

China Finance Online Co. LTD  
Form 20-F  
June 05, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F**

**(Mark One)**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2007**  
**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 \_\_\_\_\_**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**  
**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)  
**9th Floor of Tower C, Corporate Square  
 NO.35 Financial Street, Xicheng District  
 Beijing 100032, China**

(Address of principal executive offices)  
 Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class <b>None</b>	Name of each exchange on which registered <b>None</b> Securities registered or to be registered pursuant to Section 12(g) of the Act. <b>American Depositary Shares, each representing 5 ordinary shares, par value HK\$0.001 per share *</b>
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(Title of Class)

\* Not for trading, but only in connection with the listing on the Nasdaq Global Market of American Depository 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: 109,754,433 ordinary shares, par value HK\$0.001 per share.

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 registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

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**CHINA FINANCE ONLINE CO. LIMITED  
TABLE OF CONTENTS**

**INTRODUCTION**

**PART I**

<u>ITEM 1</u>	<u>Identity of Directors, Senior Management And Advisers</u>	5
<u>ITEM 2</u>	<u>Offer Statistics and Expected Timetable</u>	5
<u>ITEM 3</u>	<u>Key Information</u>	5
<u>ITEM 4</u>	<u>Information on the Company</u>	33
<u>ITEM 5</u>	<u>Operating and Financial Review and Prospects</u>	55
<u>ITEM 6</u>	<u>Directors, Senior Management and Employees</u>	73
<u>ITEM 7</u>	<u>Major Shareholders and Related Party Transaction</u>	82
<u>ITEM 8</u>	<u>Financial Information</u>	89
<u>ITEM 9</u>	<u>The Offer and Listing</u>	90
<u>ITEM 10</u>	<u>Additional Information</u>	91
<u>ITEM 11</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	98
<u>ITEM 12</u>	<u>Description of Securities Other than Equity Securities</u>	98

**PART II**

<u>ITEM 13</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	98
<u>ITEM 14</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	99
<u>ITEM 15</u>	<u>Controls and Procedures</u>	99
<u>ITEM 16A</u>	<u>Audit Committee Financial Expert</u>	101
<u>ITEM 16B</u>	<u>Code of Ethics</u>	101
<u>ITEM 16C</u>	<u>Principal Accountant Fee and Services</u>	101
<u>ITEM 16D</u>	<u>Exemption from the Listing Standard for Audit Committees</u>	102
<u>ITEM 16E</u>	<u>Purchases of Equity Securities by the Issue and Affiliated Purchasers</u>	102

**PART III**

<u>ITEM 17</u>	<u>Financial Statement</u>	102
<u>ITEM 18</u>	<u>Financial Statements</u>	102
<u>ITEM 19</u>	<u>Exhibits</u>	102
<u>EX-4.15 FRAMEWORK AGREEMENT</u>		

EX-4.16 LOAN AGREEMENT  
EX-4.17 SHARE TRANSFER CONTRACT  
EX-4.18 SHARE PLEDGE AGREEMENT  
EX-4.19 PURCHASE OPTION AND COOPERATION AGREEMENT  
EX-4.20 PURCHASE OPTION AND COOPERATION AGREEMENT  
EX-4.21 CAPITAL INCREASE AGREEMENT  
EX-4.22 LOAN AGREEMENT  
EX-4.23 SHARE PLEDGE AGREEMENT  
EX-4.24 LOAN AGREEMENT  
EX-4.25 OPERATION AGREEMENT  
EX-4.26 TECHNICAL SUPPORT AGREEMENT  
EX-4.27 STRATEGIC CONSULTING AND SERVICE AGREEMENT  
EX-4.28 PURCHASE OPTION AGREEMENT  
EX-4.29 FRAMEWORK AGREEMENT  
EX-4.30 LOAN AGREEMENT  
EX-4.31 SHARE TRANSFER CONTRACT  
EX-4.32 OPERATION AGREEMENT  
EX-4.33 TECHNICAL SUPPORT AGREEMENT  
EX-4.34 STRATEGIC CONSULTING AND SERVICE AGREEMENT  
EX-4.35 PURCHASE OPTION AGREEMENT  
EX-4.37 LICENSE AGREEMENT  
EX-4.46 LEASE CONTRACT  
EX-4.47 LEASE CONTRACT  
EX-4.48 LEASE CONTRACT  
EX-4.49 LEASE CONTRACT  
EX-4.50 LEASE CONTRACT  
EX-4.51 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.52 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.53 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.54 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.55 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.56 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.57 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.58 AGREEMENT FOR THE SALE AND PURCHASE OF SHARES  
EX-4.67 ENGAGEMENT LETTER  
EX-8.1 LIST OF SUBSIDIARIES  
EX-10.1 CONSENT OF DELOITTE TOUCHE TOHMATSU CPA LTD.  
EX-12.1 CEO CERTIFICATION PURSUANT TO RULE 13A-14(A)  
EX-12.2 CFO CERTIFICATION PURSUANT TO RULE 13A-14(A)  
EX-13.1 CEO CERTIFICATION PURSUANT TO SECTION 906  
EX-13.2 CFO CERTIFICATION PURSUANT TO SECTION 906

**Table of Contents**

**INTRODUCTION**

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

we, us, our company and our refer to China Finance Online Co. Limited, or CFO Hong Kong, its principle subsidiaries, China Finance Online (Beijing) Co., Ltd., or CFO Beijing, Fortune Software (Beijing) Co., Ltd., or CFO Software, Stockstar Information Technology (Shanghai) Co., Ltd., or CFO Stockstar, Shenzhen Genius Information Technology Co., Ltd., or CFO Genius, Jujin Software (Shenzhen) Co., Ltd. or CFO Jujin, Zhengning Information Technology (Shanghai) Co., Ltd., or CFO Zhengning, Fortune (Beijing) Wisdom Technology Co., Ltd. or CFO Wisdom, Fortune (Beijing) Success Technology Co., Ltd. or CFO Success, Daily Growth Securities Limited, or Daily Growth Securities, which we acquired in November 2007 and subsequently renamed from Daily Growth Investment Company Limited to Daily Growth Securities, and, in the context of describing our operations, also include our PRC-incorporated affiliates, Fuhua Innovation Technology Development Co., Ltd., or CFO Fuhua, Shanghai Meining Computer Software Co., Ltd., or CFO Meining, CFO Fuhua's wholly owned subsidiary, Beijing CFO Glory Co., Ltd., or CFO Glory, and Beijing CFO Premium Technology Co., Ltd., or CFO Premium.

shares and ordinary shares refer to our ordinary shares, preferred shares refers to our preferred shares, all of which were converted into our ordinary shares upon the completion of our initial public offering on October 20, 2004, ADSs refers to our American depositary shares, each of which represents five ordinary shares, and ADRs refers to the American depositary receipts which evidence our ADSs;

China or PRC refers to the People's Republic of China, excluding Taiwan, Hong Kong and Macau;

Hong Kong refers to the Hong Kong Special Administrative Region of the People's Republic of China; and

all references to Renminbi, RMB or yuan are to the legal currency of China, all references to U.S. dollars, dollars, \$ or US\$ are to the legal currency of the United States and all references to Hong Kong dollars or are to the legal currency of Hong Kong. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We and certain selling shareholders of our company completed the initial public offering of 6,200,000 American Depositary Shares, each representing five of our ordinary shares, par value HK\$0.001 per share on October 20, 2004. On October 15, 2004, we listed our ADSs on the Nasdaq Global Market (known as the Nasdaq National Market prior to July 1, 2006), or Nasdaq, under the symbol JRJC.

**FORWARD-LOOKING INFORMATION**

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

our goals and strategies, including how we effect our goals and strategies;

**Table of Contents**

our future business developments, business prospects, financial condition and results of operations;

our future pricing strategies or policies;

our plans to expand our service offerings;

our plans to use acquisitions and strategic investments as part of our corporate strategy;

competition in the PRC financial data and information services industry;

performance of China's securities markets;

performance of Hong Kong's securities markets;

growth in our subscriber base;

PRC governmental policies relating to taxes and how they will impact our business;

PRC governmental policies relating to the Internet and Internet content providers;

PRC governmental policies relating to the distribution of content, especially the distribution of financial content over the Internet; and

PRC governmental policies relating to mobile value-added services.

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

This annual report on Form 20-F also contains data related to the online financial data and information services market and the Internet. This market data includes projections that are based on a number of assumptions. The online financial data and information services market may not grow at the rates projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our ADSs. In addition, the relatively new and rapidly changing nature of the online financial data and information services industry subjects any projections or estimates relating to the growth prospects or future condition of our markets to significant uncertainties. Furthermore, if any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions.

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

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3. KEY INFORMATION****A. Selected financial data.**

The selected consolidated financial data presented below have been derived from our consolidated financial statement. This data may not be indicative of our future condition or results of operations and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes.

(in thousands of U.S. dollars, except per share or per ADS data)(1)	For the year ended December 31,				
	2003	2004	2005	2006 (4)	2007
<b>Consolidated statement of operations and comprehensive income (loss) data:</b>					
Net revenues	2,271	6,016	7,482	7,128	25,903
Cost of revenues	(298)	(393)	(482)	(1,468)	(4,427)
Gross profit	1,973	5,623	7,000	5,660	21,476
Operating expenses:					
General and administrative	(400)	(730)	(1,740)	(2,956)	(7,784)
Product development	(149)	(172)	(236)	(742)	(2,269)
Sales and marketing	(284)	(800)	(1,795)	(2,666)	(6,924)
Total operating expenses	(833)	(1,702)	(3,771)	(6,364)	(16,977)
Subsidy income					136
Income (loss) from operations	1,140	3,921	3,229	(704)	4,635
Interest income	51	294	1,486	1,003	1,105
Other income (expense)	(1)	(2)		115	9
Exchange gain (net)			366	267	424
Loss from impairment of cost method investment				(1,322)	(11,127)
Income (loss) before income taxes	1,190	4,213	5,081	(641)	(4,954)
Income tax benefit (provision)		384	(457)	41	809
Minority interests in net income of consolidated subsidiary					15
Net income (loss)	\$ 1,190	\$ 4,597	\$ 4,624	\$ (600)	\$ (4,130)
Dividends on preference shares	(352)				
Income (loss) attributable to ordinary shareholders	\$ 838	\$ 4,597	\$ 4,624	\$ (600)	\$ (4,130)
Income (loss) per share-basic	\$ 0.04	\$ 0.12	\$ 0.05	\$ (0.01)	\$ (0.04)
Income (loss) per share-diluted	\$ 0.01	\$ 0.05	\$ 0.04	\$ (0.01)	\$ (0.04)
Income per ADS equivalent-basic(2)	\$ 0.21	\$ 0.59	\$ 0.25	\$ (0.03)	\$ (0.22)
Income per ADS equivalent-diluted(2)	\$ 0.06	\$ 0.26	\$ 0.22	\$ (0.03)	\$ (0.22)
Dividends declared per ordinary share or preference shares	\$ 0.01				



**Table of Contents**

(in thousands of U.S. dollars)(1)	For the year ended December 31,				
	2003	2004	2005	2006	2007
<b>Consolidated balance sheet data:</b>					
Cash and cash equivalents	\$5,806	\$70,596	\$46,168	\$44,956	\$ 74,729
Current working capital(3)	4,306	67,590	45,227	38,011	53,811
Total assets	6,606	71,861	63,113	71,119	103,885
Deferred revenue, current	1,278	3,487	1,859	6,419	20,457
Total current liabilities	1,875	3,773	2,282	8,521	31,009
Deferred revenue, non-current					4,665
Total shareholders' equity	\$4,731	\$68,088	\$60,831	\$62,453	\$ 67,362

(1) For the results of operations for a specified period, all translations from Renminbi to U.S. dollars were calculated by using the average of the exchange rates on each day during the period. All translations from Renminbi to U.S. dollars were calculated for the periods listed below at the corresponding rates

For the years ended December 31,	RMB per US\$1.00
2003	8.2770
2004	8.2780
2005	8.1472
2006	7.9693
2007	7.6072

For consolidated balance sheet data, all translations from Renminbi to U.S. dollars were calculated at the exchange rate at the end of that year. The exchange rates were as set forth below as of the corresponding dates:

As at December 31,

	RMB per US\$1.00
2003	8.2769
2004	8.2765
2005	8.0702
2006	7.8087
2007	7.2946

- (2) Each ADS represents five ordinary shares.
- (3) Current working capital is the difference between total current assets and total current liabilities.
- (4) In 2006, the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment, effective on January 1, 2006. In 2007, the Company adopted the recognition and measurement methods under Financial Accounting Standards Board Interpretation No. 48 Accounting for

Uncertainty in  
Income  
Taxes-An  
Interpretation of  
FASB  
Statement  
No. 109.

6

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**Table of Contents****Exchange Rate Information**

We have published our financial statements in U.S. dollars. Our business is primarily conducted in China and denominated in Renminbi. Periodic reports will be made to shareholders and will be expressed in U.S. dollars using the then-current exchange rates. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at \$1.00 to RMB7.2946, which was the prevailing rate on December 31, 2007. The prevailing rate on March 31, 2008 was \$1.00 to RMB7.0120. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

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

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

	<b>Average(1)</b>	<b>High</b>	<b>Low</b>	<b>Period-end</b>
		<i>(RMB per U.S.\$1.00)</i>		
<b>2003</b>	8.2770	8.2800	8.2765	8.2769
<b>2004</b>	8.2768	8.2774	8.2764	8.2765
<b>2005</b>	8.1472	8.2765	8.0702	8.0702
<b>2006</b>	7.9693	8.0705	7.8051	7.8087
<b>2007</b>	7.5806	7.8127	7.2946	7.2946
<b>2008 (through May 15, 2008)</b>	7.0731	7.2946	6.9815	6.9943

(1) Averages are calculated from month-end rates.

**B. Capitalization and indebtedness.**

Not Applicable.

**C. Reasons for the offer and use of proceeds.**

Not Applicable.

**Table of Contents**

**D. Risk factors.**

**Risks relating to our business**

***Negative changes in China's securities markets, economic conditions, inflation, regulatory policies, interests rates and other factors that could affect investors' interests in investing in China's securities markets could have an adverse effect on our business.***

We believe that the level of public interest in investing in China's securities market could significantly influence the demand for market intelligence on China's securities markets and our products. Such demand could be affected by the level of trading activity in China's securities markets. During the past several years, China's securities markets have experienced significant volatility. The benchmark Shanghai Stock Exchange A-Share Index declined 44.80%, from January, 2001 to December, 2005 and surged 124.33% between the start of 2006 and the market peak in October, 2007, despite of the severe corrections on February 27, 2007 and May 30, 2007, when China stock market declined approximately 9% and 7% on a single trading day, respectively. Then the Shanghai Stock Exchange A-Share Index declined 43% from late October, 2007 till the end of March, 2008. Any factors that lead to prolonged weakness or intensified volatility in China's securities markets in the future may diminish investors' interest in China's securities markets, and our business could be adversely affected accordingly.

China's securities market is further limited by a lack of hedging instruments that would assist investors in hedging against market volatility. For example, investors are not permitted to sell short in China's securities markets. Because our business is dependent on investors' interest in China's securities markets, our business could be materially and adversely affected if market volatility and the lack of hedging instruments continue to affect China's securities markets and dampen investors' interest in China's securities markets.

In response to the increased inflation rate during 2004, the Chinese government announced measures to restrict lending and investment in China in order to reduce inflationary pressure on China's economy. In 2006 and 2007, the People's Bank of China announced a series of basic interest rate increases and other measures to reduce inflationary pressure. If China experiences increased inflation in future, the Chinese government may introduce further measures intended to reduce the inflation rate in China. Any such measures adopted by the Chinese central bank may have an adverse effect on China's securities markets, which could adversely impact our business.

***Downturns, disruptions and volatility in Hong Kong securities markets and negative developments in the business, economic, and market conditions that could affect investors' interests in investing in Hong Kong securities markets could have adverse impact on our business in the future.***

Following the acquisition of Daily Growth Securities, we expect to provide a diversified portfolio of brokerage and informational service to our clients in connection with their investment in Hong Kong securities market. Lower trading volumes and price levels of securities transactions in Hong Kong securities market may affect investors' interests in investing in Hong Kong securities markets and have adverse impact on our business in the future.

Historically, securities trading volume in Hong Kong has fluctuated considerably. These fluctuations may result from regional and global economic, political and market conditions, broad trends in business and finance that are out of our control.

***Our securities brokerage business in Hong Kong operates in a highly regulated industry and compliance failures could adversely affect our business.***

With the acquisition of Daily Growth Securities, a licensed securities brokerage firm incorporated in Hong Kong, we provide a diversified portfolio brokerage and other related services to our

**Table of Contents**

customers who invest in stocks listed on Hong Kong Stock Exchange. The securities brokerage business and operations in Hong Kong are subject to extensive regulations by Hong Kong Securities and Futures Commission and Hong Kong Stock Exchange, which may increase our cost of doing business and may be a limiting factor on the operations and development of our securities brokerage business. The regulation on securities broker-dealer business is also an ever-changing area of law and is subject to modification by government, regulatory and judicial actions. As our business grows with the acquisition of Daily Growth Securities, we may devote more time to regulatory matters. Failure to comply with any of the laws, rules or regulations applicable to our securities brokerage business could lead to adverse consequences including, without limitation, investigations, fines, law suits and other penalties from regulatory agencies. Any of these consequences could adversely affect our securities broker-dealer business.

***Our business could be materially and adversely affected if new features and new research tools are not accepted by users.***

We currently offer to our subscribers a limited number of service packages with different features and functionalities. If we introduce a new feature or a new research tool that is not favorably received, our current subscribers may not continue to use our service as frequently as before. New subscribers could also choose a competitive or different service offering over ours. We may also experience difficulties that could delay or prevent us from introducing new research tools or features. Furthermore, these research tools or features may contain errors that are discovered after the services are introduced. We may need to significantly modify the design of these research tools or features to correct these errors. Our business could be materially and adversely affected if we experience difficulties or delays in introducing new features and research tools or if these new features and research tools are not accepted by users.

***We have a limited operating history, which may make it difficult for you to evaluate our business.***

Our service offerings have only been commercially available since April 2001. Our senior management and employees have worked together at our company for only a relatively short period of time. Furthermore, the acquisition of CFO Genius, a financial information database provider mainly serving Chinese domestic institutional customers, in September 2006, our October 2006 acquisition of CFO Stockstar, a finance and securities website in China and November 2007 acquisition of Daily Growth Securities, a licensed securities brokerage firm incorporated in Hong Kong have altered the overall composition of company. Accordingly, we have a limited operating history upon which you can evaluate our business and prospects.

***We may not be able to successfully implement our growth strategies, which could materially and adversely affect our business, financial condition and results of operations.***

We are pursuing a number of growth strategies, which will require us to expand our data and information content and service offerings through internal development efforts and through partnerships, joint ventures and acquisitions. Some of these strategies relate to new service offerings for which there are no established markets in China, or relate to service offerings in which we lack experience and expertise. We cannot assure you that we will be able to deliver new service offerings on a commercially viable basis or in a timely manner, or at all.

In addition, online advertising business strategies may be developed in addition to our subscription-based service offerings. However, since we regard subscription-based services as our current core business and allocate a significant portion of the advertising inventories of our websites, namely, *www.jrj.com* and *www.stockstar.com*, to promote our subscription-based service offerings, to date, our current online advertising business has been limited. We cannot assure you that we will be able to efficiently or effectively implement and grow our online advertising business, or that online advertising on our websites will not detract from our users

**Table of Contents**

experience and thereby adversely affect our brand name or our subscription-based service offerings.

If we are unable to successfully implement our growth strategies, our revenue and profitability will not grow as we expect, if at all, and our competitiveness may be materially and adversely affected.

***We face significant competition which could adversely affect our business, financial condition and results of operations.***

The online financial data and information services market in China is relatively new, has few substantial barriers to entry and is competitive and rapidly changing. More broadly, the number of financial news and information sources competing for consumers' attention and spending has increased since we commenced operations and we expect that competition will continue to intensify. We currently compete, directly and indirectly, for paying subscribers and viewers with companies in the business of providing financial data and information services, including publishers and distributors of traditional media, Internet portals providing information on business, finance and investing, dedicated financial information websites, personal stock research software vendors and stock brokerage companies, especially stock brokerage companies with online trading capabilities. Some of the sponsors with whom we currently maintain sponsorship arrangements could also become our competitors in the future.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. This may allow them to adopt our business model and devote greater resources than we can to the development and promotion of service offerings similar to or more advanced than our own. These competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and offer products and services that achieve greater market acceptance than ours. They may also undercut us by making more attractive offers to our existing and potential employees, content providers and sponsors. New and increased competition could result in price reductions for our research tools, reduced margin or loss of market share, any of which could materially and adversely affect our business, results of operations and financial condition.

In addition to us, many companies in China offer stock quotes, economic and company-specific news, historical stock performance statistics, online chatting regarding individual securities and other features for free over the Internet. If users determine that the information available for free over the Internet is sufficient for their investing needs, they would be unlikely to pay for subscription to our services, thus reducing our revenues and net income and forcing us to develop a new business model. Furthermore, the amount and quality of information available for free over the Internet may expand in the future, reducing the attractiveness of our services and forcing us to spend additional money to develop more sophisticated services in order to compete. There can be no assurance that we would be successful in developing a new business model or more advanced services in response to either of the above challenges. Failure to do so would lead to significant declines in our number of subscribers, revenues and net income.

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

We depend on two securities data providers associated with the Shanghai and Shenzhen Stock Exchanges to provide us with real-time stock, bond and mutual fund quotes and other trading related information. We primarily rely on contractual arrangements with Shanghai Stock

**Table of Contents**

Exchange Information Network Co., Ltd., which is associated with the Shanghai Stock Exchange, and with Shenzhen Securities Information Co., Ltd., which is associated with the Shenzhen Stock Exchange, pursuant to which we pay fixed service fees in exchange for receiving real-time price quotes and other trading related information through satellite communication. In June 2006, we are certified by Shanghai Stock Exchange Information Network Co., Ltd. to develop service packages based on Level II quotes (which provide insight into stock price movements and provide faster and more comprehensive trading data), and upgrade the features and functions of our current products. The definitive agreement is contemplated to continue through July 31, 2009. In January 2008, we entered into a license agreement with Shanghai Stock Exchange Information Network Co., Ltd. to distribute TopView (which reveals valuable statistics, such as trading volume and prices of various types of trading accounts). The agreement authorizes us to use TopView to enhance features and functionalities of our existing products and develop new product offerings. The definitive agreement is contemplated to continue through December 12, 2008. Our contract with Shenzhen Securities Information Co., Ltd. is in the process of being renewed. Any disruption in our ability to secure data, price quotes or other trading related information on timely basis either through technical issues or through our inability to maintain and renew our contracts with the Shanghai and Shenzhen Stock Exchanges will have a material adverse effect on our business.

We have also transitioned the primary source of historical data and information on listed companies, bonds and mutual funds to Shenzhen Genius Information Technology Co. Ltd., or CFO Genius, which we acquired in September 2006. Starting from May 2007, CFO Genius has become our primary provider of historical data and information, thereby mitigating our reliance on third-party backup providers of such historical data and information. Though we maintain raw data provision contracts with Financial China Information & Technology Co., Ltd. and Shanghai Gildata Service Co., Ltd. as alternative sources of historical data and information, any problems arising in or any disruption to CFO Genius as the primary provider of historical data and information will have a material adverse effect on our business.

We cannot assure you that we will be able to enter into business arrangements with either of the two securities data providers associated with the Shanghai and Shenzhen Stock Exchanges on commercially reasonable terms, or at all, after our current contracts expire. We cannot assure you that the two securities data providers will not charge us service fees substantially higher than the service fees we are currently paying. Our business, financial condition and results of operations could be materially and adversely affected if either of our two securities data providers imposes on us service fees substantially higher than the service fees we are currently paying. Even if we are able to maintain our current business arrangements for data on commercially reasonable terms, either of the two securities data providers may fail to deliver us reliable price quotes or other trading related information. In either case, it would be difficult for us to receive reliable real-time price quotes and other trading related information from a different source, which could materially and adversely affect our business.

Additionally, we cannot assure you that we will be able to enter into or maintain our business arrangements with our current data providers on commercially reasonable terms or at all. In this case, it could take time for us to locate alternative providers of comprehensive historical data and information on commercially reasonable terms, which could cause disruptions to our operations and adversely affect our business. Even if we are able to find alternative data providers, they may fail to deliver to us reliable and comprehensive data and information in accordance with our specifications and requirements, which could materially and adversely affect our business.

***Our business would be adversely affected if we do not continue to expand and maintain an effective telemarketing and customer support force.***

We market our service offerings through our websites, as well as through our telemarketing and customer service centers in Beijing and Shanghai. In addition to sales and marketing functions,



**Table of Contents**

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

***Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.***

An active acquisition program is an important element of our corporate strategy. For example, we acquired CFO Genius, a financial information database provider mainly serving Chinese domestic institutional customers, in September 2006. In October 2006, we acquired CFO Stockstar, a leading finance and securities website in China. In November 2007, we acquired Daily Growth Securities, a licensed securities brokerage firm incorporated in Hong Kong. We may not be able to achieve all of the benefits of the business combination or to successfully integrate CFO Stockstar's, CFO Genius's and Daily Growth Securities' operations into ours. While CFO Stockstar, CFO Genius and Daily Growth Securities contributed positive operating cash flows on a collective basis in 2007, we cannot assure you that they will continue to do so. Moreover, we expect to continue to acquire companies, products, services and technologies. Risks we may encounter in acquisitions include:

the acquisition may not further our business strategy, or we may pay more than it is worth;

we may not realize the anticipated increase in our revenues if we are unable to sell the acquired company's products to our customer base, or the acquired contract models of acquired contract models companies;

we may have difficulty identifying suitable acquisition opportunities and integrating acquired companies with our existing operations or their products and services with our existing products and services;

we may have higher than anticipated costs in continuing support and development of acquired products;

we may have multiple and overlapping product lines that are offered, priced and supported differently, which could cause customer confusion and delays;

our due diligence process may fail to identify problems, such as issues with unlicensed use of intellectual property;

we may have legal and tax exposures or lose anticipated tax benefits as a result of unforeseen difficulties in our legal entity integration activities;

we may face contingencies related to intellectual property, financial disclosures and accounting practices or internal controls;

our ongoing business may be disrupted and our management's attention may be diverted by transition or integration issues; and

**Table of Contents**

to the extent that we issue a significant amount of equity securities in connection with future acquisitions, existing ADS holders and shareholders may be diluted and earnings per share may decrease.

These factors could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or multiple concurrent acquisitions.

***Our plan to make strategic investments may negatively affect our business due to the poor financial condition and operating performance of those companies we invest in and other risks.***

As part of our business strategy, we may also make strategic investments intended to facilitate the introduction of new service offerings as well as to add capabilities that we do not currently have. For example, we invested in Moloon International, Inc., or Moloon, a Chinese wireless technology and service provider, in December 2005. However, the financial condition and operating results of companies we invest in such as Moloon could negatively affect our business and financial condition. Government regulations may adversely affect the business of companies we invest in, which could have a material and adverse impact on our business. For example, following an independent valuation of our cost method investment in Moloon, it was determined that a decline in value had occurred and we recorded a non-cash investment impairment of \$11.13 million in 2007, reducing the carrying balance of such investment from \$12.61 million to \$1.48 million, 88% off the book value. In the future, we may also consider further strategic investments and partnerships with companies that specialize in non-exchange traded financial products in order to acquire their expertise in that area which we believe are difficult to obtain otherwise.

Our ability to successfully make strategic investments will depend on the availability of suitable candidates at an acceptable cost, our ability to compete effectively to attract and reach agreement with strategic partners on commercially reasonable terms, the availability of financing to complete larger acquisitions or joint ventures, as well as our ability to obtain any required governmental approvals. In addition, the benefits of a partnership or joint venture transaction may take considerable time to develop, and we cannot assure you that any particular partnership or joint venture will produce the intended benefits. For example, we may experience difficulties in integrating acquisitions with our existing operations and personnel. The identification and completion of these transactions may require significant management time and resources. Moreover, the partnership and joint venture strategies we pursue could also cause earnings or ownership dilution to our shareholders' interests, which could result in losses to investors.

***Our business could be materially and adversely affected if increased usage strains our server systems or if we suffer from other system malfunctions.***

In the past, our websites have experienced significant increases in traffic when there are significant business developments, financial news and activities, or stock market trading activities. In addition, the number of our users has continued to increase over time and we are seeking to further increase our user base. Therefore, our website must accommodate a high volume of traffic to meet peak user demand and deliver frequently updated information. Our websites have in the past experienced and may in the future experience slower response time or login delays for a variety of reasons. It is essential to our success that our websites are able to accommodate our users in an efficient manner so that our users' experience with us is viewed favorably and without frequent delays.

We also depend on other Internet content providers, such as other financial information websites, to provide data and information to our website on a timely basis. Our websites could experience disruptions or interruptions in service due to the failure or delay in the transmission or receipt of this information. In addition, our users depend on Internet service providers, online service

**Table of Contents**

providers and other website operators for access to our website. Each of them has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. These types of occurrences could cause users to perceive our website as not functioning properly and therefore cause them to use other methods to obtain the financial data and information services they need.

***If we are not able to respond successfully to technological or industry developments, our business may be materially and adversely affected.***

The online financial data and information services market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. New services or technologies may render our existing services or technologies less competitive or obsolete. Responding and adapting to technological developments and standard changes in our industry, the integration of new technologies or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. In the event that we are unable to respond successfully to technological industry developments, this may materially and adversely affect our business, results of operations and competitiveness.

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

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

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

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

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

We regard our copyrights, trademarks, trade secret and other intellectual property as critical to our success. Unauthorized use of the intellectual property used in our business may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and

**Table of Contents**

confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in the PRC do not protect intellectual property rights to the same extent as do the laws and enforcement procedures in the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

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

Our future success is dependent upon the continued service of our key executives and employees. We rely on their expertise in our business operations. If one or more of our key executives were unable or unwilling to continue in their present positions, or if they joined a competitor or formed a competing company in violation of their employment agreements, we may not be able to replace them easily. As a result, our business may be significantly disrupted and our financial condition and results of operations may be materially and adversely affected.

Furthermore, since our industry is characterized by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future. Prior to January 1, 2008, our employees were required to enter into one-year employment agreements with us. Starting from January 1, 2008, our employees are required to enter into at a minimum two-year employment agreements with us to be in compliance with the PRC Labor Contract Law becoming effective January 1, 2008. We seek to enter into employment and non-competition agreements with our senior executives for longer terms. We cannot assure you that we will be able to attract or retain the key personnel that we will need to achieve our business objectives. We do not maintain key-man life insurance for any of our key personnel.

***Recent changes in the PRC's labor law restrict our ability to reduce our workforce in the PRC in the event of an economic downturn and may increase our labor costs.***

In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this new law provides for specific standards and procedures for the termination of an employment contract and places the burden of proof on the employer. In addition, the law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including the case of the expiration of a fixed-term employment contract. Further, the law requires an employer to conclude an employment contract without a fixed-term with any employee who either has worked for the same employer for 10 consecutive years or more or has had two consecutive fixed term contracts with the same employer. An employment contract without a fixed term can no longer be terminated on the ground of the expiration of the contract, although it can still be terminated pursuant to the standards and procedures set forth under the new law. Because of the lack of implementing rules for the new law and the precedents for the enforcement of such a law, the standards and procedures set forth under the law in relation to the termination of an employment contract have raised concerns among foreign investment enterprises in the PRC that such employment contract without a fixed term might in fact become a lifetime, permanent employment contract. Finally, under the new law, downsizing of either more than 20 people or more than 10% of the workforce may occur only under specified circumstances, such as a restructuring undertaken pursuant to the PRC's Enterprise Bankruptcy Law, or where a company

**Table of Contents**

suffers serious difficulties in business operations, or where there has been a material change in the objective economic circumstances relied upon by the parties at the time of the conclusion of the employment contract, thereby making the performance of such employment contract not possible. Again, there has been very little guidance and precedents as to how such specified circumstances for downsizing will be interpreted and enforced by the relevant PRC authorities. All of our employees working for us exclusively within the PRC are covered by the new law and thus, our ability to adjust the size of our operations when necessary in periods of recession or less severe economic downturns may be curtailed. Accordingly, if we face future periods of decline in business activity generally or adverse economic periods specific to our business, this new law can be expected to exacerbate the adverse effect of the economic environment on our results of operations and financial condition.

***Undetected programming errors or defects in our research tools could materially and adversely affect our business, financial condition and results of operations.***

Our research tools may contain programming errors or other defects that our internal testing did not detect, which are commonly referred to as programming bugs. The occurrence of undetected errors or defects in our research tools could disrupt our operations, damage our reputation and detract from the experience of our users. As a result, such errors and defects could materially and adversely affect our business, financial condition and results of operations.

***If tax benefits currently available to us in PRC were no longer available under the new Enterprise Income Taxes ( EIT ) law which became effective on January 1, 2008, our effective income tax rates for our PRC operations could increase.***

Our operating subsidiaries incorporated in the PRC are governed by the PRC income tax law, which included until December 31, 2007, the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and the Provisional Regulations of the People's Republic of China on Enterprises Income Tax, and, prior to January 1, 2008, were generally subject to the PRC enterprise income tax rate of 33%. Some of our operating subsidiaries incorporated in the PRC enjoy preferential tax treatments, including reduced tax rates, tax holidays or tax refunds, provided by either the PRC government or its local agencies or bureaus. For example, as a foreign invested Software Enterprise, CFO Beijing was granted by the Beijing branch of the PRC tax bureau two tax incentives that have the effect of:

Exempting the company from state income tax for 2003 and 2004; and

Providing the company a preferential state income tax rate of 12% from 2005 to 2007, the rate currently applicable to wholly foreign-owned enterprises based in Beijing and not subject to other tax holidays.

Similarly, in December 2004, we established our subsidiary CFO Software in Beijing that was classified by the Beijing local government as a foreign invested high-technology company. With the classification of a foreign invested high-technology company, CFO Software expects to receive tax incentives provided to such companies from the Beijing branch of the PRC tax bureau that have the effect of:

Exempting the company from enterprise income tax from 2005 to 2007; and

Providing the company a preferential enterprise income tax rate of 7.5% from 2008 to 2010, and 15% for taxable years thereafter, the rate currently applicable to companies classified as high-technology companies based in Beijing and not subject to other tax holidays, provided that the company continues to be qualified as a high and new technology enterprise under the newly enacted PRC Enterprise Income Tax Law taking effect as of January 1, 2008.

**Table of Contents**

Furthermore, prior to January 1, 2008 CFO Stockstar, CFO Zhengning CFO Genius , and CFO Jujin , each enjoys a preferential enterprise income tax rate of 15% rather than the enterprise income tax rate of 33% applicable to domestic PRC companies generally and is not subject to other tax holidays.

In the absence of these incentives, our operating subsidiaries incorporated in the PRC would be subject to the enterprise income tax rate of 33% applicable to domestic PRC companies generally prior to January 1, 2008. If our PRC incorporated subsidiaries had not received these preferential tax treatments and were required to pay enterprise income tax at the same rate as domestic PRC companies, our business would be adversely affected.

The newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations to the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. Under the EIT Law, China adopted a uniform tax rate of 25% for all enterprises (including domestically-owned enterprises and foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transitional period for certain enterprises, whether foreign-invested or domestic, during which they are allowed to continue to enjoy their existing preferential tax treatments provided by the then applicable tax laws and administrative regulations. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to January 1, 2008 may continue to enjoy such treatment until the fixed term expires. Preferential tax treatments may continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as new and high technology enterprises strongly supported by the state are entitled to a 15% enterprise income tax rate. Most of our operating subsidiaries incorporated in the PRC are classified as Software Enterprise and their qualifications to continue to be entitled to the tax incentives granted to Software Enterprise prior to January 1, 2008 are being reviewed by relevant tax authorities .

The status of certain of our PRC subsidiaries as a high and new technology enterprise will be subject to review on regular basis. Certain of our other PRC subsidiaries qualified as a high and new technology enterprise under the definition promulgated by the prior enterprise income tax law in effect before January 1, 2008. Under the EIT Law, the qualifications for high and new technology enterprise status have not yet been defined. We cannot assure you that certain of our other PRC subsidiaries will continue to qualify as a high and new technology enterprise in future periods. If any of our PRC subsidiaries fails to qualify as a high and new technology enterprise, our income tax expenses would increase, which would have a material and adverse effect on our net income and results of operations. In addition, with respect to revenue generated from the sale of certain online subscription , including our service packages, CFO Beijing, CFO Software, CFO Zhengning, CFO Meining, CFO Genius and CFO Jujin all obtain value-added-tax, or VAT, refunds that reduce their effective VAT rates from 17% to 3%. We cannot assure you that we will continue to enjoy any of these preferential tax treatments in the future. The discontinuation of any of these preferential tax treatments could materially and adversely affect our financial condition.

Any significant increase in our income tax expenses may have a material adverse effect on our profit for the year. Reduction or elimination of the financial subsidies or preferential tax treatments we enjoyed prior to January 1, 2008 or imposition of additional taxes on us or our combined entities in China may significantly increase our income tax expenses and materially reduce our net income, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

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

The newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations for the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The EIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation regulations unless any such non-PRC investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. We are a Hong Kong incorporated company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. According to Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between the Mainland and Hong Kong Special Administrative Region in August 2006, dividends payable by subsidiary located in the PRC to the company in Hong Kong who directly holds at least 25% of the equity interests in the subsidiary will be subject to a no more than 5% withholding tax. Since the preferential withholding tax is subject to the approval from competent taxation authorities in PRC, it remains uncertain whether our company in Hong Kong actually would be able to enjoy preferential withholding taxes for dividends distributed by our subsidiaries in China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 5% income tax if we are considered as a non-resident enterprise under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

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

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiaries to us could be exempt from Chinese dividend withholding tax, since such income is exempted under the new EIT Law to a PRC resident recipient.

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

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends on post 2007 earnings payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC resident enterprise, it is unclear whether

**Table of Contents**

dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises, or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

***We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors.***

Depending upon the value of our shares and ADSs and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. If we are classified as a PFIC in any taxable year in which you hold our ADSs and you are a U.S. investor, you would generally be taxed at higher ordinary income, rather than lower capital gain rates, if you dispose of ADSs at a gain in a later year, even if we are not a PFIC in that year. In addition, a portion of the tax imposed on your gain would be increased by an interest charge. Moreover, if we were classified as a PFIC in any taxable year, you would not be able to benefit from any preferential tax rate with respect to any dividend distribution that you may receive from us in that year or in the following year. Finally, you would also be subject to special U.S. tax reporting requirements.

We believe that we were not a PFIC for the taxable year 2007. However, there can be no assurance that we will not be a PFIC for the taxable year 2008 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year. For example, we would be a PFIC for the taxable year 2008 if the sum of our average market capitalization, which is our share price multiplied by the total amount of our outstanding shares, and our liabilities over that taxable year is not more than twice the value of our cash, cash equivalents, and other assets that are readily converted into cash. We could also be a PFIC for any taxable year if the gross income that we and our subsidiaries earn from investing the portion of the cash raised in our initial public offering in 2004 that exceeds the immediate capital needs of our active business is substantial in comparison with the gross income from our business operations. While we will continue to examine our results under the PFIC tests, we cannot assure you that we will not be a PFIC for any future taxable year. For more information on the U.S. tax consequences to you that would result from our classification as a PFIC please see *Taxation United States federal income taxation U.S. Holders Passive Foreign Investment Company*.

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

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

**Risks relating to our industry**

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



**Table of Contents**

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

***The limited use of personal computers in China and the relatively high cost of Internet access with respect to per capita gross domestic product may limit the development of the Internet in China and impede our growth.***

Although the use of personal computers in China has increased in recent years, the penetration rate for personal computers in China is much lower than in the United States. In addition, despite a decrease in the cost of Internet access in China due to a decrease in the cost of personal computers and the introduction and expansion of broadband access, the cost of Internet access remains relatively high in comparison to the average per capita income in China. The limited use of personal computers in China and the relatively high cost of Internet access may limit the growth of our business. Furthermore, any Internet access or telecommunications fee increase could reduce the number of users that use our online services. Any fee or tariff increase could further decrease our user traffic and our ability to derive revenues from transactions over the Internet, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

***Unexpected network interruptions, security breaches or computer virus attacks could have a material adverse effect on our business, financial condition and results of operations.***

We have limited backup systems and have previously experienced system failures, which have disrupted our operations. Any failure to maintain the satisfactory performance, reliability, security and availability of our network infrastructure may cause significant harm to our reputation and our ability to attract and maintain users. Major risks involved in such network infrastructure include:

Any break-downs or system failures resulting in a sustained shutdown of all or a material portion of our servers, including failures which may be attributable to sustained power

**Table of Contents**

shutdowns, or efforts to gain unauthorized access to our systems causing loss or corruption of data or malfunctions of software or hardware; and

Any disruption or failure in the national backbone network, which would prevent our users from logging on to our website or accessing our services.

Our network systems are also vulnerable to damage from fire, flood, power loss, telecommunications failures, computer virus, hackings and similar events. Any network interruption or inadequacy that causes interruptions in the availability of our services or deterioration in the quality of access to our services could reduce our user satisfaction and competitiveness. In addition, any security breach caused by hackings, which involve efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could cause our users to question the safety or reliability of our website and our services and could have a material adverse effect on our business, financial condition and results of operations. In addition, unauthorized access by third parties to our network could result in theft of personal user information, which could have an adverse effect on our reputation.

***Concerns about the security and confidentiality of information on the Internet may increase our costs, reduce the use of our website and impede our growth.***

A significant barrier to confidential communications over the Internet has been the need for security. To date, there have been several well-publicized compromises of security as a result of global virus outbreaks. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. If unauthorized persons are able to penetrate our network security, they could misappropriate proprietary information, including personal information regarding our subscribers, or cause interruptions in our services. As a result, we may be required to incur substantial costs and divert our other resources to protect against or to alleviate these problems. Security breaches could have a material adverse effect on our reputation, business, financial condition and results of operations.

**Risks relating to regulation of our business and to our structure**

***We rely on contractual arrangements with CFO Fuhua, CFO Glory and CFO Premium, our PRC-incorporated affiliates, and their shareholders for our China operations, which may not be as effective in providing operational control as direct ownership. If the affiliates fail to perform its obligations under these contractual arrangements or PRC laws impair the enforceability of these contracts, our business, financial condition and results of operations may be materially and adversely affected.***

Because PRC regulations restrict our ability to provide Internet content directly in China, we rely on contractual arrangements with CFO Fuhua, our PRC-incorporated affiliate over which we have no direct ownership, and its shareholders for operating our website and conducting our advertising business. These contractual arrangements may not be as effective in providing us with control over CFO Fuhua as direct ownership.

If we had direct ownership of CFO Fuhua, we would be able to exercise our rights as shareholders to effect changes in the board of directors, 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 CFO Fuhua fails to perform its obligations under these contractual arrangements, we may have to (i) incur substantial costs and resources to enforce such arrangements, and (ii) rely on legal remedies under PRC law, which we cannot be sure would be effective. In addition, we cannot be certain that the individual equity owners of CFO Fuhua will always act in the best interests of China Finance Online, especially if they leave the company.

**Table of Contents**

In 2007, we entered into contractual arrangements with CFO Glory and CFO Premium, our PRC-incorporated affiliates over which we have no direct ownership, with the intention of using these two companies as vehicles to acquire PRC domestic companies to operate business, which we are restricted from conducting directly by PRC regulations. Under the contractual arrangements, CFO Glory and CFO Premium will pay us service fees in return for our strategic consulting and technology support services. Currently CFO Glory and CFO Premium have no substantive business operation. These contractual arrangements may not be as effective in providing us with control over CFO Glory and CFO Premium as direct ownership.

These contractual arrangements are governed by PRC law 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 law and any disputes would be resolved in accordance with PRC legal procedures. If CFO Fuhua, CFO Glory or CFO Premium fails to perform its obligations under these contractual arrangements, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. In addition, 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 that we are unable to enforce these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

***If the PRC government finds that the financial data and information services we provide do not comply with Chinese laws and regulations relating to the provision of securities investment advisory services, we may suffer severe disruption to our business operations and lose substantially all of our revenue.***

PRC laws require entities providing securities investment advisory services to the public to obtain a securities advisory business permit from the China Securities Regulatory Commission, or the CSRC. On May 30, 2002, we received a notice from the CSRC requesting that we stop promotional activities of our service offerings involving investment advisory content and alter the relevant content of our website and offerings so that we are no longer deemed to be providing investment advisory related offerings. Promptly after receipt of such notice, we entered into a business cooperation agreement with a securities advisory company licensed to provide securities advisory services, pursuant to which we receive modeling advice and data processing advice for the development of all of our research tools. We subsequently filed a written report with the CSRC on July 18, 2002, explaining our business arrangements with the securities advisory company. Since that time, we have entered into similar business cooperation agreements with five other licensed securities advisory companies. We have not received any further notices from the CSRC since the filing and have been providing financial data and information services under this business framework since that time. We cannot assure you that the CSRC will not revisit this issue and take a position contrary to our interests.

If we are found to be in violation of Chinese laws and regulations relating to the provision of securities investment advisory services, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including imposing monetary penalties on us, ordering us to shut down our websites or forcing us to pursue alternative business objectives other than offering financial data and information services. We may alternatively seek to apply for a securities advisory permit, but we cannot assure that we will be able to secure one. As a result of the possible penalties imposed on us, if the CSRC were to conclude that we provide securities investment advisory services, we could suffer severe disruption to our business operations and lose substantially all of our revenue.

***If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC government restrictions on foreign investment in the online financial data and information service industry, we could be subject to severe penalties.***

**Table of Contents**

PRC regulations currently limit foreign ownership of companies that provide Internet content services, which include operating financial data and information services through the Internet, to be no more than 50%. Accordingly, foreign and wholly foreign-owned enterprises are currently not able to apply for the required licenses for operating such services in China. We are a Hong Kong company. We conducted our operations in China solely through CFO Beijing, our wholly owned subsidiary from April 2000 to December 2004. In late 2006, we acquired CFO Stockstar and CFO Genius, and currently conduct our operations in China primarily through CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success.

We are a foreign enterprise and each of our subsidiaries, CFO Beijing, CFO Software, CFO Stockstar CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success is a wholly foreign-owned enterprise under PRC law, and accordingly, neither we, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success is eligible to apply for licenses to operate our website. In order to comply with foreign ownership restrictions, we operate our website in China through CFO Fuhua and its wholly owned subsidiary CFO Meining, both of which hold the licenses required to be an Internet information content provider under the relevant PRC laws. Zhiwei Zhao, our chief executive officer, and Jun Wang, our chief financial officer, hold 45% and 55% of the equity interests in CFO Fuhua, respectively. We have been and are expected to continue to be dependent on CFO Fuhua and its wholly owned subsidiary CFO Meining to host our websites, *www.jrj.com* and *www.stockstar.com*. We have entered into contractual arrangements with CFO Fuhua, pursuant to which we provide operational support to CFO Fuhua. In addition, we have entered into agreements with CFO Fuhua and Zhiwei Zhao and Jun Wang, the shareholders of CFO Fuhua, which provide us with the substantial ability to control CFO Fuhua. Wu Chen, a financial manager at International Data Group China Ltd., a PRC company affiliated with IDG Technology Venture Investment, Inc. and IDG Technology Venture Investments, LP, two of our principal shareholders, transferred his holdings in CFO Fuhua to Jun Wang, our current chief financial officer, in October 2007. As a result, Jun Wang replaced Wu Chen as a party to all of the agreements we entered into with Wu Chen in connection with his holdings in CFO Fuhua and the operation of CFO Fuhua.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a view that our arrangements with CFO Fuhua comply with PRC law.

If we, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom, CFO Success, CFO Fuhua, and CFO Meining 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 would have broad discretion in dealing with such violations, including:

Revoking business and operating licenses of CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom, CFO Success, CFO Fuhua or CFO Meining;

Discontinuing or restricting our operations or those of CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom, CFO Success, CFO Fuhua or CFO Meining;

Imposing conditions or requirements with which we, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom, CFO Success, CFO Fuhua or CFO Meining;

**Table of Contents**

Requiring us, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom, CFO Success, CFO Fuhua or CFO Meining to restructure the relevant ownership structure or operations;

Restricting or prohibiting our use of the proceeds of our initial public offering in 2004 to finance our business and operations in China; or

Taking other regulatory or enforcement actions, including levying fines that could be harmful to our business. Any of these actions could cause our business, financial condition and results of operations to suffer and the price of our ADSs to decline.

***Our contractual arrangements with CFO Fuhua may be subject to scrutiny by the PRC tax authorities and create a potential double layer of taxation for our revenue-generating services conducted by CFO Fuhua.***

We could face material and adverse tax consequences if the PRC tax authorities determine that the contracts between CFO Beijing and CFO Fuhua were not entered into based on arm's-length negotiations. Although we based these contractual arrangements on those of similar businesses, if the PRC tax authorities determine that these contracts were not entered into on an arm's-length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by CFO Beijing or CFO Stockstar, which could adversely affect us by increasing the tax liabilities of CFO Beijing or CFO Stockstar without reducing the tax liabilities of CFO Fuhua, because CFO Fuhua currently does not operate profitably. These increased tax liabilities could further result in late payment fees and other penalties to CFO Beijing and CFO Fuhua for under-paid taxes.

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

We are a holding company, and we rely principally on dividends and other distributions on equity paid by CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success for our cash requirements, including the funds necessary to service any debt we may incur. If any of CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom or CFO Success incurs debt on its own behalf in the future, the instruments governing the debt may restrict such entity's ability to pay dividends or make other distributions to us. In addition, PRC tax authorities may require us to amend the contractual arrangements CFO Beijing currently has in place with CFO Fuhua in a manner that would materially and adversely affect CFO Beijing's ability to pay dividends and other distributions to us. Furthermore, PRC legal restrictions permit payments of dividends by CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom or CFO Success only out of their net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success are also required to set aside a portion of their net income each year to fund specified reserve funds. These reserves are not distributable as cash dividends. Any limitation on the ability of CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success to make 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.

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

## **Table of Contents**

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

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

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

It may be difficult to determine the type of content that may result in liability for us. If any financial data and information services we offer or will offer through our website were deemed to have violated any of such content restrictions, we would not be able to continue such offerings and could be subject to penalties, including confiscation of income, fines, suspension of business and revocation of licenses for operating online financial data and information services, which would materially and adversely affect our business, financial condition and results of operations. Moreover, if any information posted on our bulletin boards or online forums were deemed to have violated any of the content restrictions, we could be subject to similar penalties that materially and adversely affect our business, financial condition and results of operations.

### **Risks relating to the People's Republic of China**

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

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

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

**Table of Contents**

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

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

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 28 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiaries, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujing, CFO Zhengning, CFO Wisdom and CFO Success, respectively, are wholly foreign-owned enterprises, which are enterprises incorporated in China and wholly owned by foreign investors. Our wholly foreign-owned enterprises are subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. However, these laws, regulations and legal requirements are constantly changing, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

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

Substantially all of our revenues and operating expenses are denominated in Renminbi. Renminbi is currently convertible under the current account, which includes dividends, trade and service related foreign exchange transactions, but not under the capital account, which includes foreign direct investment and loans. Currently, CFO Beijing, CFO Software, CFO Stockstar and , CFO Genius, CFO Jujing, CFO Zhengning, CFO Wisdom and CFO Success, may purchase foreign exchange for settlement of current account transactions, including payment of dividends to us and payment of license fees and service fees to foreign licensors and service providers, without the approval of the State Administration for Foreign Exchange. CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujing, CFO Zhengning, CFO Wisdom and CFO Success may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. However, we cannot assure you that the relevant PRC governmental authorities will not limit or eliminate our ability to purchase and retain foreign currencies in the future. Since a significant amount of our future revenues will be in the form of Renminbi, the existing and any future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies.

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

**Table of Contents**

Because our earnings and cash from operations are denominated in Renminbi, fluctuations in exchange rates between U.S. dollars and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. The People's Bank of China sets and publishes daily a base exchange rate. Until July 21, 2005, the People's Bank of China allowed this rate to fluctuate within a narrow and managed band with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day; beginning on July 21, 2005, the People's Bank of China has allowed this rate to fluctuate within a narrow and managed band with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day, and the People's Bank of China also takes into account other factors such as the general conditions existing in the international foreign exchange markets. As a result of this policy change, Renminbi appreciated approximately 3.2% and 6.4 % against the U.S. dollar in 2006 and 2007, respectively. 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 Renminbi will be stable against the U.S. dollar or any other foreign currency. Our statements of operations of our international 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 revenues, 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 revenues, 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 operations into U.S. dollars. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

**Risks relating to our shares and ADSs**

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

The trading prices of our ADSs have been volatile and could fluctuate widely in response to factors beyond our control. Since the completion of our initial public offering in October 2004, the trading prices of our ADSs have ranged between a high of \$47.68 per ADS to a low of \$3.95 per ADS. During the twelve-month period ended December 31, 2007, the price of our ADSs on the NASDAQ Global Market has ranged from a low of \$4.53 to a high of \$47.68 per ADS. The market prices of the securities of Internet-related companies have generally been especially volatile.

In particular, the performance and fluctuation of the market prices of other technology companies with business operations mainly in China that have listed their securities in the U.S. may affect the volatility in the price of and trading volumes for our ADSs. Recently, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings. The trading performances of these Chinese companies' securities at the time of or after their offerings may



**Table of Contents**

affect the overall investor sentiment towards PRC companies listed in the U.S. and consequently may impact the trading performance of our ADSs. Changes in the US stock market generally or as it concerns the Company's industry, as well as geopolitical, economic, and business factors unrelated to the Company, may also affect the market price and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for business specific reasons. Factors such as variations in our revenue, earnings and cash flow, announcements of new investments, cooperation arrangements or acquisitions, and fluctuations in market prices for our services could cause the market price for our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot give any assurance that these factors will not occur in the future.

***If we grant employee share options and other share-based compensation in the future, our net income could be materially and adversely affected.***

We adopted the 2004 Stock Incentive Plan, or the Plan, in January 2004, and amended the Plan in September 2004 and August 2006. As of December 31, 2007, we had granted options under the Plan with the right to purchase a total of 15,239,488 ordinary shares, of which 1,560,640 unvested options had been returned to the pool of our ungranted options as a result of resignation from employment by a few former employees. We had also granted share options to purchase up to 6,829,500 ordinary shares in January 2004, under option agreements that were independent of the Plan, to other consultants and business advisors of the company. In July, 2007, we granted restricted stock awards covering 10,558,493 ordinary shares of the Company under our 2007 Equity Incentive Plan to our employees who are eligible for the 2007 Equity Incentive Plan. Until December 31, 2005 we accounted for options granted to our directors and employees and restricted stock granted to our employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB 25, and its related interpretations, which require us to recognize compensation expenses for share options we grant where the exercise price is less than the deemed fair value of our ordinary shares on the date of the grant. However, the Financial Accounting Standards Board, or the FASB, has issued Statement No. 123 (Revised 2004), Share-Based Payments, or SFAS 123(R), which requires all companies to recognize, as an expense, the fair value of share options and other share-based compensation to employees at the beginning of the first annual or interim period after June 15, 2005. As a result, beginning on January 1, 2006, we account for compensation costs for all share options including share options granted to our directors and employees and restricted shares granted to our employees using a fair-value based method and recognize expenses in our consolidated statement of operations in accordance with the relevant rules under U.S. GAAP, which may have a material and adverse effect on our reported earnings. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we reduce the scope of the 2004 Stock Incentive Plan and 2007 Equity Incentive Plan, we may not be able to attract and retain key personnel, as share options and restricted shares are an important employee recruitment and retention tool. If we grant employee share options or other share-based compensation in the future, our net income could be adversely affected.

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

Sales of substantial amounts of our ADSs in the public market in the future, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs.

**Table of Contents**

There were 109,754,433 of our ordinary shares including 15,656,231 ADSs (representing 78,281,155 of those ordinary shares) outstanding as of March 31, 2008. In addition, there are outstanding options to purchase an additional 8,985,708 ordinary shares, including options to purchase 1,405,000 ordinary shares that are vested and immediately exercisable. Their ordinary shares, once issued, are exchangeable for our ADSs for trading in the public market. The 82,837,921 ordinary shares that were outstanding prior to our initial public offering are restricted securities as defined in Rule 144 and may not be sold in the absence of registration other than in accordance with Rule 144 under the Securities Act or another exemption from registration. These restricted securities are available for sale subject to volume and other restrictions as applicable under Rule 144 of the Securities Act. To the extent ordinary shares are sold to the market, the market price of our ADSs could decline.

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

As of March 31, 2008, six of our existing shareholders, including IDG Technology Venture Investments, LP, IDG Technology Venture Investment, Inc., Vertex Technology Fund (III) Ltd., C&F International Holdings Limited, Ling Zhang and Jianping Lu, beneficially owned, collectively, approximately 59.55% of our outstanding ordinary shares. As of March 31, 2008, IDG Technology Venture Investments, LP and IDG Technology Venture Investment, Inc. together have one board representative on our five-director board, and beneficially own, collectively, approximately 24.88% of our outstanding ordinary shares. Accordingly, these shareholders have had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us.

***Provisions in our charter documents and Hong Kong law, and change in control agreements we have entered into with each of our each of our executive officers, may discourage our acquisition by a third party, which could limit your opportunity to sell your shares at a premium.***

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

Our articles of association provide for a staggered board, which means that our directors, excluding our chief executive officer, are divided into two classes, with half of our board, excluding our chief executive officer, standing for election every two years. Our chief executive officer will at all times serve as a director, and will not retire as a director, so long as he remains our chief executive officer. This means that, with our staggered board, at least two annual shareholders meetings, instead of one, are generally required in order to effect a change in a majority of our directors. Our staggered board can discourage proxy contests for the election of our directors and purchases of substantial blocks of our shares by making it more difficult for a potential acquirer to take control of our board in a relatively short period of time.

Hong Kong law permits shareholders of a company to remove directors by a shareholders resolution. Our articles of association require any shareholder who wishes to remove a director in this way to give us at least 120 days notice of the resolution, making it more difficult and time consuming for a potential acquirer who has

**Table of Contents**

accumulated a substantial voting position to obtain control of our board by removing opposing directors. Our articles of association provide that our board can have no less than five and no more than nine directors. Our board currently has five directors. Any increase in the maximum number of directors on our board beyond nine directors can only be accomplished by amending our articles of association, which under Hong Kong law requires a shareholders' supermajority vote of 75% and at least 21 days' notice. These restrictions can make it more difficult for a potential acquirer who has accumulated a majority of our shares to take control of us by promptly increasing the size of our board and appointing new directors that are its nominees.

Hong Kong does not have merger laws that permit Hong Kong companies to merge in the same way as U.S. companies could in the U.S. However, the Hong Kong Companies Ordinance has provisions that facilitate arrangements for the reconstruction and amalgamation of companies. The arrangement must be approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, representing three-fourths in value of each such class of shareholders or creditors that are present and voting either in person or by proxy at meetings convened by the High Court of Hong Kong. The arrangements must be sanctioned by the High Court of Hong Kong after shareholders or creditors approve it at the court-convened meeting.

Our shareholders have authorized our board of directors, without any further action by shareholders, to issue additional shares. Under Hong Kong law, the authority granted by our shareholders will remain valid until the conclusion of our next annual general meeting, or the time when our next annual general meeting is required to be held. For as long as this approval remains effective, or is renewed, our board of directors will have the power to issue additional ordinary shares (including ordinary shares represented by ADSs) and preference shares without any further action by shareholders.

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

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

to recognize or enforce against us judgments of courts of the United States based on the civil liability provisions of U.S. securities laws; or

to allow original actions brought in Hong Kong, based on the civil liability provisions of U.S. securities laws that are penal in nature.

**Table of Contents**

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

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

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

A holder of ADSs may exercise its voting rights with respect to the underlying ordinary shares only in accordance with the provisions of the deposit agreement and the American depositary shares. We do not recognize holders of ADSs representing our ordinary shares as our shareholders, and instead we recognize the ADS depositary as our shareholder.

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

Furthermore, the depositary has deemed any holders who do not send in voting instructions at all or in time as having instructed the depositary to give a discretionary voting proxy to the person(s)

**Table of Contents**

designated by us to receive voting proxies, with full power to exercise such holder's (or holders') voting rights under the ADSs underlying ordinary shares in the manner as the proxy holder deems fit. Accordingly, matters that favor the incumbent board of directors and management will have a higher likelihood of passing than would otherwise be the case.

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

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

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

***You may be subject to limitations on transfer of your ADSs.***

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

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

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

**Table of Contents**

able to establish an exemption from registration under the Securities Act. Accordingly, ADS holders may be unable to participate in our rights offerings and may experience dilution in their holdings.

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

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and development of the company.**

China Finance Online Co., Ltd. was incorporated in Hong Kong in November 1998. Prior to April 2000, we did not conduct any business operations. In April 2000, we purchased all of the equity interests of Fortune Software (Beijing) Limited and renamed it China Finance Online (Beijing) Co., Ltd., or CFO Beijing, whereby we acquired our website, *www.jrj.com.cn*, and commenced our online financial and listed company data and information operations. In October 2004, we purchased another domain name, *www.jrj.com*, and commenced operating our business under this domain name in March 2005. We maintain the same content under both domain names.

Since we commercially launched our service offerings in April 2001, we have conducted substantially all of our operations in China through our wholly owned subsidiary, CFO Beijing until December 2004. In December 2004, we incorporated a new wholly foreign-owned enterprise, Fortune Software (Beijing) Co., Ltd., or CFO Software. As wholly foreign-owned enterprises, CFO Beijing and CFO Software are not permitted under PRC law to provide Internet information content, which requires special licenses from the Ministry of Industry and Information or its local branches. In order to comply with foreign ownership restrictions, we operate our website in China through Beijing Fuhua Innovation Technology Development Co., Ltd., or CFO Fuhua, which holds the licenses required to be an Internet information content provider under the relevant PRC laws. Zhiwei Zhao, our chief executive officer, and Jun Wang, our chief financial officer, hold 45% and 55% of the equity interests in CFO Fuhua, respectively.

In October 2004, we completed the initial public offering of our ADSs, each of which represents five of our ordinary shares, and listed our ADSs on Nasdaq.

On September 21, 2006 China Finance Online entered into an agreement to acquire all the equity interest in CFO Genius, CFO Genius engages in the business of constructing and maintaining financial information databases and providing networked information solution. It was the first company of its kind in China to build databases and to provide electronic information networks for domestic securities and investment firms at the time of its establishment in 1994. The acquisition is expected to strengthen the Company's position in the industry and provide future opportunities to develop database products. CFO Genius is a financial information database provider primarily serving domestic securities and investment firms, for a total cash consideration of \$1,040,081, including \$40,081 in transaction costs.

In October 2006, we closed the acquisition of CFO Stockstar and CFO Meining, a related company of CFO Stockstar that operates *www.stockstar.com*. Under the definitive agreements, we and one of our affiliates paid US\$6.5 million and RMB12 million, respectively, for an aggregate consideration of approximately US\$8 million, in exchange for 100% of the equity of CFO Stockstar and 100% of the equity of CFO Meining. Established in 1996, *www.stockstar.com* is one of the leading finance and securities websites in China.

In October 2007, we formed a strategic alliance with China Center for Financial Research ( CCFR ) of Tsinghua University, one of the most reputable universities in China, primarily in the area of financial database development. We receive exclusive technical advice and support

**Table of Contents**

from CCFR on the development of financial database and analytics. We also cooperate with CCFR on other areas including training, product development, investor education, etc. This collaboration enables us to further solidify our leading position in providing financial information, data and analytics in China.

In November 2007, we successfully completed the acquisition of Daily Growth Securities (formerly known as Daily Growth Investment Company Limited), a licensed securities brokerage firm incorporated in Hong Kong with a history of over 35 years. Under the definitive agreement, China Finance Online acquired 85% equity interest of Daily Growth Securities for approximately \$3.6 million. In March 2008, we raised the authorized and issued share capital of Daily Growth Securities; consequently, the total percentage of beneficial ownership by CFO Hong Kong increased from 85% to 98.5%. By acquiring and fully integrating Daily Growth Securities with our existing resources, particularly the vast investor base of our premium websites jrj.com and stockstar.com, our goal in the long run is to provide a diversified portfolio of brokerage and informational services to our users and improve the monetization rate of our website user base by capitalizing our users' growing interest in investing in Hong Kong-listed securities.

In January 2008, we entered into an alliance agreement with China Telecom, the largest wireline telecommunications and broadband services provider in China, with a purpose to deliver a variety of financial information services to China Telecom's more than 40 millions of broadband users. Under the alliance agreement, the two parties will establish and maintain a co-branded financial channel on China Telecom's broadband portal Vnet.cn, a website owned by China Telecom that also serves as the payment platform for its broadband subscribers for various internet value-added services. China Telecom will distribute our products through the Vnet portal as well as its business halls in China, and the two parties will split the revenues according to the agreed-upon scheme under the alliance agreement. We believe that this strategic move will further solidify our leading position in providing financial information, data and analytics in China and also bring us a unique opportunity to further enhance our brand awareness among internet users.

Our principal executive offices are currently located at 9th Floor of Tower C, Corporate Square, No. 35 Financial Street, Xicheng District, Beijing 100032, People's Republic of China and our telephone number is (8610) 5832-5288.

**B. Business overview.**

We are one of the leading companies that specialize in providing online financial and listed company data and information in China. We offer subscription-based services on a single information platform that integrates data and information from multiple sources with features and functions such as data and information search, retrieval, delivery, storage and analysis. We deliver these features and functions using software tools that we have developed, which we refer to as research tools. Our research tools combine:

financial analysis tools that permit users to calculate and analyze quantitatively financial data;

current and historical financial data and information for China's listed company stocks, bonds and mutual funds;

categorized news and research reports; and

online forums and bulletin boards.

With our screen layout and menu options, we display our research tools in a manner designed for ease of use. The content and technology comprising our integrated information platform is also designed to be adaptable so that as we develop new research tools and adopt new content and

**Table of Contents**

features, these new research tools, content and features can be easily integrated with our existing platform. Our service offerings permit users to subscribe to several of the service packages that we offer. These offerings are broadly divided into three categories: Securities Market Information, Technical Analysis, and Fundamental Analysis. Each service package contains one or more research tools. Our research tools include a number of features and functions that, we believe, are innovative and are not widely available in the Chinese financial markets. Our service offerings can be accessed using our research tools and through our websites at [www.jrj.com](http://www.jrj.com) or [www.stockstar.com](http://www.stockstar.com).

JRJ is the abbreviation of Jin Rong Jie , which means financial industry in Chinese. As of December 31, 2007, we had a total of approximately 9.0 million registered user accounts, and approximately 56,200 active paying individual subscribers. Our registered users are Internet users who maintain a registered account with either [www.jrj.com](http://www.jrj.com) or [www.stockstar.com](http://www.stockstar.com). Active paying individual subscribers refer to registered user who subscribe to a fee to one of our subscription-based services offered by either [www.jrj.com](http://www.jrj.com) or [www.stockstar.com](http://www.stockstar.com) by download or through mobile devices.

Our service offerings to users are used by and targeted at a broad range of investors in China, including individual investors managing their own money, professional investors such as institutional investors managing large sums of money on behalf of their clients and high net worth individuals, other financial professionals such as investment bankers, stock analysts and financial reporters, and middle class individuals. Most, if not all, all of our research tools are designed for and tailored toward investors in China, allowing them to make informed investment decisions with respect to all of China's listed company stocks, bonds and mutual funds according to specifications and analyses determined by the investors.

Our website users are not charged for visiting our websites and obtaining basic financial information such as real-time quotes and historical financial information for all of China's listed company stocks, bonds and mutual funds, and financial news. Our integrated information platform, which allows users to select from a range of downloadable and web-based research tools, is available only through subscription. We categorize, process and, through our subscription-based research tools and our website content, present data and research results to our subscribers, allowing them to make informed investment decisions. Our service offerings are designed to enhance our users' and subscribers' experience due to the following characteristics:

*Comprehensive.*

We offer a broad range of data and information regarding China's listed company stocks, bonds and mutual funds. We offer more than basic financial data such as price and trading information and provide our subscribers with breaking economic and financial news, detailed historical data and information, financial analysis tools, market coverage and listed company analysis and online forums that facilitate our subscribers' own investment analysis efforts. We believe we have built a comprehensive database of historical financial data and information on China's listed companies, bonds and mutual funds with data and information dating back to December 1990, when the Shanghai and Shenzhen Stock Exchanges first opened for trading.

*Integrated.*

Our information platform integrates data and information from multiple sources with features and functions such as data and information search, retrieval, delivery, storage and analysis. Our platform integrates all of the research tools, data and other information we have developed or gathered and, together with our screen layout and menu options, displays them in a manner designed for ease of use. The content and technology comprising our integrated information platform is also designed to be adaptable so that as we develop new research tools, content and features, these new research tools, content and features can be easily integrated with our existing



**Table of Contents**

platform. Depending on the service package chosen by the subscriber, a subscriber can have different levels of access privileges to financial analysis tools, real-time and historical data, news, research reports and online forums.

*Interactive.*

We have established online bulletin boards and discussion forums where users can share with each other views on stocks and trends in the financial markets in China. In addition, we have introduced stock alert services that send messages to our users' mobile phones alerting them of changes in stock prices and other trading related information of their interest, according to their pre-set query parameters, allowing them to extend their experience with our services beyond the Internet.

*Timely.*

We provide our subscribers and users access to real-time stock quotes, breaking news and updated research reports to allow them to stay current with the latest market developments. We receive real-time stock, bond and mutual fund quotes and other trading related information directly from the Shanghai and Shenzhen Stock Exchanges. During an average trading day, we update our research tools within three seconds of receipt of new data and information from the stock exchanges. We also receive current news headlines from financial news websites and publishers and distributors of traditional media. We also have provided our subscribers and users with up-to-date personal finance news and wealth management products that we received from banks, trust companies, insurance companies and other financial institutions.

*Unbiased.*

Our website presents third-party content, analysis and commentary, and computer generated quantitative analysis to provide our subscribers and users with a broad view of the financial markets in China. We do not formulate or publish views on this content, analysis or commentary. Because we are not motivated to convince them to buy or sell any securities or to invest in any specific investments, we believe our subscribers and users view us as an unbiased provider of financial information.

*Easy to use.*

Our research tools and our website are designed with a screen layout, menu options and displays that we believe any user familiar with a computer will find easy to use. From our basic web page, our users can choose a variety of financial data and information topics that interest them. Through our research tools, our subscribers have access to a large pool of historical financial data and information, which they can categorize and analyze as they determine. We have a product development team directed at working closely with our customer support personnel to update and develop information and presentation formats that our subscribers view as enhancing ease of use and increasing the informative power of our research tools and our website. Our website is also designed to accommodate low bandwidth access to the Internet.

To assist us in the delivery of comprehensive, timely and easy to use service offerings, we have developed a technology platform that utilizes the capabilities of the Internet. Our technology platform allows us to retrieve real-time stock quotes from both the Shanghai and Shenzhen Stock Exchanges, historical financial data and information on listed companies, bonds and mutual funds from data providers, research reports from securities advisory companies, futures companies and securities brokerage companies licensed to provide securities advisory services, commentaries from licensed individual securities advisors and news feeds from news publishers and media companies.

## **Table of Contents**

A substantial portion of our revenue is derived from annual subscription fees for our service offerings. For subscription services provided to individual investors, our current core business, we receive subscription fees at the beginning of the subscribers' subscription periods. Revenues from the subscription fees are deferred and recognized ratably over the service period.

### **Growth Strategy**

We are combining our own capability of organic growth with strategic acquisition and partnership.

Our own organic growth is achieved from:

- increase our sales force scale and improve efficiency by recruiting more telemarketing sales personnel and training them with better sales skills;

- increase our subscriber base by expanding distribution channels such as banks, mutual funds and brokerage firms;

- build our customer database by better understanding and in depth mining registered users;

- upgrade our existing service offerings and expand our present service offerings to include data and information relating to other financial instruments such as mutual funds, currencies, futures and commodities; and

- continue to encourage our subscribers to migrate to newer, more comprehensive and higher priced service offerings.

On the other hand, strategic acquisition and partnership is achieved by:

- acquire strategic resources and capabilities in order to strength entry barriers, expand business scale, diverse revenue resources and monetize registered user base; and

- get access to complementary resources and capabilities through strategic partnership that enables to penetrate into a bigger market in order to solidify our leading position and enhance our brand awareness.

### **Our Subscription Services**

We collect, process and, through our research tools and our website content, provide to our subscribers financial analysis tools, real-time and historical data, news, research reports and online forums in one integrated information platform, allowing them to make informed investment decisions with respect to all of China's listed company stocks, bonds and mutual funds according to specifications and analyses determined by them.

#### ***Our features***

Through our integrated information platform, our subscribers have access to and can make use of each of our main content features: financial analysis tools, real-time and historical data, news, research reports and online forums.

#### ***Financial analysis tools.***

Our financial analysis tools are research tools that provide subscribers with the ability to quantitatively calculate and analyze financial data, which include:

**Table of Contents**

Fundamental analysis tools, which are designed to enable investors to analyze data based on company fundamentals; and

Technical analysis tools, which are designed to enable investors to analyze data based on trends formulated by historical trading data.

These tools allow our subscribers to perform fundamental and technical analysis on companies, bonds and mutual funds listed on the Shanghai and Shenzhen Stock Exchanges, based on current and historical financial data and information, trading volumes and other user specifications.

*Real-time and historical data.*

Our integrated information platform offers subscribers interactive charts, quotes, reports and indicators on over 2,000 securities, including company stocks, bonds, warrants and mutual funds, listed on China's Shanghai and Shenzhen Stock Exchanges. Users can search by company name or ticker symbol for real-time stock quotes of these securities. Trading data is provided to us on a real-time basis by each of the Shanghai and Shenzhen Stock Exchanges. We collect, categorize, organize and index trading data provided to us to allow searches, sorting and analysis by user specification and allow our subscribers to access and analyze the data, using our financial analysis tools and other research tools.

We also offer our subscribers detailed historical data and information on listed companies, mutual funds and bonds. This information is available for our subscribers to download from our website and is available on compact diskettes but are not accessible to general viewers. We collect historical data and information, process this information and, through our research tools, allow our subscribers to retrieve critical data and information they select.

*News.*

Our news feature allows users to search and view breaking economic and financial news and information from China and around the world. We do not report news ourselves. We have a team of editorial staff who compile on daily basis economic and financial news and information reported by other public sources that are relevant to China's financial markets. Our editorial staff further indexes them according to topics and categories for the convenience of our users. Through our research tools and website content, our subscribers can access timely and customized financial information and reports, categorized and integrated into topics and sub-topics that they select, based on their investment and analysis needs. The financial data and information presented on our website or through our research tools is gathered from other financial information content providers and intermediaries with whom we have contractual arrangements.

*Research reports.*

Through our integrated information platform, our users can view financial news letters and analytical reports from a number of China's prominent securities professionals. We draw market research reports and commentaries from securities advisory companies, futures companies and securities brokerage companies licensed to provide securities advisory services, commentaries from licensed individual securities advisors. For our subscribers, we categorize these reports and commentaries based on topics, industry sector and other customary categorizations.

*Online forums.*

We host several online bulletin boards on our websites by which Chinese licensed securities advisors offer their views on a variety of topics ranging from macroeconomic conditions to performance of individual stocks, bonds and mutual funds. We do not support, comment on or advocate any views presented by any such securities advisors. We also maintain several online

## **Table of Contents**

forums on our website, enabling our users to participate in the discussions on specific financial topics we believe will be of interest to them. The online forums are moderated by third party moderators approved by us. We believe the online bulletin boards and discussion forums enhance our users' experience and, through our active monitoring, allow us to better understand our users' behavior and needs.

### ***Our websites***

Our website content and our research tools are the key components of our information platform. Our websites have four primary functions:

- to attract visitors and market our subscription based service offerings;
- to store content and serve as an integral part of our information platform;
- to serve as download platforms for our service offerings; and
- to display online advertisements.

In order to attract visitors to our websites, we offer a significant portion of our website content free of charge. This free content includes real-time stock quotes, trading volumes, pricing indicators for listed companies in China and market news from the Shanghai and Shenzhen Stock Exchanges. Through our websites, users can also participate in online forum discussions and bulletin boards. Our websites also have an important marketing function for our subscription based service offerings. We provide examples to our visitors on our websites of the various premium content and features they can access and receive by becoming a subscriber to our service offerings.

Our premium content and features are accessible through our research tools, some of which are web-based and others are computer-based. Subscribers to our web-based research tools are required to register and maintain personal accounts with our websites. These subscribers can store important information they viewed and analytical results they obtained in their personal accounts maintained at our websites, and later review that information and results using the same screen layouts and menu options our websites provide.

Subscribers to computer-based research tools can download from our website the packages they selected to their computers.

We believe our websites are designed for ease of use and accommodate low bandwidth access to the Internet. In addition, we have also historically derived some revenue from online advertising.

### ***Our research tools***

Through our research tools we have developed, our subscribers can access and analyze our content, including our real-time and historical data, news and research reports, in one integrated platform, allowing our subscribers to make informed investment decisions with respect to all of China's listed company stocks, bonds and mutual funds according to specifications and analyses determined by them. Some of our research tools are web-based and others require download from our website and are computer-based. Our subscribers pay us a subscription fee for the use of our subscription services over a specified period of time, typically 12 months. .

We offer subscribers a variety of research tools designed to provide information and analysis, including financial analysis, as well as the ability to search and sort out data and information, based on subscribers' needs and preferences. For example, we make available services that permit subscribers to analyze our content using some or all of the following research tools:

**Table of Contents**

*Categorized macro information.* This feature allows subscribers to search and sort up-to-date and comprehensive news and information relating to the broader financial markets or a specific financial topic or industry sector. We have a dedicated team of professional editors who collect, organize, categorize and index macro-economic and financial market information on a daily basis, according to user feedback and classification methods that we believe are accepted practice in securities markets in China.

*Industry sector analysis.* Many investors in China seek to distinguish between listed companies with investment potential and those prone to financial trouble by analyzing listed companies' financial data published in their financial statements and comparing such data among companies within the same industry sector. We collect and process listed company financial data and information according to classification methods set by relevant PRC regulatory authorities, and allow subscribers to view the relative standings of listed companies in the same industry sector or geographical locations based on market accepted performance parameters such as price-to-earnings ratios and profit margins.

*Fundamental analysis.* Historical and real-time financial information are important to investors because they provide insight into company fundamentals. This research tool integrates the historical and real-time trading information we maintain in our database, as well as fundamental financial information such as earnings-per-share, shareholdings and other related data and information. Our subscribers can receive fundamental financial and trading information organized by their specifications and display these results on a graphical interface that we designed to be easy to visualize and navigate.

*Mutual fund analysis.* Our mutual fund research tool focuses on categorizing information relating to the portfolio holdings of mutual funds. This feature allows subscribers to study the collective effect of large market players on individual stocks. This feature also offers information relating to the performance of individual mutual funds, allowing subscribers to assess the risks and rewards of investing in mutual funds.

*Technical analysis.* This feature allows investors interested in trends formulated by historical trading data to perform technical analysis on listed companies. With over 60 markets accepted technical indicators and a complete database of historical data and information on all of China's listed company stocks, our subscribers can perform extensive chart analysis and pattern recognition on any stock listed on China's stock exchanges. We currently offer different service packages incorporating some or all of our research tools to our users. Our service packages provide research tools focused around three main areas: securities market data, technical analysis, and fundamental analysis. We expect that as we introduce data and information on commodities, we would include a separate research tool for that purpose. We view the migration of existing subscribers and the attraction of new subscribers to our service offerings with more comprehensive research tools as one of our most important growth strategies.

***Our securities service packages.*** Our service packages focus on the following three main areas:

***Securities Market Data.*** Our Securities Market Data service packages are developed on the basis of Level II quotes and TopView data licensed from Shanghai Stock Exchange. On June 15, 2006, we entered into an agreement with Shanghai Stock Exchange Information Network Co., Ltd., ( SSEINC ) which is associated with the Shanghai Stock Exchange, or SSE. Under the definitive agreement, we are certified by SSE to develop service packages based on Level II quotes, and upgrade the features and functions of our current products. The definitive agreement is contemplated to continue through April 30, 2009.

## **Table of Contents**

Level II quotes give investors unique insight into a stock's price movement, which, we believe, is of great value to Chinese investors. In addition, Level II quotes provide faster and more comprehensive trading data and statistical information on market transactions.

In January 2008, once again we are certified by SSEINC to distribute TopView, a series of trading data and statistics for stocks listed on SSE. Among other things, TopView reveals valuable statistics, such as trading volume and price patterns of various types of trading accounts, which give investors unique insight to identify and analyze major market participants' trading activities in specific stocks and thereby help investors make informed decisions. In addition, we are also authorized to use TopView data to enhance and upgrade features and functionalities of our existing products and develop new products.

**Technical Analysis.** Technical Analysis involves researching historical price and volume data, patterns and trends to predict the performance of a given stock. This type of analysis focuses on chart formations and formulas to identify major and minor trends to recognize buying opportunities and exit points.

**Fundamental Analysis.** Fundamental Analysis involves examining the company's financials and operations, especially sales, earnings, growth potential, assets, debt, management, products, and competition. Fundamental Analysis takes into consideration only those variables that are directly related to the company itself, rather than the overall state of the market or technical analysis data.

### ***Pricing policy***

We price our service packages based on the research tools included and their level of comprehensiveness, as well as on market demand. Each of the securities service packages has multiple versions ranging from low end to high end with different levels of comprehensiveness in terms of features and functionality which target various levels of customer demand for fundamental analysis. Therefore, we focus on enhancing and upgrading the available features and functions of our research tools and continue to introduce updated versions of our service packages. We encourage all of our users to upgrade to newer versions of our service packages or more comprehensive service packages.

We may, from time to time, offer discounts or promotions, depending on our perceived need in accordance with our pricing policy. Any of such discounts or promotions could apply to new or repeat subscribers as we may determine.

### ***Our brokerage services***

With the acquisition of Daily Growth Securities in November 2007, a licensed securities brokerage firm with a history of 36 years, we provide a diversified portfolio of brokerage and other related services to our customers who invest in stocks listed on Hong Kong Stock Exchange. Daily Growth Securities is regulated by Hong Kong Securities and Futures Commission and Hong Kong Stock Exchange. In 2007, brokerage and related services provided by Daily Growth Securities represented less than 1% of our total net revenues, and such services were not part of our core business in 2007.

### ***Our online advertisement services***

Our websites [www.jrj.com](http://www.jrj.com) and [www.stockstar.com](http://www.stockstar.com) are among the most popular financial information websites in China. Although we believe our internet community is an attractive demographic target for advertisers because it represents an affluent, educated and technically sophisticated market, in 2007, we continued to allocate most of our advertising inventory to promote our subscription-based software offerings. In 2007, revenues from advertising-related

## **Table of Contents**

services represented approximately 6% of our total net revenues, and online advertising was not part of our core business in 2007.

### **Customer support**

Our customer support center provides our subscribers real-time and personal support. Our customer support center currently operates from 8:00 a.m. to 10:00 p.m. on weekdays and 9:30 a.m. to 8:30 p.m. on weekends and holidays. Our customer support personnel, in addition to their sales and marketing functions, help our existing and prospective subscribers to resolve any technical problems they may have. We have an in-house training program for our customer support personnel, which include training courses on China's securities markets, our service features and functionalities, technical problem solving skills in respect of our research tools and general customer service guidelines.

### **Our content providers**

We draw content from the Shanghai and Shenzhen Stock Exchanges, which provide us with real-time stock, bond and mutual fund pricing and other information, and our data providers, which provide us with historical financial data and information on listed companies, bonds and mutual funds, according to our parameters, specifications and requirements. We also draw content from securities advisory companies, futures companies and securities brokerage companies licensed to provide securities advisory services, licensed individual securities advisors, and news publishers and media companies, as well as financial institutions, such as banks, trust companies and insurance companies.

#### ***Shanghai and Shenzhen Stock Exchanges***

We receive real-time stock, bond and mutual fund quotes and other trading related information directly from the Shanghai and Shenzhen Stock Exchanges. We have entered into an information service agreement with each of the stock exchanges pursuant to which we pay the stock exchanges fixed service fees in exchange for receiving real-time price quotes and other trading related information through satellite communication. We also have cable links to both exchanges to serve as back-ups to satellite communication data feeds. During an average trading day, we update our web pages within five seconds of receipt of new data and information from the stock exchanges.

Our agreement with Shanghai Stock Exchange Information Network Co., Ltd., which is associated with the Shanghai Stock Exchange, allows us to develop service packages based on Level II quotes and upgrade the features and functions of our current products. Level II quotes give investors unique insight into a stock price's movement and provide faster and more comprehensive trading data. We also have an agreement with Shanghai Stock Exchange Information Network Co., Ltd. to distribute TopView. Among other things, TopView reveals valuable statistics, such as trading volume and prices of various types of trading accounts, which give investors unique insight to identify and analyze major market participants' trading activities in specific stocks and help investors make more informed investment decisions. In addition, we are also authorized to use TopView to enhance and upgrade features and functionalities of our existing products and develop new products.

Our agreement with Shenzhen Securities Information Co., Ltd., associated with the Shenzhen Stock Exchange, is in the process of being renewed. Under these agreements, we may distribute the financial data and information we receive to our users, but not to other vendors or distributors. Each of these two data providers can terminate its respective agreement with us if we breach the terms of the relevant agreement, such as fail to pay or delay our payment of fees to these providers.

**Table of Contents**

***Data providers***

We acquired CFO Genius in September 2006. Starting from May 2007, CFO Genius has become our primary provider of historical data and information on listed companies, bonds and mutual funds for input into our information platform. We are able to obtain information in accordance with designated parameters, specifications and requirements. This information includes historical financial information for listed companies, significant corporate events such as mergers and acquisitions and significant changes in the shareholdings of listed companies, information concerning major shareholders of listed companies, biographical information for directors and management of listed companies, as well as financial news and other data and information. The updates provided by CFO Genius range from several times a day to once a month depending on the type of information. In addition, we have raw data provision contracts with Financial China Information & Technology Co., Ltd. and Shanghai Gildata Service Co., Ltd as alternative sources of historical data and information.

***Financial Institutions, securities advisors and stock brokerages***

We have entered into cooperation contracts with various financial institutions, including banks, insurance and trust companies. According to these contracts, they will provide the personal finance information and product updates directly to us. We have also entered into cooperation arrangements with securities advisory companies, futures companies and securities brokerage companies, each licensed to provide securities advisory services. Under these arrangements, we have the right to extract market commentary and research notes taken from their websites, and to store, reproduce, market and deliver such information to our customers by means of our information platforms. We upload financial content from these websites on a regular basis. In addition, we have entered into cooperation arrangements with licensed individual securities advisors to receive through email and other means their published articles and commentaries covering a range of topics from macroeconomic conditions to performance of individual stocks, bonds and mutual funds. Many of these individual securities advisors have dedicated columns or bulletin boards maintained on our website for which they are responsible for maintenance.

***News and media conglomerates***

We also draw content in the form of breaking headlines and other news information from publishers and distributors of traditional media.

***Chinese news publishers and media companies***

We are permitted under these arrangements to extract financial news, reports and information taken from their print publication channels, and to store, reproduce, market and deliver such information to our users through our website. We rely on our editorial staff to compile, for publication on our website, publicly available financial news, reports and information received from these sources that are relevant to China's financial markets.

***Sales and marketing***

We market our service offerings through our websites, as well as through customer support personnel at our telemarketing and customer service centers. Our websites provide detailed descriptions of our service offerings while our customer support personnel are available to explain to callers the various features of our offerings and to resolve our subscribers' technical problems. We also market our service offerings through banks, mutual funds and stock brokerage firms.

We charge our subscribers a subscription fee for the use of our service packages over an agree-upon service period, typically one year. Our subscribers either pay us by cash, by money



## **Table of Contents**

order via post, by online bank transfer or by direct wiring of cash. Upon receipt of payment, we promptly activate our subscribers' accounts with us. Since we accept cash as the only payment method, we do not take any credit risk of our subscribers. We have a refund policy, and refunds in 2007 represented approximately 1% of cash revenues received from individual subscribers.

### **Product development**

We place significant emphasis on refining and upgrading our information platform, and on creating new and innovative features to meet the changing needs of our customers and utilizing the latest in technology and innovation. We believe that we are one of the few online financial information service providers in China that have solid in-house software development capabilities. Our ability to develop software internally allows us to broaden our service offerings and enhance our competitiveness, while keeping development costs at a minimum.

Our product development team works as an integral part of our overall service offering efforts. For example, we require our product development team to conduct frequent meetings with our sales and marketing team to discuss the feasibility of new service offerings and the progress of existing product development efforts. Our product development team also works closely with our customer support team to develop features and content that is based on feedback we received from our subscribers and users.

We expect product development to remain an important part of our business as the online financial data and information services industry in China becomes increasingly sophisticated. In order to remain competitive, we expect to continue to expand our product development efforts:

- to increase the breadth of our service offerings through the addition of new features and functions to our service packages;

- to enhance our subscribers' experience by improving the quality of our research tools and website;

- to develop additional research tools, features and content specifically targeting the high-end subscribers; and

- to design and build new financial instrument service products that fit our strategies.

### **Technology and infrastructure**

Our internally developed technology infrastructure is designed to maximize the number of concurrent users we can serve, while minimizing information retrieval time for our users. We deliver electronically real-time and historical financial data and analysis tools to our users through our internally developed technology platform, which is designed specifically for our web-based and computer-based software services. Our technology platform, which consists of web server technology, database technology and a data aggregation engine, enables us to enhance performance, reliability and scalability in handling bursts of high-volume data requests during peak time, allowing users to quickly retrieve the information that they search for even during periods of high concurrent use. We own all of our servers. Our servers are capable of accommodating three times the number of peak-hour concurrent users and four times our required bandwidth as measured during peak hours for the twelve months ended December 31, 2007.

#### ***Web server technology.***

Our web server technology enables us to quickly develop and deploy information services dynamically. Our web server technology includes features that are designed to optimize the performance of our online services. For example, we developed a special feature that maximizes

## **Table of Contents**

the time during which client-server connections are kept open, based on current server load, thereby increasing user navigation and website access speed.

### ***Database technology.***

We have developed database technology to address the specific requirements of our information services. Our database design and search techniques allow for efficient data retrieval within the unique operating parameters of the Internet. For example, our dynamic index traversal technology utilizes users' inputted search parameters to determine the appropriate database index (from among multiple indices) in parallel, thereby efficiently locating the data requested. Further, we use an index compression mechanism to achieve an efficient balance between disk space and compression/decompression for various database activities.

### ***Remote data aggregation engine.***

Our remote data aggregation engine allows us to retrieve, process and present data as a single virtual database result from a variety of sources, either in real-time or at predetermined intervals. We developed a template-driven profiling system that catalogs the data on each source site. We also store data results internally in order to reduce network traffic and deliver the results to our users as quickly as possible.

### **Competition**

The online financial data and information service market in China is relatively new, has few substantial barriers to entry and is competitive and rapidly changing. The number of online financial news and information sources competing for users' attention and spending has increased since we commenced operations and we expect that competition will continue to intensify. More broadly, we also compete, directly and indirectly, for users and subscribers with companies in the business of providing financial data and information services, including:

- publishers and distributors of traditional media, including print, radio and television, such as China Securities News, Shanghai Securities News, International Financial Times, 21st Century Economic Reports, as well as radio and television programs and news focused on financial news and information;

- internet portals providing information on business, finance and investing, such as sina.com.cn and sohu.com;

- financial information web pages offered by websites such as hexun.com;

- personal stock research software vendors, such as Shanghai Qian Long High Tech Corporation, that develop and market stock research software through stock brokerage companies; and

- stock brokerage companies, especially stock brokerage companies with online trading capabilities, such as Haitong Securities.

Our ability to compete depends on many factors, including the comprehensiveness, timeliness and trustworthiness of our content, the market acceptance, pricing and sophistication of our analytical tools, the ease of use of our information platform and the effectiveness of our sales and marketing efforts.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. This may allow them to adopt our

## **Table of Contents**

business model and devote greater resources than we can to the development and promotion of products and services similar to or better than our own. These competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns, and adopt more aggressive pricing policies and offer products and services that achieve greater market acceptance than ours. They may also undercut us by making more attractive offers to our existing and potential employees, content providers and sponsors. New and increased competition could result in price reductions for our service packages, reduced margin or loss of market share, any of which could materially adversely affect our business, results of operations and financial condition.

### **Intellectual property**

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

Our PRC subsidiaries, CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Wisdom, CFO Success, CFO Jujin, CFO Zhengning and CFO Meining, are the registered owners of 47 software copyrights, each of which has been registered with the National Copyright Administration of the PRC.

We have registered two key domain names relating to our websites, [www.jrj.com](http://www.jrj.com) and [www.stockstar.com](http://www.stockstar.com), with the Internet Corporation for Assigned Names and Numbers, or ICANN, an internationally organized, non-profit corporation. We have also registered one domain name relating to our website, [www.jrj.com.cn](http://www.jrj.com.cn), with the China Internet Network Information Center, a domain name registration service in the PRC. We currently have 11 trademarks registered with the China Trademark Office, owned by CFO Meining and CFO Genius. Our applications for trademark registration of “Financial Street Fuhua” in Chinese and three other Chinese variations of “Financial Street Fuhua” with the Trademark Bureau of the State Administration for Industry and Commerce of China are still in the approval process.

### **Regulation**

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

Ministry of Industry and Information;

the China Securities Regulatory Commission;

the Ministry of Culture;

the General Administration of Press and Publication (National Copyright Administration);

the State Administration of Industry and Commerce;

the Ministry of Public Security; and

**Table of Contents**

the Ministry of Commerce.

The State Council and these ministries and agencies have issued a series of rules that regulate a number of different substantive areas of our business, which are discussed below.

***Foreign ownership restriction on Internet content provision businesses***

PRC regulations currently limit foreign ownership of companies that provide Internet content services, including our business of providing financial information and data to Internet users, to 50%. In order to comply with this foreign ownership restriction, we operate our website in China through CFO Fuhua, which is wholly owned by Zhiwei Zhao, our chief executive officer, and Jun Wang, our chief financial officer, who are both PRC citizens. Under PRC law, we cannot hold the licenses and approvals necessary to operate our website because those licenses and approvals can not be held by foreign entities or majority foreign-owned entities. We, as a company incorporated in Hong Kong, SAR, are a foreign entity for this purpose.

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

***Licenses and permits***

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

In order to host our website, CFO Fuhua and CFO Meining are required to hold an Internet content provider, or ICP, license issued by the Ministry of Industry and Information or its local offices. CFO Fuhua currently holds an ICP license issued respectively by Beijing Communications Administration and Shanghai Communications Administration, local offices of the Ministry of Industry and Information.

Each ICP license holder that engages in supply of analysis and research information relating to stocks and other securities must obtain a securities advisory permit from China Securities Regulatory Commission, or the CSRC. We currently do not hold a securities advisory permit. We receive securities analysis and research information from licensed securities advisors that hold securities advisory permits, and we have clearly stated on our websites and in our software the source of such information as required by the CSRC.

A recent regulation issued by the Ministry of Industry and Information requires short message, or SMS, content providers to obtain an SMS license from the Ministry of Industry and Information or its local offices. We have obtained the required SMS license for the delivery of our financial short message content.

Furthermore, the Ministry of Industry and Information has promulgated rules requiring ICP license holders that provide online bulletin board services to register with, or obtain an approval from, the relevant telecommunications authorities. CFO Fuhua and CFO Meining have obtained such approval from Beijing Communications Administration and Shanghai Communications Administration, respectively, the government agency in charge of this matter.

***Regulation of Internet content***

## **Table of Contents**

The PRC government has promulgated measures relating to Internet content through a number of ministries and agencies, including the Ministry of Industry and Information, the Ministry of Culture and the General Administration of Press and Publication. These measures specifically prohibit Internet activities, which include provision of financial information through the Internet, that result in the publication of any content which is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise State security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

CFO Fuhua and CFO Meining's ICP licenses expressly state that, in relation to their Internet content provision and among other things, they are not allowed to publish general news on politics, society or culture, or establish a news column, or provide such information under express heading of news. Specifically, the Press Office of Beijing People's Government, the government authority regulating news publication, confirmed with us that so long as we do not provide general news, we are not required to obtain a license to publish financial or economic related news content. However, on September 25, 2005, the Press Office of the State Council and the Ministry of Industry and Information jointly promulgated the Provisions for the Administration of Internet News Information Services, in which the authorities provided an applicable definition of internet news information services and require that internet content providers that provide internet news information services within such definition must apply for a license. CFO Fuhua and CFO Meining are planning to procure such a license.

### ***Regulation of information security***

Internet content in China is also regulated and restricted by the PRC government to protect State security. The National People's Congress, China's national legislative body, has enacted a law that may subject to criminal punishment in China any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak State secrets; (4) spread false commercial information; or (5) infringe intellectual property rights.

The Ministry of Public Security has promulgated measures that prohibit use of the Internet in ways which, among other things, result in a leakage of State secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

### ***Intellectual property rights***

The State Council and the National Copyright Administration have promulgated various regulations and rules relating to protection of software in China. Under these regulations and rules, software owners, licensees and transferees should register their rights in software with the National Copyright Administration or its local offices and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may receive better protections. We have registered all of our self-developed software with the National Copyright Administration.

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by the Ministry of Industry and Information and obtain a registration certificate from such registration agencies. A registered domain name owner has an exclusive use right over its domain name.

## **Table of Contents**

Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. We have registered our domain names, *www.jrj.com* and *www.stockstar.com*, with the Internet Corporation for Assigned Names and Numbers, or ICANN, and obtained a certificate for this domain name. ICANN is an internationally organized, non-profit corporation that has responsibility for Internet Protocol (IP) address space allocation, protocol identifier assignment, generic (gTLD) and country code (ccTLD) Top-Level Domain name system management, and root server system management functions.

### ***Website name***

A PRC law published in September 2000 requires entities and individuals operating commercial websites to register their website names with the Beijing Municipal Administration of Industry and Commerce, or Beijing AIC, which is authorized by the State Administration of Industry and Commerce, or the SAIC, as the only official registration authority in China during trial period. If any entity or individual operates a commercial website without obtaining such certificate, it may be charged a fine or imposed other penalties by the Beijing AIC. We have registered our website name, JRJ Investment and Finance Network and Stockstar with, and received commercial website name registration certificates from Beijing AIC.

### ***Privacy protection***

PRC law does not prohibit Internet content providers from collecting and analyzing personal information from their users. We require our users to accept a user agreement whereby they agree to provide certain personal information to us. PRC law prohibits Internet content providers from disclosing to any third parties any information transmitted by users through their networks unless otherwise permitted by law. If an Internet content provider violates these regulations, the Ministry of Industry and Information or its local offices may impose penalties and the Internet content provider may be liable for damages caused to its users.

### ***Advertising regulation***

PRC law requires entities conducting advertising activities to obtain an advertising permit from the SAIC's local offices. Entities conducting advertising activities without such permit may be charged a fine or imposed other penalties by the SAIC's local offices. We hold our advertising permits through CFO Fuhua, a PRC domestic company wholly owned by Zhiwei Zhao and Jun Wang, and CFO Meining, a subsidiary wholly owned by CFO Fuhua.

### ***Brokerage regulations in Hong Kong***

Daily Growth Securities, which operates in Hong Kong, is regulated by the Securities and Futures Commission (SFC) of Hong Kong, SAR and Hong Kong Stock Exchange.

### **C. Organizational structure.**

We conduct substantially our business through our wholly owned subsidiaries in China, which are CFO Beijing, CFO Software, CFO Stockstar, CFO Genius, CFO Jujin, CFO Zhengning, CFO Wisdom and CFO Success. We are dependent on CFO Fuhua and CFO Meining, a wholly owned subsidiary of CFO Fuhua, to host our websites. In 2007, we acquired Daily Growth Securities (formerly known as Daily Growth Investment Company Limited) to provide securities brokerage services for stocks listed on Hong Kong Stock Exchange. In March 2008, we raised the authorized and issued share capital of Daily Growth Securities so the total percentage of beneficial ownership by CFO Hong Kong increases from 85% to 98.5%. In addition, in August and September 2007, we established CFO Glory and CFO Premium in anticipation of using these two companies to acquire PRC domestic companies whose business are those which we are restricted from conducting directly by PRC regulations.

**Table of Contents**

The following table sets forth the details of our principle subsidiaries and PRC-incorporated affiliates:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage of Beneficial Ownership Interest</b>
Fortune Software (Beijing) Co., Ltd	PRC	100
China Finance Online (Beijing) Co., Ltd.	PRC	100
Beijing Fuhua Innovation Technology Development Co., Ltd. *	PRC	100
Stockstar Information Technology (Shanghai) Co., Ltd	PRC	100
Shanghai Meining Computer Software Co., Ltd.*	PRC	100
Zhengning Information & Technology (Shanghai) Co., Ltd.	PRC	100
Shenzhen Genius Information Technology Co., Ltd.	PRC	100
Jujin Software (Shenzhen) Co., Ltd.	PRC	100
Fortune (Beijing) Wisdom Technology Co., Ltd.	PRC	100
Fortune (Beijing) Success Technology Co., Ltd.	PRC	100
Beijing CFO Glory Co., Ltd*	PRC	100
Beijing CFO Premium Technology Co., Ltd*	PRC	100
Daily Growth Securities Limited	Hong Kong	98.5

\* Denotes  
variable interest  
entity

**Table of Contents**

The following diagram illustrates our material entities involved in the operation of those businesses and excludes dormant entities and entities, which aside from holding existing contracts or conducting any operations as of March 31, 2008:

- (1) Zhiwei Zhao is our chief executive officer and director.
- (2) Jun Wang is our chief financial officer.
- (3) Zhenfei Fan is our financial manager.
- (4) Wei Xiong is our director of Human Resource and Administrative Department.

PRC regulations currently limit foreign ownership of companies that provide Internet content provider services, or ICP services, which include our business of providing financial information and data to Internet users, to 50%. We are a Hong Kong company and we conduct our operations



**Table of Contents**

solely in China through our wholly owned subsidiaries. We are a foreign enterprise and the wholly owned subsidiaries are all foreign invested enterprises under PRC law and accordingly, neither we, or wholly owned subsidiaries is eligible for a license to operate ICP services or provide online advertising services. In order to comply with foreign ownership restrictions, in December 2000, we formed our affiliated Chinese entity, CFO Fuhua, with Wu Chen and Xinzheng Wang, who later transferred his holdings in CFO Fuhua to Jun Ning, our former chairman and chief executive officer. Both Wu Chen and Jun Ning are PRC citizens and own 55% and 45% of the equity interest in CFO Fuhua, respectively. Jun Ning resigned from his positions with us and transferred his holdings in CFO Fuhua to Zhiwei Zhao, our current chief executive officer and a member of our board of directors in November 2006. Wu Chen transferred his holdings in CFO Fuhua to Jun Wang, our current chief financial officer in October 2007. CFO Fuhua holds the licenses and approvals that are required to operate our website, as well as our domain names [www.jrj.com.cn](http://www.jrj.com.cn) and [www.jrj.com](http://www.jrj.com). CFO Fuhua also holds the licenses and approvals required to operate our online advertising business. We and CFO Beijing have entered into a series of contractual arrangements with CFO Fuhua and its shareholders. Zhiwei Zhao replaced Jun Ning as a party to these contractual arrangements when he received Jun Ning's holdings in CFO Fuhua in November 2006. Jun Wang replaced Wu Chen as a party to these contractual arrangements in October 2007. As a result of these contractual arrangements, we are considered the primary beneficiary of CFO Fuhua and accordingly, we consolidate CFO Fuhua's results of operations in our financial statements. Pursuant to our contractual arrangements with CFO Fuhua, we provide equipment, services and domain name licenses to CFO Fuhua in exchange for fees. The principal equipment lease, services and domain name license agreements that we have entered into with CFO Fuhua include:

- an equipment leasing agreement, pursuant to which CFO Fuhua leases a substantial majority of its operating assets from CFO Beijing;

- a technical support agreement, pursuant to which CFO Beijing provides technical support for CFO Fuhua's operations;

- an amended and restated strategic consulting agreement, pursuant to which CFO Beijing provides strategic consulting services to CFO Fuhua, including consulting services in relation to CFO Fuhua's online advertising business;

We made a loan to each of the shareholders of CFO Fuhua, Wu Chen and Jun Ning, solely for the purposes of capitalizing CFO Fuhua. Pursuant to the loan agreements, Wu Chen and Jun Ning can only repay the loans by transferring all of their interest in CFO Fuhua to us or a third party designated by us. Zhiwei Zhao replaced Jun Ning as a party to the loan agreements when he received Jun Ning's holdings in CFO Fuhua in November 2006. Jun Wang replaced Wu Chen as a party to the loan agreements when he received Wu Chen's holdings in CFO Fuhua in October 2007. While Hong Kong law limits the maximum interest payment chargeable under a loan to 60% of the total principal amount per annum, we do not believe this limitation will have a material adverse effect on our business and operations, or will result in a material amount being paid to the shareholders of CFO Fuhua if and when they are permitted to transfer their interest in CFO Fuhua to us. In addition, we have entered into agreements with CFO Fuhua and its shareholders that provide us with the substantial ability to control CFO Fuhua. Pursuant to these contractual arrangements:

- the shareholders of CFO Fuhua have granted us or individuals designated by us an irrevocable proxy to exercise all their voting rights as shareholders of CFO Fuhua, including the right to appoint directors, the general manager and other senior management of CFO Fuhua;

**Table of Contents**

CFO Fuhua will not enter into any transaction that may materially affect its assets, liabilities, equity or operations without our prior written consent;

CFO Fuhua will not distribute any dividends;

we may purchase the entire equity interest in, or all the assets of, CFO Fuhua when and if such purchase is permitted by PRC law or the current shareholders of CFO Fuhua cease to be directors or employees of CFO Fuhua;

the shareholders of CFO Fuhua have pledged their equity interest in CFO Fuhua to CFO Beijing to secure the payment obligations of CFO Fuhua under the equipment leasing agreement, the technical support agreement and the amended and restated strategic consulting agreement between CFO Beijing and CFO Fuhua; and

the shareholders of CFO Fuhua will not transfer, sell, pledge, dispose of or create any encumbrance on their equity interest in CFO Fuhua without the prior written consent of CFO Beijing.

On March 3, 2008, Jun Wang, Zhiwei Zhao and CFO Fuhua entered into a capital increase agreement, under which Jun Wang and Zhiwei Zhao will increase their capital contribution in CFO Fuhua by \$449,000 and \$549,000 respectively. As a result, the registered capital of CFO Fuhua will be increased from \$428,000 to approximately \$1,426,000. In connection with the capital increase agreement, we entered into a loan agreement with Zhiwei Zhao and Jun Wang to extend each of Zhiwei Zhao and Jun Wang a loan with the amount of 449,000 and \$549,000, respectively, for the sole purpose of financing their increase of capital contribution in CFO Fuhua. Under the loan agreement, as conditions precedent to the extension of loans, Zhiwei Zhao and Jun Wang shall have entered into a share pledge agreement, purchase option and cooperation agreement with CFO (Beijing).

On March 3, 2008, Zhiwei Zhao, Jun Wang and CFO (Beijing) entered into a share pledge agreement, under which Jun Wang and Zhiwei Zhao have pledged all of their equity interest in Fuhua to CFO Beijing to secure the payment obligations of Fuhua under the equipment leasing agreement, the technical support agreement and the amended and restated strategic consulting agreement between CFO Beijing and CFO Fuhua. Under the share pledge agreement, Zhiwei Zhao and Jun Wang have agreed not to transfer, assign, pledge or in any other manner dispose of their interest in Fuhua or create any other encumbrance on their interest in Fuhua which may have a material effect on CFO Beijing's interest without the written consent of CFO Beijing, except the transfer of their interest in CFO Fuhua to us or the third party assignee designated by us according to the purchase option.

On March 3, 2008, CFO Beijing, Zhiwei Zhao, Jun Wang, CFO Fuhua and CFO entered into a purchase option and cooperation agreement, or the purchase option agreement, pursuant to which, Zhiwei Zhao and Jun Wang jointly granted us an exclusive option to purchase all or any portion of their equity interest in CFO Fuhua, and CFO Fuhua granted us an exclusive option to purchase all of its assets if and when (1) such purchase is permitted under applicable PRC law, and (2) to the extent permitted by law, when Zhiwei Zhao and/or Jun Wang ceases to be a director or employee of CFO Fuhua, or either Zhiwei Zhao or Jun Wang desires to transfer his equity interest in CFO Fuhua to a party other than the existing shareholders of CFO Fuhua. We may purchase such interest or assets ourselves or designate another party to purchase such interest or assets. The exercise price of the option will equal the total principal amount of the loan lent by us to Zhiwei Zhao and Jun Wang under their loan agreements to purchase their respective equity interest in CFO Fuhua, or the price required by relevant PRC law or government approval authority if such required price is higher than the total principal amount of the loans lent by us to Zhiwei Zhao and Jun Wang. We may choose to pay the purchase price payable to Zhiwei Zhao and Jun Wang by canceling our loans to Zhiwei Zhao and Jun Wang.

**Table of Contents**

Following any exercise of the option, the parties will enter into a definitive share or asset purchase agreement and other related transfer documents within 30 days after written notice of exercise is delivered by us. Pursuant to the purchase option agreement, at all times before we or any party designated by us acquire 100% of CFO Fuhua's shares or assets, CFO Fuhua may not (1) sell, transfer, assign, dispose of in any manner or create any encumbrance in any form on any of its assets unless such sale, transfer, assignment, disposal or encumbrance is related to the daily operation of CFO Fuhua or has been disclosed to and consented to in writing by us; (2) enter into any transaction which may have a material effect on CFO Fuhua's assets, liabilities, operations, equity or other legal interest unless such transaction relates to the daily operation of CFO Fuhua or has been disclosed to and consented to in writing by us; or (3) distribute any dividends to its shareholders in any manner, and Zhiwei Zhao and Jun Wang may not cause CFO Fuhua to amend its articles of association to the extent such amendment may have a material effect on CFO Fuhua's assets, liabilities, operations, equity or other legal interest except for pro rata increases of registered capital required by law.

Each of the contractual arrangement with CFO Fuhua and its shareholders can only be amended with the approval of our audit committee or another independent body of our board of directors. The shareholders of CFO Fuhua are not deriving any material personal benefits from these arrangements and are not expected to receive any consideration, other than cancellation of the existing loans, upon future transfer of their entire equity interest in, or all of the assets of, CFO Fuhua to us.

In 2007, we formed our affiliated Chinese entities, CFO Premium and CFO Glory, in anticipation of using these two companies as the vehicles to acquire PRC companies to operate business which we are restricted from conducting directly by PRC regulations. We formed CFO Premium with Wei Xiong, our director of the department of human resource and administration and Zhifei Fan, our financial manager in August 2007. Both Wei Xiong and Zhifei Fan are PRC citizens and own 55% and 45% of equity interest in CFO Premium respectively. We have entered into a series of contractual arrangements with CFO Premium and its shareholders including contracts relating to provision of strategic consulting, technical and operational support services and certain shareholders rights. As a result of these contractual arrangements, we are considered the primary beneficiary of CFO Premium and accordingly, we could consolidate CFO Premium's results of operations in our financial statements.

We entered into a loan agreement with Wei Xiong, and Zhenfei Fan, to extend them a loan with the amount of \$77,000 and \$63,000, respectively, for the sole purpose of financing their investments in CFO Premium as CFO Premium's registered capital. The initial term of these loans in each case is 10 years which may be extended upon the parties agreement. Wei Xiong and Zhifei Fan can only repay the loans by transferring all of their interest in CFO Premium to us or a third party designated by us. When Wei Xiong or Zhifei Fan transfer their interest in CFO Premium to us or our designee, if the actual transfer price is higher than the principal amount of the loans, the amount exceeding the principal amount of the loans will be deemed as interest accrued on such loans and repaid by Wei Xiong and Zhifei Fan to us. In addition, we have entered into with CFO Premium and its shareholders agreements that provide us with substantial ability to control CFO Premium. Pursuant to these contractual arrangements:

the shareholders of CFO Premium have granted us or individuals designated by us an irrevocable proxy to exercise all their voting rights as shareholders of CFO Premium, including the right to appoint directors, the general manager and other senior management of CFO Premium;

CFO Premium will not enter into any transaction that may materially affect its assets, liabilities, equity or operations without our prior written consent;

CFO Premium will not distribute any dividends;

**Table of Contents**

we may purchase the entire equity interest in, or all the assets of, CFO Premium when and if such purchase is permitted by PRC law or the current shareholders of CFO Premium cease to be employees of CFO Premium;

the shareholders of CFO Premium will not transfer, sell, pledge, dispose of or create any encumbrance on their equity interest in CFO Premium without our prior written consent.

We formed CFO Glory with Wu Chen and Zhiwei Zhao in September, 2007. Wei Chen and Zhiwie Zhao own 55% and 45% of equity interest in CFO Glory respectively. Wei Chen transferred his holdings in CFO Glory to Jun Wang on September 1, 2007. We have entered into a series of contractual arrangements with CFO Glory and its shareholders including contracts relating to provision of strategic consulting, technical and operational support services and certain shareholders rights. As a result of these contractual arrangements, we are considered the primary beneficiary of CFO Glory and accordingly, we could consolidate CFO Glory's results of operations in our financial statements.

On September 1, 2007, we entered into a loan agreement with Wu Chen and Zhiwei Zhao, the shareholders of CFO Glory to extend each of Wu Chen and Zhiwei Zhao a loan with the amount of \$77,000 and \$63,000, respectively, for the sole purpose of financing their investments in CFO Glory as CFO Glory's registered capital. The initial term of these loans in each case is 10 years which may be extended upon the parties' agreement. Wu Chen and Zhiwei Zhao can only repay the loans by transferring all of their interest in CFO Glory to us or a third party designated by us. When Wu Chen or Zhiwei Zhao transfer their interest in CFO Glory to us or our designee, if the actual transfer price is higher than the principal amount of the loans, the amount exceeding the principal amount of the loans will be deemed as interest accrued on such loans and repaid by Wu Chen and Zhiwei Zhao to us. On September 10, 2007, we entered into a loan agreement with Jun Wang to extend Jun Wang a loan in the amount of \$77,000 on the same term as described above, for the sole purpose of financing Jun Wang to acquire from Wu Chen the whole of Wu Chen's holdings in CFO Glory. Upon transferring all his holdings in CFO Glory to Jun Wang, Wu Chen has repaid his loans in full. In addition, we have entered into with CFO Glory and its shareholders same agreements as those we entered into with CFO Premium and its shareholders described above that provide us with substantial ability to control CFO Glory.

**D. Property and equipment.**

Our principal executive offices as well as our subsidiaries, CFO Beijing and CFO Software, CFO Fuhua, CFO Wisdom, CFO Success, CFO Glory and CFO Premium are currently located in Beijing, leasing approximately 3,200 square meters. CFO Stockstar, CFO Meining and CFO Zhengning are located in Shanghai, leasing approximately 3,300 square meters. CFO Genius and Jujin both are located in Shenzhen, leasing approximately 900 square meters. Daily Growth Securities, located in Hong Kong, leases approximately 500 square meters. We intend to seek additional office space as required for our operations as needed on commercially reasonable terms. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect", "anticipate", "intend", "believe", or similar language. All forward-looking statements included in this annual report are based on information available to us on the date hereof, and we assume no obligation*

**Table of Contents**

*to update any such forward looking statements. Actual results could differ materially from those projected in the forward looking statements. In evaluating our business, you should carefully consider the information provided under the caption Risk Factors in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.*

**A. Operating Results**

We are one of the leading companies that specialize in providing online financial and listed company data and information in China. We offer subscription-based services based on a single integrated information platform that combines financial analysis tools, real-time and historical data, news, research reports and online forums. Our service offerings can be accessed using our research tools and through our websites [www.jrj.com](http://www.jrj.com) and [stockstar.com](http://stockstar.com). Our service offerings are used by and targeted at a broad range of investors in China, including individual investors managing their own money, professional investors such as institutional investors managing large sums of money on behalf of their clients and high net worth individuals, other financial professionals such as investment bankers, stock analysts and financial reporters, and middle class individuals.

Our net revenues increased by 263% to \$25.9 million in 2007 from \$7.1 million in 2006. Our net loss was \$4.1 million in 2007. For subscription services provided to individual investors, we receive subscription fees at the beginning of the subscribers' subscription periods. Revenues from the subscription fees are deferred and recognized ratably over the twelve month period. Our deferred revenues were \$25.1 million as of December 31, 2007, compared to \$6.4 million as of December 31, 2006.

Our principal capital expenditures for 2005, 2006 and 2007 consisted of primarily purchases of servers, workstations, computers, computer software, and other items related to our network infrastructure for a total of approximately \$235,000, \$1.0 million and \$3.8 million, respectively.

**Key factors affecting our operating results and financial condition**

Some of the key factors affecting our operating results and financial condition include the following:

performance of China's securities markets, and user demand for market intelligence on China's securities markets, as well as the overall performance of China's economy;

contribution of alternative revenue resources such as revenues from online advertising;

seasonality associated with the level of activity of our users and subscribers and the trading activities of China's securities markets;

tax refund from the PRC tax authorities for value-added-taxes we are required to pay on the sale of subscriptions to our service packages;

other tax incentives we receive from PRC tax authorities resulting from CFO Beijing being a foreign invested software development company and CFO Software being a foreign invested high-technology company;

our cost structure, including, in particular, our cost for raw data;

the desirability of our service packages relative to other products and offerings available in the market;

**Table of Contents**

our ability to benefit from the acquisition of CFO Stockstar, CFO Genius, and Daily Growth Securities; and

PRC telecommunication and regulatory policies.

We derive revenues primarily from annual subscription fees from subscribers to our financial data and information services. The level of public interests in investing in China's securities market could significantly influence the demand for market intelligence on China's securities markets and our products. Such demand could be affected by the level of trading activity in China's securities markets. During the past several years, China's securities markets have experienced sizable volatility.

To a lesser extent, we also derive revenues through advertisement sales on our website, which contributed \$1.6 million in 2007, representing a 17% increase from the \$1.3 million contributed in 2006. Revenues from advertising accounted for 6.0% of our net revenues in 2007. We allocated most of our advertising inventories to promote our subscription-based software offerings, and hence online advertising was not considered a core service line of our business in 2007.

Our gross revenues also include the benefit of a refund from the PRC tax authorities for value-added-taxes, or VAT, we are required to pay on the sale of subscriptions to our service packages. We receive these refunds from the PRC tax authorities as part of the PRC government's policy of encouraging software development in the PRC. There is generally a one-month lapse between the time we complete a sale and pay the VAT on that sale and the time we receive the refund. We recognized approximately \$2.2million in revenue for VAT refunds in 2007.

**Gross revenues**

We generate subscription fee revenues mostly from the sales of the service packages we currently offer, which are comprised of downloadable and web-based research tools. In general, a subscription permits the subscriber to use the selected service package for a one-year period.

The most significant factors that affect our subscription revenues are:

the number of registered user accounts on our websites;

the number of active paying individual subscribers; and

the service packages selected by our subscribers.

Although users of our website are not charged for visiting our website and obtaining basic financial information, such as real-time stock quotes and historical financial information for all of China's listed company stocks, bonds and mutual funds, financial news and research reports, these users are our primary source of existing and potential subscribers. As users frequent our website and rely on our offerings, we expect that a number of them will opt to purchase our subscription services. A substantial portion of our revenues are currently derived from our subscription services. Registered user accounts refer to user accounts registered by individuals with either *www.jrj.com* or *www.stockstar.com*. Active paying individual subscribers refer to registered users who subscribe for a fee to one of our subscription-based services offered by either *www.jrj.com* or *www.stockstar.com* by download or through the mobile devices. We view increase in the number of active paying individual subscribers as a measure of market acceptance and customer loyalty to our service offerings.

We generally encourage our subscribers to migrate to newer, more comprehensive and higher priced service offerings. We price our service packages based on the research tools included and their level of comprehensiveness, as well as on market demand. From time to time, we may offer

**Table of Contents**

discounts to and promotional rates for our service packages, which may be offered to new subscribers or repeat subscribers.

**Net revenues**

Our net revenues reflect a deduction from our gross revenues for business taxes and related surcharges incurred in connection with our China operations. Because CFO Beijing, CFO Software, CFO Fuhua, CFO Wisdom, CFO Success, CFO Glory, CFO Premium, CFO Stockstar, CFO Meining, CFO Genius and CFO Jujin operate in China, their gross revenues from sales that are not subject to VAT are subject to a business tax at a rate ranging from 3% to 5%. We expect to pay business tax in the PRC on revenues from advertising-related business and from mobile value added services we expect to generate in the future.

We derive revenue from external customers for each of the following services during the years presented:

	Years ended December 31,		
	2005	2006	2007
Subscription fees	\$ 5,811,395	\$ 5,075,830	\$ 22,712,043
Advertising revenue	996,311	1,337,630	1,560,194
SMS revenue		298,232	1,339,321
Brokerage service revenue			80,896
Others	674,460	416,386	210,620
	\$ 7,482,166	\$ 7,128,078	\$ 25,903,074

**Revenue recognition**

We charge our subscribers a subscription fee for the right to use our service packages for, in general, a one-year period. For subscription services provided to individual investors, our subscription fee is paid in full prior to the delivery of our service packages. Therefore, we do not take any credit risk with respect to our individual subscribers. Upon receipt of payment in full, we activate our subscriber's account, marking the start of the subscription period, and promptly provide the subscriber with an account access code. We begin to recognize subscription fees as revenue upon activation of the subscriber's account and then ratably over the service period. Subscription fees that have been paid but not yet recognized are accounted for as deferred revenue on our balance sheets. Deferred revenue is reduced proportionately as revenue is recognized ratably over the service period.

We derive advertising fees from advertising sales on our website principally for fixed periods of time, which are generally less than one year. We recognize advertising fees ratably over the periods during which the advertisements are displayed on our website.

We also derive commission from brokerage services provided by the newly acquired subsidiary, Daily Growth Securities, which buys or sells securities on their customers' behalf. The commission income is recognized on a trade date basis as securities transactions occur.

**Cost of revenues**

Our cost of revenues consists of expenses directly related to the offering of our software subscription services. Our cost of revenues primarily consists of cost of raw data, cost of bandwidth, salary and compensation, depreciation and rent. Cost of revenues accounted for 21% and 17% of our net revenues in 2006 and 2007 respectively, although the absolute amount of cost

**Table of Contents**

of revenue experienced a sizable increase in 2007 compared with that of 2006. The decrease in the ratio of cost of revenues to net revenues in 2007 is primarily due to the increase in net revenues greater than the increase in cost of revenues. We believe the absolute increase will partly be attributable to contribution from increase in website maintenance and development expenses of \$2.9 million in 2007, compared to \$943,000 from 2006, which consists of rent, cost of raw data, salary and compensation, server depreciation expenses, bandwidth costs, and content expenses for our jrj.com and stockstar.com websites. We expect our cost of revenues will increase in absolute amount of our net revenues in 2008.

*Rent.* Rent attributable to cost of revenues reflects that portion of our rent expense that we believe is directly used in the provision of our web content and database services. We allocate rent to cost of revenues to the extent the space is occupied by our web content and database personnel. Our rent is the largest component of our cost of revenues, constituting 26% of our cost of revenues in 2007.

*Cost of raw data.* Our cost of raw data consists of bandwidth fees, which we pay to Internet Data Center (IDC) and fees we pay to the stock exchanges and our other data providers pursuant to our commercial agreements with those parties. These contracts are typically for a fixed rate, without regard to the level of use, for a term, typically between one and three years, depending on the provider. Our cost of raw data is likely to be our most variable element of cost of revenues. Our cost of raw data is expected to increase:

if we enter into additional commercial agreements for purchasing data from new sources or if we obtain different or additional data from existing sources or

due to rate increases we may experience in the future upon renewal of our existing agreements.

*Salary and compensation.* Salary and compensation expenses include wages, bonuses and other benefits, including welfare benefits. Salary and compensation included in our cost of revenues relate to our web content and database personnel. We expect that our salary and compensation expenses will increase in the future as we intend to increase our customer service performance as our business further grows and expands.

*Depreciation.* Depreciation consists of depreciation of property and equipment, primarily our network and servers. We include depreciation within cost of revenues when the relevant assets are directly related to the provision of our web content and database services.

**Operating expenses**

Our operating expenses consist of general and administrative expenses, product development expenses, and sales and marketing expenses. Stock-based compensation expenses are reported within each of the cost of revenue and operating expense financial statement line items, as appropriate. The decrease in the ratio of operating expenses to net revenues in 2007 is primarily due to the increase in net revenues greater than the increase in operating expenses. The increase in absolute amount of operating expenses is primarily due to the expansion of our business scale and the increase in the salary and compensation for our personnel, stock-based compensation, cost of professional services and other related costs associated with our being publicly listed in the U.S. The most significant factors affecting our operating expenses are:

salary and compensation for our employees, particularly our sales and marketing personnel and our management team;

stock- based compensation expenses for the grant of the performance-based restricted stock and for new grants issued in 2007;



**Table of Contents**

professional services and other related costs associated with being publicly listed in the U.S; and

expansion in operating scale associated with the acquisition of CFO Stockstar, CFO Genius and Daily Growth Securities.

We expect our operating expenses will continue to increase for the foreseeable future, but the rate of such increase will depend primarily on our personnel needs, our advertising needs and our computer, network and server capacity, including efforts we may undertake to expand our online advertising business.

*General and administrative expenses.* General and administrative expenses primarily consist of salary and compensation for our general management, finance and administrative personnel, stock-based compensation expenses, rent, professional expenses and other expenses, including travel and other general business expenses, office supplies and depreciation for general office furniture and equipment. We expect our general and administrative expenses to increase in 2008 and for the foreseeable future.

*Product development expenses.* Our product development expenses primarily consist of salary and compensation expenses of personnel engaged in the research, development and implementation of our new service offerings, rent and depreciation of equipment attributable to our product development efforts. We expect that our product development expenditures will increase for the next twelve months.

*Sales and marketing expenses.* Our sales and marketing expenses primarily consist of salary and compensation for our sales and marketing personnel, as well as the marketing promotion fees. The increase is largely due to compensation expenses as a result of increased sales force. We expect to continue to increase our sales and marketing efforts in the foreseeable future.

**Stock option plan and option agreements**

We adopted the 2004 Stock Incentive Plan, or the Plan, in January 2004. The Plan is intended to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees and other eligible persons. An aggregate of 5,688,488 ordinary shares were reserved for issuance under the Plan in January 2004. We amended the Plan in September 2004 to increase the total number of ordinary shares issuable under the Plan by 5,000,000. We granted options under the Plan with the right to purchase up to 5,688,488 ordinary shares (including 90,000 options to eligible individual consultants and advisors) in 2004, of which 623,000 unvested options had been returned to the pool of our ungranted options as a result of resignation from employment by a few former employees as of March 31, 2008. In 2005, we granted to selected directors, officers, employees, individual consultants and advisors under the Plan options with the right to purchase up to 5,003,000 ordinary shares, of which 899,640 unvested options had been returned to the pool of our ungranted options as a result of resignation from employment by a few former employees. In July 2006, we granted options to purchase up to 700,000 ordinary shares to selected officers under the Plan. We amended the Plan again in December 2006 to increase the total number of ordinary shares reserved for issuance under the Plan to 15,688,488. In 2007, we granted to selected directors, officers, employees, individual consultants and advisors under the Plan options with the right to purchase up to 3,848,000 ordinary shares, of which 40,560 unvested options had been returned to the pool of our ungranted options as a result of resignation from employment by a few former employees. As of March 31, 2008 we may grant options to purchase up to an additional 2,012,200 ordinary shares under the Plan.

The options we granted in January and February of 2004 have an exercise price of \$0.16 per share and will expire on March 5, 2009. The options we granted in June 2004 have an exercise price of

**Table of Contents**

\$1.04 per share and will expire on March 5, 2009. The options we granted in February 2005 have an exercise price of \$1.31 per share and will expire on February 18, 2015. The exercise price for the 400,000 and 200,000 options we granted in November 2005 were \$1.12 and \$1.16 per share respectively. The 700,000 options we granted in July 2006 have an exercise prices of \$1.07 per share and will expire on July 4, 2016. The 3,272,000 options we granted in January 2007 under the Plan have an exercise price of \$0.96 per share and will expire on January 17, 2017. The 100,000 and 150,000 options we granted in April and May, 2007 have exercise prices of \$1.25 and \$1.318 per share respectively, and will expire on April 4, 2017 and May 9, 2017 respectively. The 323,000 and 3,000 options we granted in August and September 2007 have exercise prices of \$2.03 and 2.188 per share, respectively, and will expire on August 26, 2017 and September 3, 2017 respectively.

Options granted under the Plan generally do not vest unless the grantee remains under our employment or in service with us on the given vesting date. However, in circumstances where there is a death or disability of the grantee, or a change in the control of our company, the vesting of options will be accelerated to permit immediate exercise of all options granted to a grantee. Generally, to the extent an outstanding option granted under the Plan has not vested by the date the grantee's employment or service with us terminates, the option will terminate and become unexercisable. Our board of directors may amend, alter, suspend, or terminate the Plan at any time, provided, however, that our board of directors must first seek the approval of our shareholders and, if such amendment, alteration, suspension or termination would adversely affect the rights of an optionee under any option granted prior to that date, the approval of such optionee. Under the Plan, as of March 31, 2008, we have a total number of 7,294,388 options that are currently vested and exercisable for ordinary shares.

We also granted share options to purchase up to 6,829,500 ordinary shares in January 2004, under option agreements that were independent of the Plan, to other consultants and business advisors of the company, 5,424,500 ordinary shares have been exercised as of March 31, 2008.

On July 2, 2007, we granted restricted stock awards covering 10,558,493 ordinary shares of the company under our 2007 Equity Incentive Plan to our employees who are eligible for the 2007 Equity Incentive Plan. The vesting of the restrictive stock are subject to us achieving certain financial performance targets stated in the 2007 Equity Incentive Plan. In order to bind the employees together in achieving the common goal, the ordinary shares are held by C&F International Holdings Limited for the benefit whole group of eligible employees. Pursuant to the 2007 Equity Incentive Plan and the restricted stock issuance and allocation agreement effective as of July, 2, 2007, we issued 10,558,493 ordinary shares to C&F International Holdings Limited, a company incorporated in British Virgin Islands, which holds the ordinary shares on behalf of and exclusively for the benefit of the group of employees eligible for the 2007 Equity Incentive Plan. C&F International Holdings Limited is 100% owned by C&F Global Limited, a British Virgin Islands Company, which is in turn owned by the grantees. As of December 31, 2007, 10,558,493 ordinary shares have been issued and allotted to selected employees pursuant to the 2007 Equity Incentive Plan.

**Critical accounting policies**

We prepare our financial statements in conformity with U.S. 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

**Table of Contents**

below to be critical to an understanding of our financial statements as their application places the most significant demands on our management's judgment.

*Income taxes.* Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

*Stock-based compensation.* Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), using the modified prospective transition method. Under this method, stock-based compensation expense recognized beginning January 1, 2006 includes: (a) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006 based on the fair market value as of the grant date, measured in accordance with SFAS 123, and (b) compensation expense for all stock-based compensation awards granted on or subsequent to January 1, 2006, based on grant-date fair value estimated in accordance with the provisions of SFAS 123(R). We recognize stock-based compensation costs on a graded-vesting attribution method over the requisite service period which is generally the vesting period.

For options vested prior to January 1, 2006, we accounted for share-based compensation plans in accordance with Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, as amended ( APB 25 ). Accordingly, we recognized compensation expense only when options were granted with a discounted exercise price. The compensation expense was recognized ratably over the requisite service period, which was generally the vesting period of the options.

*Cost method investment.* In December 2005, we purchased 9,800,000 Series B preferred shares in a private company, Moloon International Inc., ( Moloon ) for \$15,000,000, which represents a 25% interest in Moloon on an if-converted basis. The investment in these preferred shares is not in-substance common stock, and accordingly, the investment has been recorded as a cost method investment. As Moloon does not have readily determinable fair value, we carry the investment at cost and only adjusted for other-than-temporary declines in fair value and distributions of earnings. The management regularly evaluates the impairment of the cost method investment based on performance and the financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value of the investment would then become the new cost basis of the investment. We recorded an other-than-temporary impairment charge totaling \$1,322,000 during the year ended December 31, 2006, and \$11,127,000 during the year ended December 31, 2007. No impairment charges were recorded during the year ended December 31, 2005.

*Goodwill.* The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill.

We test goodwill annually following a two-step process in accordance with SFAS No. 142. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a

**Table of Contents**

reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

We perform goodwill impairment tests annually on December 31 by comparing the book value to the fair value of each reporting unit. Based on our assessment, there was no impairment of goodwill for the years ended December 31, 2005, 2006 and 2007.

Impairment of long-lived assets. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and our eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets. There were no impairment losses in the years ended December 31, 2005, 2006 and 2007.

**Results of operations**

The following table sets forth certain information relating to our results of operations, and our consolidated statements of operations as a percentage of net revenues, for the periods indicated:

(in thousands of U.S. dollars, except as % of net revenues)(1)	For the year ended December 31,					
	2005		2006		2007	
<b>Consolidated statement of operations and comprehensive income (loss) data:</b>						
Gross revenues(2)	\$7,627	101.9%	\$7,337	102.9%	\$26,570	102.6%
Business tax	(145)	(1.9)				