOFEs inform the VIEs of their intention to terminate the agreement one month prior to the expiration date.

Through these contractual agreements, the WOFEs have the ability to effectively control the VIEs and are also able to receive substantially all the economic benefits of the VIEs.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Details of significant VIEs and their counterparts which substantially control the VIEs as of December 31, 2015 were as follows:

<u>VIE name</u>	<u>Contractual arrangement Date</u>	<u>counterpart</u>
CFO Fuhua	May 27, 2004	CFO Beijing
CFO Chongzhi	June 8, 2008	CFO Software
CFO Newrand	October 17, 2008	CFO Zhengyong
CFO Qicheng	November 20, 2009	CFO Chuangying
Stockstar Wealth Management	April 12, 2011	CFO Zhengtong

Risks in relation to the VIE structure

The Company's ability to control the VIEs also depends on the power of attorney the WOFEs have to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the regulatory authorities may exercise their discretion and

- revoke the business and operating licenses of our PRC subsidiaries or VIEs;
- restrict the rights to collect revenues from any of our PRC subsidiaries;