

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Date of event requiring this shell company report

Commission file number: **000-50975**

CHINA FINANCE ONLINE CO. LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Hong Kong

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Jun Wang, Chief Financial Officer

Telephone: + (86 10) 83363003

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Facsimile: + (86 10) 83363188

17th Floor of Fuzhuo Plaza A,

No. 28 Xuanwai Street, Xicheng District,

Beijing, China 100052

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

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

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

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

American Depositary Shares, each representing 5 ordinary shares*

(Title of Class)

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

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

None

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

EXPLANATORY NOTE

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

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

ITEM 19. EXHIBITS

Exhibit

Number Description of Document

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

CHINA FINANCE ONLINE CO. LIMITED

SIGNATURE

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

CHINA FINANCE ONLINE
CO. LIMITED

Date: January 10, 2017

/s/ Jun Wang

Name: Jun Wang

Title: Chief Financial Officer

CHINA FINANCE ONLINE CO. LIMITED

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

CHINA FINANCE ONLINE CO. LIMITED

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

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

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

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

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

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

Beijing, China

April 27, 2016

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CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED BALANCE SHEETS

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

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

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

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CHINA FINANCE ONLINE CO. LIMITED

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

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

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

CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

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

CHINA FINANCE ONLINE CO. LIMITED

CONSOLIDATED STATEMENTS OF

SHAREHOLDERS' EQUITY

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

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

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

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

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CHINA FINANCE ONLINE CO. LIMITED

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

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

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

CHINA FINANCE ONLINE CO. LIMITED

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

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

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

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In U.S. dollars)

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

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

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

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

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

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

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

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

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

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

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

Exclusive technology consulting and management service agreement

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

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

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Exclusive purchase right agreement on the equity interest of the VIEs

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

Power of attorney

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

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

Pledge agreement

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

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

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

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

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

Risks in relation to the VIE structure

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

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

- revoke the business and operating licenses of our PRC subsidiaries or VIEs;
- restrict the rights to collect revenues from any of our PRC subsidiaries;
- discontinue or restrict the operations of any related-party transactions among our PRC subsidiaries or VIEs;
- require our PRC subsidiaries or VIEs to restructure the relevant ownership structure or operations;
- take other regulatory or enforcement actions, including levying fines that could be harmful to our business; or
- impose additional conditions or requirements with which we may not be able to comply.

The imposition of any of these penalties may result in a material adverse effect on the Company's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIEs and their subsidiaries or the right to receive their economic benefits, the Company would no longer be able to consolidate the VIEs. The Company does not believe that any penalties imposed or actions taken by the PRC Government would result in the liquidation of the Company, its subsidiaries, or the VIEs.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued**

The Company has consolidated its VIEs because it was the primary beneficiary of those entities. Through the contractual agreements discussed above, the Company, through its wholly owned subsidiaries, has (1) the power to direct the activities of the VIEs that most significantly affect the entities' economic performance and (2) the right to receive benefits from the VIEs, therefore it consolidates the VIEs.

The consolidated VIEs operate securities investment advisory business and commodities brokerage business. The following table presents the most important revenue-producing assets to operate commodities brokerage business, which was recognized in the Company's consolidated financial statements.

	December 31 ,	
	2014	2015
Commodities brokerage business:		
Commodities trading right	\$1,291,061	\$966,222
Customer relationship	894,219	573,312
	\$2,185,280	\$1,539,534

The VIEs also hold important unrecognized revenue-producing assets, such as our domain names and Internet Content Provider Licenses with respect to *www.jrj.com* and *www.stockstar.com* and certain value-added technologies, which were also considered revenue-producing assets. However, none of such assets were recorded on the Company's consolidated balance sheets as such assets were all acquired or internally developed with insignificant costs and expenses incurred.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The following financial statement amounts and balances of the VIEs for which the Company is the primary beneficiary and their subsidiaries were before intercompany elimination as of and for the years ended:

	December 31,	
	2014	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 17,615,035	\$ 47,788,398
Consideration receivable	13,400,882	-
Account receivable -others, net	22,217,745	45,278,278
Loan receivable	10,295,800	-
Others	6,558,399	3,971,332
Total current assets	\$ 70,087,861	\$ 97,038,008
Property and equipment, net	3,242,905	4,311,095
Acquired intangible assets, net	2,185,280	1,539,534
Cost method investment	907,919	554,392
Equity method investment, net	-	1,228,269
Rental deposits	913,187	989,383
Guarantee fund deposits	4,604,924	5,850,623
Investment in subsidiaries	43,751,417	43,553,986
Deferred tax assets, non-current	13,328	4,982
Total assets	\$ 125,706,821	\$ 155,070,272
Third-party liabilities		
Current liabilities		
Accrued expenses and other current liabilities	10,514,186	20,425,274
Accounts payable	18,843,147	3,387,125
Total current liabilities	\$ 29,357,333	\$ 23,812,399
Non-current liabilities	899,356	571,924
Total third-party liabilities	\$ 30,256,689	\$ 24,384,323
Inter-company liabilities	\$ 42,155,248	\$ 44,591,484

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

	Year ended December 31,		
	2013	2014	2015
Net revenues	\$58,549,393	\$98,207,958	\$136,412,062
Net income (loss)	\$(5,469,402)	\$12,305,855	\$49,300,399

	Year ended December 31,		
	2013	2014	2015
Net cash (used in) provided by operating activities	\$(14,469,067)	\$3,204,749	\$(835,965)
Net cash (used in) provided by investing activities	(9,440,165)	(5,685,885)	38,523,306
Net cash provided by (used in) financing activities	35,830,988	1,430,739	(6,061,473)
Effect of exchange rate changes	\$(46,900)	\$(95,269)	\$(1,452,505)

There are no consolidated VIE's assets that are collateral for the VIE's obligations and can only be used to settle the VIE's obligations.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of consolidation

The consolidated financial statements include the financial statements of China Finance Online, its subsidiaries, VIEs for which the Company is the primary beneficiary and those VIEs' subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

Restricted cash

Restricted cash is the deposit in bank accounts for providing guarantee to subscription revenue customers by Shanghai Stockstar Securities Advisory and Investment Co., Ltd. ("CFO Securities Consulting") in accordance with the requirement of China Securities Regulatory Commission ("CSRC"). The restriction period is one year.

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value - continued

Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1-inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The Group measures certain assets, including the long-term investments and intangible assets, at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments and intangible assets are determined based on valuation techniques using the best information available, and may include management judgments, future performance projections, etc.

Trust bank balances held on behalf of customers

Trust bank balances held on behalf of customers consist two parts: i) iSTAR Securities and iSTAR Futures receive fund from customers for purpose of buying or selling securities and futures on behalf of its customers and deposits the fund in its interest-bearing bank account; ii) The funds received by CFO Newrand from customers who purchase mutual funds and other wealth management products which are deposited in a trust bank account. The Group launched "Yinglibao", an internet-based financial platform that integrates cash management solutions and mutual fund distribution. Such bank balance represents an asset of the Group for the amounts due to customers for the trust bank balance held on their behalf and payable to customers on demand. The Group also recognizes a corresponding liability.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Group's financial statements include account receivable, cost method investment, equity method investment, impairment of goodwill and long-lived assets, income taxes, share-based compensation and purchase price allocation. Actual results could differ from those estimates.

Loan receivable

Loans are reported at either their outstanding principal balances. For loans reported at their outstanding principal balances, interest income is accrued on the unpaid principal balance. A loan is considered impaired when, based on current events and the financial condition of the borrower, it is probable that the company will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. Loan collectability is monitored by the Group in connection with the ongoing monitoring of the associated financial guarantee transactions.

Short-term investments

Short-term investments comprise marketable debt and equity securities, which are classified as trading, held-to-maturity or available-for-sale. Trading securities are securities that are bought and held principally for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses recognized in earnings. Short-term investments are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. All of the Company's held-to-maturity securities are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs. Short-term investments classified as available for sale are carried at their fair

values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. Available for sale securities are classified as current assets on the accompanying consolidated balance sheets because they are available for immediate sale.

The Group reviews its short-term investments for other-than-temporary impairment based on the specific identification method. The Company considers available quantitative and qualitative evidence in evaluating potential impairment of its short-term investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, and the Group's intent and ability to hold the investment, in determining if impairment is needed.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment, net

Property and equipment, net are carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Technology infrastructure (in years)	5
Computer equipment (in years)	5
Furniture, fixtures and equipment (in years)	5
Motor vehicle (in years)	5
Leasehold improvements (in years)	Shorter of the lease term or 5

Acquired intangible assets, net

Acquired intangible assets are estimated by management based on the fair value of assets acquired. Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of definite-lived intangible assets is computed using the straight-line method over the estimated average useful lives, which are as follows:

License and related trademarks (in years)	15
Completed technology (in years)	5
Customer relationship (in years)	4- 5

Certain trademarks resulting from the acquisitions of business and certain trading rights bought by the Group are determined to have indefinite lives. If an intangible asset is determined to have an indefinite life, it is not amortized until its useful life is determined to be no longer indefinite.

Guarantee fund deposits

Guarantee fund deposits consist of i) the funds deposited with Hong Kong Exchange and Clearing Limited by iSTAR Futures, to guarantee its customers' settlement obligations; ii) the funds deposited with the commodities exchanges as a result of its customers' trading. The Group needs to deposit certain percentage of its customers' trading margins with the commodities exchanges.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of long-lived assets with definite lives

The Group reviews its 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, the Group compares 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 their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets. There were nil, \$1,802,125 and nil impairment losses in relation to the long-lived assets with definite lives for the years ended December 31, 2013, 2014 and 2015.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as at the date of acquisition.

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability it is subsequently carried at fair value with changes in fair value reflected in earnings.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of goodwill and indefinite-lived intangible assets

The Group performs a qualitative analysis that includes reviewing the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable at least annually.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. After a qualitative analysis indicates an impairment test is needed, the Company completes a two-step goodwill impairment test. The first step is to compare 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 reporting unit exceeds its fair value, the second step is to compare 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. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets.

The Group performed the annual impairment tests on December 31 of each year. Based on the Group's assessment, the Group recorded nil, \$8,149,525 and nil goodwill impairment losses during the years ended December 31, 2013, 2014

and 2015, respectively. In addition, the Group recorded nil, nil and \$250,360 impairment loss in relation to intangible assets with indefinite life during the years ended December 31, 2013, 2014 and 2015.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Commodities brokerage business

The Group derives commission income, carrying charges and trading revenues from its commodities brokerage services.

Commission income is recognized on a trade basis based on their customers' trading volumes. The commission earned is fixed no matter how the client's open positions are ultimately settled. Additionally, the Group charges carrying charges to its customers. The commissions and carrying charges are presented in net revenues in the statement of comprehensive income.

Amounts are settled with the Exchange by both the Group and the customers and the exchange then settles with any counterparty. The exchange offsets the Group's gains and losses and amounts receivable and amounts payable from the exchange are presented net on the statement of financial position as the Group and the exchange settle net.

Trading gains, net include brokerage fees and margins generated from derivative trades executed with customers and other counterparties and are recognized when trades are executed. Trading gains, net also include activities where the Group acts as market maker in the purchase and sale of commodities derivative instruments with customers. These transactions may be offset simultaneously with another customer or counterparty, offset with similar but not identical positions on an exchange, made from inventory, or may be aggregated with other purchases to provide liquidity intraday, for a number of days, or in some cases, particularly the commodities brokerage business, even longer periods (during which fair value may fluctuate). Therefore, trading gains, net includes activities from the Group's operations of a proprietary commodity trades. Net trading gains are recognized on a trade-date basis and include realized gains or losses and changes in unrealized gains or losses on investments at fair value.

Unrealized gains/losses on open positions will be marked to market at each period end and may present trading gains and losses which comprise both realized and unrealized gains and losses, on a net basis in the statement of comprehensive income. The open transactions may lead to receivables and/or payables for open transaction which are recorded on the Statement of Financial Position.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition- continued

Commodities brokerage business-continued

Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities. The following table presents the totally recognized net revenue from commodities trading business, consisted of:

	Years ended December 31,	
	2014	2015
Commodities trading gains	\$38,297,005	\$53,776,323
Commission income	17,397,978	22,913,704
Carrying charges	4,396,134	3,012,627
	\$60,091,117	\$79,702,654

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition- continued

Hong Kong Brokerage services

The Group also derives commission from its brokerage services provided by the subsidiaries, iSTAR Securities and iSTAR Futures which buy or sell securities and future contracts on their customers' behalf. The Group acts as an agent with their customers for these transactions. The commission income is recognized on a trade date basis as transactions occur.

Financial information and advisory services

The Group derives revenue from subscription fees from subscribers to their financial data, information services and investment advisory. The Group recognizes revenues when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed or determinable and (4) collectability is probable. Upon receipt of the upfront cash payments from the subscriber, the Group will activate the subscriber's account and provide the subscriber the access code. This will commence a certain subscription period according to the customer demand and the full payment will be deferred and recognized ratably over the subscription period. The Group recognizes revenue ratably over the life of the arrangement. Estimated refund of subscription fees is recorded as deduction of revenue and deferred revenue.

Advertising revenue

The Group derives its advertising fees from advertising sales on their website for a fixed period of time, generally less than one year. Revenues from advertising arrangements are recognized ratably over the period the advertising is

displayed.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Business taxes and value added taxes

Starting from January 1, 2012, the PRC Ministry of Finance and the State Administration of Taxation launched a Business Tax to value added tax ("VAT") Transformation Pilot Program(the "Pilot Program"), for certain industries in Shanghai. On September 1, 2012, the PRC Ministry of Finance and the State Administration of Taxation extended the Pilot Program to certain industries in other eight regions, including Beijing and Shenzhen. With the adoption of Pilot Program, our advertising-related revenues and certain subscription revenues were subject to VAT tax at a rate of 6%. Our advertising- related revenues, certain subscription revenues and certain commodities brokerage revenues were recognized after deducting VAT and other related surcharges.

Revenue is recorded net of business taxes when incurred. The Group is subject to business taxes of 3%-5% on taxable services provided to its customers. During the years ended December 31, 2013, 2014, and 2015, business taxes and related surcharges totaled \$598,044, \$1,425,835 and \$1,663,869, respectively.

The Group's certain PRC subsidiaries, VIEs and VIEs' subsidiaries are subject to VAT at a rate of 17% on subscription-based revenue. VAT payable on subscription-based revenue is computed net of VAT paid on purchases. In respect of subscription-based revenue, however, if the net amount of VAT payable exceeds 3% of subscription-based revenue, the excess portion of value added tax can be refunded immediately.

The Group therefore is subject to an effective net VAT burden of 3% from subscription-based revenue and records VAT on a net basis. Net amount of value added tax is recorded either in the line item of other current liabilities or prepaid expenses and other current assets on the face of consolidated balance sheet.

Subscription-based revenue includes the benefit of the rebate of value added taxes on sale of the downloadable software received from the Chinese tax authorities as part of the PRC government policy of encouraging software development in the PRC. In 2013, 2014 and 2015, the Group recognized \$639,936, \$425,908 and \$328,817,

respectively, in VAT refunds.

Government subsidies

The Group records government subsidies when granted by local government authority and are not subject to future return. The government subsidies include research & development subsidy, business tax refund, innovation fund and high-tech company subsidy.

Deferred revenue

Payments received in advance of for our financial information and advisory service, advertising service are recorded as deferred revenue until earned and when the relevant revenue recognition requirements have been met.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cost method investment

For investments in an investee over which the Group does not have significant influence, the Group carries the investment at cost and recognizes income as any dividends declared from distribution of investee's earnings. The Group reviews the cost method investments for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. 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.

Equity method investment

Under the equity method, the Group initially records its investment at cost. The Group subsequently adjusts the carrying amount of the investment to recognize the Company's proportionate share of each equity investee's net income or loss. The Group will discontinue applying equity method if an investment (and additional financial supports to the investee, if any) has been reduced to zero. When the equity-method investment in ordinary shares is reduced to zero and further investments are made that have a higher liquidation preference than ordinary shares, the Group would recognize the loss based on its percentage of the investment with the same liquidation preference, and the loss would be applied to those investments of a lower liquidation preference first before being further applied to the investments of a higher liquidation preference. An impairment loss on the equity method investments is recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other than-temporary.

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar ("U.S. dollar"). The financial records of the Group's subsidiaries, VIEs and VIEs' subsidiaries located in the PRC, Hong Kong and British Virgin Islands are maintained in their local currencies, the Renminbi ("RMB"), Hong Kong Dollars ("HK\$"), and U.S.

Dollars ("US\$"), respectively, which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the statements of operations.

The Group's entities with functional currency of RMB and HK\$ translate their operating results and financial position into the US\$, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are report as cumulative translation adjustments and are shown as a separate component of other comprehensive income.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currency risk

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. Cash and cash equivalents of the Group included aggregate amounts of \$26,974,664, \$19,726,992 and \$79,461,280 at December 31, 2013, 2014 and 2015 which were denominated in RMB.

Product development expenses

Costs of product development, including investment in data capability, are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. The Group essentially completed its development concurrently with the establishment of technological feasibility, and, accordingly, no costs have been capitalized.

Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses were \$2,391,762, \$7,505,506 and \$4,908,593 for the years ended December 31, 2013, 2014 and 2015, respectively, and have been included as part of sales and marketing expenses in the accompanying consolidated statements of operations.

Commissions paid

Commissions paid are the commission rebates of our Hong Kong brokerage business and the commissions paid to the sales agents of our commodities brokerage business. Total commissions paid were \$3,125,982, \$11,546,126 and \$5,049,661 for the years ended December 31, 2013, 2014 and 2015.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. 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.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Comprehensive income (loss)

Comprehensive income (loss) includes net income (loss), unrealized gain (loss) on short-term investments and foreign currency translation adjustments. Beginning in January 1, 2012, the Group presents the components of net income, the components of other comprehensive income and total comprehensive income a single continuous consolidated statement of comprehensive income.

Fair value of financial instruments

Financial instruments include cash and cash equivalents, restricted cash, accounts receivable, cost method investment, equity method investment, loan receivable and accounts payable.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, loan receivable and accounts payable approximate their fair value due to their short-term maturities.

The carrying value of the cost method investment was \$1,217,617 and \$554,392 as of December 31, 2014 and 2015, which approximate the fair value of the investment based on the valuation performed by the Company.

The carrying value of the equity method investment was nil and \$1,228,269 as of December 31, 2014 and 2015, which approximate the fair value of the investments at the acquired date and subsequently adjusted as the net assets of the investee change through the earning of income.

The Group does not use derivative instruments to manage risks.

Share-based compensation

Share-based compensation with employees is measured based on the grant date fair value of the equity instrument. The Group recognizes the compensation costs net of an estimated forfeiture rate using the straight-line method for performance based awards or graded vesting attribution method for service based awards, over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

Share awards issued to nonemployees are measured at fair value at the earlier of the commitment date or the date the services is completed and recognized over the period the service is provided or as goods is received.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net income (loss) per share

Basic net income (loss) per share attributable to China Finance Online Co. Limited is computed by dividing net income (loss) attributable to China Finance Online Co. Limited by the weighted average number of ordinary shares outstanding during the period. Diluted net income per ordinary share attributable to China Finance Online Co. Limited reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. The dilutive effect of the stock options and nonvested shares is computed using treasury stock method.

Concentrations of credit risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, short-term investments, loan receivable and accounts receivable. The Group places its cash and cash equivalents, restricted cash, short-term investments in major financial institutions located in PRC and Hong Kong, which management considers to be of high credit quality.

The Group conducts ongoing credit evaluations of its customers and generally does not require collateral or other security from its customers except for the accounts receivable-margin clients which represents the margin loan to customers for securities purchase. The accounts receivable-margin client was collateralized by the securities the margin client purchased. The Group manages its credit risk by collecting up-front fee from its customers and billing at regular intervals during the contract period. The Group assesses the adequacy of allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

Details of clients accounting for 10% or more of accounts receivable are as follows:

Year ended December 31,			
2014		2015	
<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A \$1,963,900	13.5	\$*	*
B \$5,044,178	34.6	\$*	*
C \$*	*	\$4,245,971	25.9

* Represented less than 10% of consolidated account receivable balance.

There were no customers with 10% or more of the Group's revenues during 2013, 2014, or 2015.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recently accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. ASU 2015-14, Revenue from Contracts with Customers, defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted to the original effective date. The Group is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements and considering additional disclosure requirements.

In April 2015, the FASB issued ASU No. 2015-03 ("ASU 2015-03"), Interest – Imputation of Interest. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Group does not expect the adoption of ASU 2015-03 will have a significant impact on the consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16 ("ASU 2015-16"), Business Combinations (Topic 805) Simplifying the Accounting for Measurement – Period Adjustments. ASU 2015-16 requires the acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15,

2015. Early adoption is permitted. The Group does not expect the adoption of ASU 2015-16 will have a significant impact on the consolidated financial statements.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recently accounting pronouncements- continued

In November 2015, the FASB issued ASU No. 2015-17 ("ASU 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. The Group does not expect the adoption of ASU 2015-17 will have a significant impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

3. ACQUISITIONS

Acquisition of CFO Guiwo

On April 1, 2015, Fortune Zhengjin Co., Ltd. ("Fortune Zhengjin", formerly known as Huifu Jinyuan Co., Ltd.), an affiliate of the Company, acquired 100% of equity interest of Shanghai Guiwo Information Technology Co., Ltd. ("CFO Guiwo"), which was not a significant acquisition. Total cash consideration was \$16,278. The Company recognized \$19,906 goodwill at the acquisition date. The results of CFO Guiwo's operations have been included in the

consolidated statement of comprehensive income for the year ended December 31, 2015.

Neither the results of operations since the acquisition date nor the pro forma results of operations of CFO Guiwo were presented because of the effects of this acquisition was not significant to the Company's consolidated statement of comprehensive income.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****3. ACQUISITIONS - continued**Acquisition of CFO Tahoe

On September 30, 2013, Shanghai Stockstar Wealth Management Co., Ltd. ("Stockstar Wealth Management"), an affiliate of the Company, paid \$6,506,181 to subscribe the newly issued shares of Shenzhen Tahoe Investment and Development Co., Ltd. ("CFO Tahoe") and acquired 60% of the equity interest. CFO Tahoe held the 55% share equity in Henghui (Tianjin) Precious Metals Investment Co., Ltd. ("CFO Henghui"), with which the Company expects to develop the commodities brokerage business in the future. With the assistance of a third party appraiser, the Company allocated the purchase price to assets acquired and liabilities assumed as of the acquisition date as follows and goodwill was allocated to commodities brokerage business and other related services operating segment. The net revenue and net income of CFO Tahoe in the amount of \$5,988,280 and \$1,864,234, respectively, have been included in the consolidated statement of comprehensive income for the year ended December 31, 2013.

		Useful life (in years)
Purchase price allocation:		
Cash and cash equivalents	\$5,279,425	
Prepaid expenses and current assets	1,135,765	
Accounts receivable	2,143,957	
Property and equipment, net	47,770	
Rental deposit	72,431	
Acquired intangible assets:		
Commodities trading right	699,414	
Customer relationship	1,250,813	4.3
Guarantee fund deposits	1,626,545	
Total assets acquired	12,256,120	
Accrued expenses and other current liabilities	(2,810,425)	
Deferred tax liabilities	(487,557)	
Total net assets	8,958,138	
Noncontrolling interest	(9,508,295)	

Goodwill	7,056,338
Total purchase price	\$6,506,181

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****3. ACQUISITIONS - continued**Acquisition of Champion Connection's business

On July 1, 2013, Giant Bright International Holdings Limited ("CFO GB") and Mainfame Group Limited ("CFO MF"), two subsidiaries of the Company, entered into a series of contractual arrangement with Champion Connection Network H.K Limited ("Champion Connection") to acquire the packaged fixed assets, experienced personnel related to its investment advisory and institution subscription services businesses in China, respectively. For the acquisition, the purchase consideration comprised cash consideration was \$4,044,980, 30% shares of CFO GB, 30% shares of CFO MF and a contingent consideration of 5% shares of CFO MF. With the assistance of a third party appraiser, the Company allocated the purchase price to assets acquired and liabilities assumed as of the acquisition date as follows and goodwill was allocated to investment advisory services, institution subscription services and other related services operating unit. In addition, the fair value of the shares of CFO GB and CFO MF were determined by using the income approach.

Purchase price allocation:

Property and equipment, net	\$ 199,803
Total assets acquired	199,803
Goodwill	6,544,150
Cash consideration	4,044,980
The fair value of 30% shares of CFO GB	1,760,861
The fair value of 30% shares of CFO MF	804,142
Contingent consideration of 5% shares of CFO MF	133,970
Total purchase price	\$6,743,953

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

3. ACQUISITIONS - continued

Business combination of CFO Netinfo

On July 1, 2013, Zhengyong Information Technology (Shanghai) Co., Ltd. ("CFO Zhengyong"), a subsidiary of the Company, entered into a series of contractual arrangement with Netinfo (Beijing) Technology Co., Ltd. ("CFO Netinfo") to acquire 100% of the equity interest, with which the Company expects to develop the investment advisory services in the future. For the acquisition, the total cash consideration was \$808,996. With the assistance of a third party appraiser, the Company allocated the purchase price to assets acquired and liabilities assumed as of the acquisition date as follows and goodwill was allocated to investment advisory services business and other related services operating segment. The net revenue and net loss of CFO Netinfo in the amount of \$286,500 and \$355,322, respectively, have been included in the consolidated statement of comprehensive income for the year ended December 31, 2013.

		Useful life (in years)
Purchase price allocation:		
Cash and cash equivalents	\$ 121,044	
Prepaid expenses and current assets	339,296	
Accounts receivable	4,912	
Acquired intangible assets:		
Security consulting license	598,657	15
Total assets acquired	1,063,909	
Accrued expenses and other current liabilities	(274,748)	
Deferred tax liabilities	(149,664)	
Income tax payable	612	
Total net assets	640,109	
Goodwill	168,887	
Total purchase price	\$ 808,996	

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

3. ACQUISITIONS - continued

If comparative financial statements are presented, the pro forma results as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The pro forma results are prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted, nor is it indicative of future operating results. There was no significant acquisition during the years ended December 31, 2014 and 2015, and then no pro forma results were presented.

Fair value of acquired assets

The Group measured the fair value for the assets acquired, with the assistance of an independent valuation firm, using discounted cash flow techniques, and these assets were valued using Level 3 inputs, because the Group used unobservable inputs to value them, reflecting the Group's assessment of the assumptions market participants would use in valuing these purchased intangible assets.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****4. BUSINESS RESTRUCTURE**

On June 1, 2014, the Group signed a series of contractual arrangements for the business restructure. Pursuant to the arrangements, the Group disposed (i) its entire 100% equity interest of several VIEs and subsidiaries of VIEs designated under the contract, (ii) the workforce and assets from the acquisition of Champion Connection's business related to the institutional subscription services to CFO GB and CFO MF's noncontrolling shareholders. In addition, the Group also should pay 20% net income of three subsidiaries of VIEs related to the commodities brokerage services designated under the contract, and a cash consideration of \$1,620,877, to get (i) 20% equity interest of CFO Tahoe, and (ii) 40% equity interest of CFO GB and 30% CFO MF. The Group recognized a gain from the disposal with an amount of \$90,666 in the consolidated statement of comprehensive income for the year ended December 31, 2014.

5. ACCOUNTS RECEIVABLE

	December 31,	
	<u>2014</u>	<u>2015</u>
Accounts receivable-margin clients	\$ 1,698,861	\$ 4,367,417
Less: Allowance for doubtful accounts	-	-
Accounts receivable- margin clients, net	\$ 1,698,861	\$ 4,367,417
Accounts receivable-others	12,928,570	12,048,306
Less: Allowance for doubtful accounts	(43,077)	(40,592)
Accounts receivable-others, net	\$ 12,885,493	\$ 12,007,714

Accounts receivable- margin clients represent the receivables derived in the Hong Kong brokerage service in iSTAR Securities, which is pledged by the customer's purchased securities.

Accounts receivable-others represent the receivables derived in commodities brokerage business and other ordinary business without any collateral or other security from its customers.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****6. CONSIDERATION RECEIVABLE**

In order to enhance our return on cash during the strategic transition period, in March 2013, the Group made an equity method investment to a real estate developer in Langfang City, Hebei Province (the "Langfang Developer"). The Group invested an aggregate \$22,142,400 in consideration for 49% of its equity interests. In December 2013, the Company transferred this investment to two third party companies at the consideration of \$24,930,702. As of December 31, 2013, the Company has collected \$11,481,244 in cash. The carrying balance of consideration receivable was \$13,400,882 as of December 31, 2014.

The consideration receivable was pledged by the 100% equity interests of Langfang Developer. As of December 31, 2014, based on the valuation of the 100% equity interests of Langfang Developer performed by a third party appraiser, there was no impairment loss of the consideration receivable.

In December 2015, the Company fully collected the consideration receivable. The carrying balance of consideration receivable was nil as of December 31, 2015.

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31,	
	<u>2014</u>	<u>2015</u>
Prepayment of advertising fees	\$213,837	\$209,778
Advertising deposit	355,390	196,290
Advances to suppliers	840,308	1,272,519
VAT refund receivable	139,908	68,429
Interest receivable	1,264,075	65
Prepayment of office rental	380,325	170,536
Amount due from noncontrolling shareholders (i)	2,393,645	-

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Sales of cost method investment receivable (Note 11)	2,168,868	-
Amounts due from equity method investee	-	212,904
Other current assets	784,507	1,358,126
	\$8,540,863	\$3,488,647

(i) The amounts due from noncontrolling shareholders represented the interest free loans to the noncontrolling shareholders. Pursuant to the agreement, all the loans were for temporary cash turnover purpose and were received in the first quarter of 2015.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

8. LOAN RECEIVABLE

The Group has loan receivable due from third parties, which consisted of the following:

<u>As of December</u>			
<u>31,</u>			
<u>2014</u>	<u>2015</u>	<u>Interest rate</u>	<u>Period</u>
A(i) \$10,295,800	\$ -	1.5% per month	October 9, 2013 to October 20, 2014
\$10,295,800	\$ -	19-21% per annum	October 21, 2014 to December 31, 2014

- (i) The loan was made to the Langfang Developer, in which the Group also made an equity method investment in 2013 (Note 6). The principal and its return are pledged by the 100% equity interests of Langfang Developer.

In September 2014, the Company's board of directors approved an extension of the outstanding loan to December 31, 2014.

As of December 31, 2014, based on the valuation of the 100% equity interests of Langfang Developer performed by a third party appraiser, there was no impairment loss of the loan.

In March, 2015, the Group collected approximately \$2.1 million (RMB13 million, equivalently) from Langfang Developer. In December 2015, the Company received the remaining outstanding loan and relative interests. The Group recorded \$693,231, \$3,783,929 and \$2,283,875 interest income in relation to the consideration receivable and loan receivable during the years ended December 31, 2013, 2014 and 2015, respectively.

The following table presents changes in loan receivable for the twelve-month period ended December 31, 2014 and 2015, respectively:

	December 31,	
	2014	2015
Beginning balance	\$10,333,120	\$10,295,800
Collection	-	(9,807,585)
Exchange difference	(37,320)	(488,215)

Ending balance \$10,295,800 \$-

9. SHORT-TERM INVESTMENTS

The Group measured the trading securities at fair value based on quoted market prices in an active market. As a result the Group has determined the valuation of its trading securities falls within Level 1 of the fair value hierarchy. As of December 31, 2014 and 2015, the Group did not hold any trading securities. For the year ended December 31, 2013, 2014 and 2015, the Group recognized a loss from the trading securities of nil, \$47,941 and \$18,396 in the consolidated statement of comprehensive income, respectively.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****9. SHORT-TERM INVESTMENTS - continued**

The Group measured the available-for-sale securities at the fair value shown by the financial institution which the Group believes a Level 2 valuation.

The following table presents changes in level 2 available-for-sale securities measured on a recurring basis for the twelve-month period ended December 31, 2014 and 2015, respectively:

	December 31,	
	2014	2015
Beginning balance	\$-	\$-
Purchases	90,205,903	105,334,483
Redemption	(90,323,594)	(105,560,595)
Realized gain	106,392	234,421
Exchange difference	11,299	(8,309)
Ending balance	\$-	\$-

The following table provides additional information on the realized gains of the sale of available-for-sale securities as of December 31, 2014 and 2015, respectively. For purposes of determining gross realized gains, the cost of securities sold is based on specific identification.

	Year ended December 31, 2015			
	Proceeds	Costs	Gains	Exchange difference
Available-for-sale securities	\$105,560,595	\$105,334,483	\$234,421	\$(8,309)
Total	\$105,560,595	\$105,334,483	\$234,421	\$(8,309)

	Year ended December 31, 2014			
	Proceeds	Costs	Gains	Exchange difference

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Available-for-sale securities	\$90,323,594	\$90,205,903	\$106,392	\$11,299
Total	\$90,323,594	\$90,205,903	\$106,392	\$11,299

The fair values of trading securities and available-for-sale securities as measured, and held-to-maturity securities as disclosed are further discussed in Note 10.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****10. FAIR VALUE MEASUREMENT**Fair value disclosed or measured on a recurring basis

The fair values of the Group's trading securities and available-for-sale securities as measured, held-to-maturity securities as disclosed are determined based on the discounted cash flow method. The Group measured the available-for-sale securities at the fair value shown by the financial institution which the Group believes a Level 2 valuation.

The Group's financial assets measured or disclosed at fair value on a recurring basis both were nil as of December 31, 2014 and 2015.

The following table presents changes in level 2 available-for-sale securities measured on a recurring basis for the twelve-month period ended December 31, 2014 and 2015, respectively:

	December 31,	
	2014	2015
Beginning balance	\$-	\$-
Purchases	90,205,903	105,334,483
Redemption	(90,323,594)	(105,560,595)
Realized gain	106,392	234,421
Exchange difference	11,299	(8,309)
Ending balance	\$-	\$-

Fair value disclosed or measured on a non-recurring basis

The Group measures certain financial assets, including equity method investments and cost method investments, at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Group's non-financial assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be impaired on an other-than-temporary basis.

	Total losses		Total losses	
	Fair value at	in the year ended	Fair value at	in the year ended
	December 31, 2014	December 31, 2014	December 31, 2015	December 31, 2015
Non- Recurring				
Goodwill	-	(8,149,525)	-	-
Intangible Assets	-	(1,802,125)	-	(250,360)

As of December 31, 2014 and 2015, certain goodwill (Note 16) and intangible assets (Note 15) were written off from their carrying value to fair value, which was measured using significant unobservable inputs (Level 3), with impairment loss incurred and recorded in the in the consolidated statement of comprehensive income for the year ended December 31, 2014 and 2015.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

11. COST METHOD INVESTMENT

In 2012, the Group made a cost method investment. The carrying amount of the cost method investments was \$802,202 as of December 31, 2012. As result of an addition investment of \$309,698 in 2013, the carrying balance of such investment was \$1,138,899 as of December 31, 2013.

In 2014, the Group made another cost method investment of \$81,064. The total carrying balance of such cost method investments were \$1,217,617 as of December 31, 2014.

In 2014, the Group sold its equity interests in Ocean Butterflies Holdings Inc. to a third party, which was fully impaired as of December 31, 2011. Gains from the sale of cost method investment recognized in the consolidated statement of comprehensive income for the year ended December 31, 2014 was \$4,337,736, of which \$2,168,868 was remained receivable as of December 31, 2014. In April, 2015, the Group collected \$2,168,868, the remaining consideration related to the sale of Ocean Butterflies Holdings Inc.

In May 2015, the Group sold a cost method investment to third parties, which was acquired during 2012 and 2013, and recognized a gain from the sale of cost method investment of \$4,648,302 in the consolidated statement of comprehensive income for the year ended December 31, 2015.

In December 2015, the Group entered a series of arrangements to dispose its 90% equity interests in CFO Securities Consulting with third parties. With the assistance of a third party appraiser, the fair value of the 10% retained noncontrolling investment of \$477,393 was recognized in the consolidated balance sheets. (Note 13)

As a result, the carrying balance of cost method investment was \$554,392 as of December 31, 2015.

The following table presents changes in cost method investment for the twelve-month period ended December 31, 2014 and 2015, respectively:

	December 31,	
	2014	2015
Beginning balance	\$1,138,899	\$1,217,617
Acquisitions	81,713	-
consideration of disposal	(4,337,736)	(5,790,369)
Gain from sale of cost method investment	4,337,736	4,648,302
Fair value adjustment of retained noncontrolling investment	-	477,393
Exchange difference	(2,995)	1,449
Ending balance	\$1,217,617	\$554,392

These investments are recorded as cost method investments, as the Group did not have a significant influence to the investee. There was no impairment of the Group's cost method investment for the year ended December 31, 2014 and 2015.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****12. EQUITY METHOD INVESTMENT**

In June 2015, the Group paid \$307,996 to acquire 20% of an investee's the equity interest. In December 2015, the Group entered a contractual arrangement with a third party to transfer its 15% equity interests in Aishang (Beijing) Fortune Technology Co., Ltd. ("CFO Aishang"), which was previously owned 55% equity interests by the Group. The remaining 40% equity interests in CFO Aishang was recorded as equity method investment at the disposal date, as the Group lost control over CFO Aishang. The fair value of the retained noncontrolling investment of \$985,586 was recognized in the consolidated balance sheets, based on the valuation performed by a third party. (Note 13)

The Group recognized a loss from equity method investment of \$66,970 in the consolidated statement of comprehensive income for the year ended December 31, 2015. The carrying balance of equity method investment was \$1,228,269 as of December 31, 2015.

The following table presents changes in equity method investment for the twelve-month period ended December 31, 2015:

	December 31, 2015
Beginning balance	\$-
Acquisitions	307,996
Equity method investment losses	(66,970)
Fair value adjustment of retained noncontrolling investment	985,586
Exchange difference	1,657
Ending balance	\$1,228,269

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

13.

Deconsolidation

In December, 2015, the Group entered a series of arrangements to dispose its 100% equity interests in Zhongcheng Futong Co., Ltd. ("CFO Zhongcheng") which holds 90% equity interests in CFO Securities Consulting with third parties. Pursuant to the arrangements, the cash consideration was \$9,322,850. With the assistance of a third party appraiser, the fair value of the 10% retained noncontrolling investment of \$477,393 was recognized as a cost method investment in the consolidated balance sheets (Note 11), as the Group did not have any significant influence over CFO Securities Consulting. The Group recorded a gain on the interest sold and the retained noncontrolling investment of \$9,161,948 in the consolidated statement of comprehensive income for the year ended December 31, 2015.

In December, 2015, the Company entered a contractual arrangement with third parties to transfer its 15% equity interests in CFO Aishang, which was previously owned 55% equity interests by the Group. Pursuant to the arrangements, the cash consideration was \$3,861. With the assistance of a third party appraiser, the fair value of the 40% retained noncontrolling investment of \$985,586 was recognized as an equity method investment in the consolidated balance sheets (Note 12). The Group recorded a gain on the interest sold and the retained noncontrolling investment of \$837,853 in the consolidated statement of comprehensive income for the year ended December 31, 2015.

The gain on the interest sold and the retained noncontrolling investment was calculated as the difference between the aggregate of (i) the fair value of the consideration transferred, (ii) the fair value of any retained noncontrolling investment in the former affiliated company on the date the affiliated company was deconsolidated, and (iii) the carrying amount of any noncontrolling interest in the former affiliated company on the date the affiliated company was deconsolidated, if applicable; and the carrying amount of the former affiliated company's net assets.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****14. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of:

	December 31,	
	2014	2015
Technology infrastructure	\$9,842,789	\$10,638,276
Computer equipment	1,995,876	2,163,506
Furniture, fixtures and equipment	4,052,425	3,800,591
Motor vehicle	929,340	875,729
Leasehold improvements	4,610,488	4,931,813
	21,430,918	22,409,915
Less: accumulated depreciation	(16,567,969)	(16,620,381)
	\$4,862,949	\$5,789,534

Depreciation expense for the years ended December 31, 2013, 2014 and 2015 were \$1,732,035, \$1,524,655 and \$1,364,048, respectively.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

15. ACQUIRED INTANGIBLE ASSETS, NET

Intangible assets as of December 31, 2014 and 2015 were as follows:

	December, 31 2014				2015				
	Gross carrying amount	Accumulated amortization	Impairment	Disposal	Net carrying amount	Gross carrying amount	Accumulated amortization	Impairment	Net carrying amount
Intangible assets not subject to amortization:									
Commodities trading right	1,372,773	-	-	(81,712)	1,291,061	1,216,582	-	(250,360)	965,698
Intangible assets subject to amortization:									
Completed technology	68,639	(27,187)	(41,452)	-	-	-	-	-	-
Customer relationship	1,256,741	(362,522)	-	-	894,219	1,184,243	(610,931)	-	573,312
Securities consulting license and related trademarks	5,570,082	(741,279)	(1,760,673)	(3,068,130)	-	-	-	-	-
	\$8,268,235	\$(1,130,988)	\$(1,802,125)	\$(3,149,842)	\$2,185,280	\$2,400,825	\$(610,931)	\$(250,360)	\$1,539,534

Amortization expenses for the years ended December 31, 2013, 2014 and 2015 were \$432,957, \$448,768 and \$285,088, respectively. Future amortization expenses of acquired intangible assets with determinable lives are \$393,460, \$393,460, and \$32,788 for 2016, 2017 and 2018, respectively.

There was no impairment on intangible assets for the year ended December 31, 2013. For the year ended December 31, 2014, the Group recorded an impairment loss on its intangible assets in the amount of \$1,802,125 associated with the acquired completed technology and securities consulting license and related trademarks due to management's estimation of the expected future cash flows associated with these assets were insufficient to recover their carrying values. During 2014, the Group disposed its intangible assets in the amount of \$3,149,842 associated with the acquired commodities trading right and securities consulting license and the related trademarks due to the business restructure. For the year ended December 31, 2015, the Group recorded an impairment loss of \$250,360 related to commodities trading right.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

16. GOODWILL

Changes in goodwill for the years ended December 31, 2013, 2014 and 2015 were as follows:

	Commodities Brokerage	Investment advisory services	Institutional subscription services	Total
Balance as of January 1, 2014	\$ 7,115,479	\$ 8,182,468	\$ 1,676,490	\$ 16,974,437
Impairment of CFO East Win	-	(3,112,365)	-	(3,112,365)
Impairment of Champion Connection's business	-	(4,867,660)	-	(4,867,660)
Disposal of Champion Connection's business (Note4)	-	-	(1,676,490)	(1,676,490)
Impairment of CFO Netinfo	-	(169,500)	-	(169,500)
Exchange difference	(25,699)	(32,943)	-	(58,642)
Balance as of December 31, 2014	\$ 7,089,780	\$-	\$-	\$ 7,089,780
Acquisition of CFO Guiwo (Note3)	19,906	-	-	19,906
Exchange difference	(410,066)	-	-	(410,066)
Balance as of December 31, 2015	\$ 6,699,620	\$-	\$-	\$ 6,699,620

During the third quarter of 2013, the Group made a series of business acquisition and restructures. The Company has re-categorized its reporting units to better reflect the evolving nature of its businesses and reallocated its goodwill. The goodwill related to acquisition of CFO Tahoe was allocated to commodities brokerage reporting unit; the goodwill related to the acquisition of CFO East Win, CFO Netinfo and Champion Connection's investment advisory business were allocated to investment advisory services reporting unit and the goodwill related to the acquisition of Champion Connection's institutional subscription business were allocated to the institutional reporting unit.

In the second quarter of 2014, due to the new business redirection to develop our online brokerage services "Securities Master", the Group was expected to suffer reduced cash flow in its investment advisory reporting unit. With the assistance of a third party appraiser, the Group recognized an impairment loss of \$8,149,525 related to the investment advisory services reporting unit. On June 1, 2014, the Group disposed all of goodwill related to the institutional reporting unit of \$1,676,490 as a result of the business restructure (Note 4). The Group also performed a goodwill impairment test related to commodities trading business as of December 31, 2014 and no impairment loss was recorded.

The goodwill related to the acquisition of CFO Guiwo was allocated to commodities trading reporting unit, which was acquired in the second quarter of 2015. The Group performed a goodwill impairment test as of December 31, 2015 and no impairment loss was recorded.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

16.

GOODWILL- continued

In the goodwill impairment test, the Group used the income approach, which it believed to be more reliable than the market approach in determining the fair value of the Group's reporting units. Accordingly, it adopted a discounted cash flow ("DCF") method under the income approach, which considers a number of factors that include expected future cash flows, growth rates, discount rates, and comparable multiples from publicly traded companies in the industry and requires the Group to make certain assumptions and estimates regarding industry economic factors and future profitability of its business unit. The assumptions are inherently uncertain and subjective.

Based on the impairment tests performed, the Group recognized impairment losses of nil, \$8,149,525 and nil for the years ended December 31, 2013, 2014 and 2015, respectively.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****17. Accounts payable**

Accounts payable consist of:

	December 31,	
	2014	2015
Amount due to customers of Hong Kong brokerage business	\$7,982,827	\$2,388,638
Amount due to sales agents	583,367	1,722,827
Amount due to noncontrolling shareholders	876,911	910,864
Others	409,386	471,399
	\$9,852,491	\$5,493,728

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of:

	December 31,	
	2014	2015
Accrued bonus	\$3,612,689	\$4,825,633
Accrued professional service fees	760,780	416,676
Withholding individual income tax-option exercise	61,683	61,683
Value added taxes and other taxes payable	945,471	2,219,300
Accrued raw data cost	762,492	1,285,418
Accrued bandwidth cost	127,650	38,527
Accrued welfare benefits	72,160	61,594
Amount payable related to business restructure (Note 4)	360,520	-
Advances related to disposal of subsidiaries (i)	-	5,081,927
Accrued sales service fees	491,981	578,910
Others	1,642,308	1,085,757
	\$8,837,734	\$15,655,425

On March 30, 2015, the Group signed a sale & purchase agreement with a third party, to transfer the 100% ordinary shares of iSTAR Futures and iSTAR Wealth Management (the "Transaction"). In April 2015, the Group collected (i) partial consideration of approximately \$5.1 million. Due to the Transaction was not completed as of December 31, 2015, the agreement was expired automatically. The Group refunded the \$5.1 million and entered into a new agreement in April 2016. (Note 28)

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES

As of December 31, 2015, the Company and its subsidiaries have five share-based compensation plans, which are described below. The compensation expenses that had been charged against income for those plans were \$3,035,122, \$4,698,953 and \$6,056,033 for 2013, 2014, and 2015, respectively.

2004 Stock incentive plan

In January 2004, the Company adopted the 2004 stock incentive plan (the "2004 Plan") which allows the Company to offer a variety of incentive awards to employees, directors, officers and other eligible persons in the Group, and consultants and advisors outside the Group. We amend the 2004 Plan in September 2004, August 2006, June 2009 and June 2010. The total number of ordinary shares authorized under the 2004 Plan was 30,688,488, and all of these authorized ordinary shares were granted to directors, officers, employees and non-employees as of December 31, 2014.

Options to employees

During 2013, the Company granted totaling 7,740,000 stock options to directors, officers and employees at an exercise price that equaled the trading price of the stock upon the stock option grant. These options vest over 3 years except the 3,300,000 shares granted to the two officers which vest over 2 years.

The fair value of employee options was estimated on the basis of the Black-Scholes Option Pricing model with the following assumptions:

Years
ended

December
31, 2013

Weighted average risk free rate of return	1.40	%
Weighted average expected option life (in years)	6.14	
Expected volatility rate	76.67	%
Dividend yield	-	

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2004 Stock incentive plan - continued

Options to employees - continued

(1) Expected volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of the Company over the past years.

(2) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of treasury bonds of the United States with a maturity period close to the expected term of the options.

(3) Expected option life

The expected life was estimated based on historical information.

(4) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(5)

Exercise price

Options are generally granted at an exercise price equal to the fair market value of the Company's shares at the date of grant.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2004 Stock incentive plan - continued

Options to non-employees

During 2013, the Company granted 6,260,000 options under the 2004 Plan to consultants and strategic advisers. The fair value of non-employee options is estimated using the Black-Scholes Option Pricing model as such method provided a more accurate estimate of the fair value of services provided by the consultants and strategic advisers. The fair value of the stock options is remeasured as of the end of each reporting period until the services of these non-employees are complete under the service contracts. These options vest over two years.

Summary of stock options to employees and non-employees

A summary of the stock option activity is as follows:

	2013		2014		2015	
	Number	Weighted	Number	Weighted	Number	Weighted
	of options	average	of options	average	of options	average
		exercise		exercise		exercise
		price		price		price
Outstanding at beginning of year	11,144,998	\$ 0.93	24,505,348	\$ 0.54	21,326,160	\$ 0.57
Granted	14,000,000	0.25	-	-	-	-
Exercised	(190,250)	0.16	(1,164,300)	0.54	(2,205,600)	0.22
Forfeited	(449,400)	1.25	(2,014,888)	0.27	(1,787,800)	1.18
Outstanding at end of year	24,505,348	\$ 0.54	21,326,160	\$ 0.57	17,332,760	\$ 0.55
Shares exercisable at end of year	10,500,548	\$ 0.93	14,070,240	\$ 0.73	14,513,528	\$ 0.61

The following table summarizes information with respect to stock options outstanding at December 31, 2015:

Stock option with exercise price of:	Options outstanding			Option exercisable			
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Aggregate intrinsic value as of December 31, 2015	Number exercisable	Weighted average exercise price	Aggregate intrinsic value as of December 31, 2015
\$1.07	700,000				700,000		
\$0.96	2,268,000				2,268,000		
\$1.318	53,600				53,600		
\$1.26	413,360				413,360		
\$1.648	10,000				10,000		
\$1.426	2,091,000				2,091,000		
\$1.43	50,000				50,000		
\$0.25	11,746,800				8,927,568		
	17,332,760	5.85	\$ 0.55	\$ 12,412,802	14,513,528	\$ 0.61	\$ 9,616,123

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2004 Stock incentive plan - continued

Summary of stock options to employees and non-employees - continued

The weighted-average grant-date fair value of options granted during the years 2013 was \$0.17. The total intrinsic value of options exercised during the years ended December 31, 2013, 2014 and 2015 was \$208,895, \$647,701, and \$1,881,129, respectively. The total fair value of shares vested during the year ended December 31, 2013, 2014 and 2015 were \$141,549, \$3,080,628 and \$2,067,037, respectively.

The Company recognized share-based compensation expenses of \$2,539,274, \$2,664,317 and \$546,465 for stock option in the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2015, there were \$39,183 unrecognized share-based compensation expenses relating to the stock options, which are expected to be recognized over a weighted average period of one year.

Restricted shares to employees

On January 2, 2014, the Company granted remaining 1,100,240 ordinary shares, which were in the form of restricted shares, to employees under 2004 Plan. The vesting of the restricted shares is subject to rendering service to the Company for three years. Based on the Company's requisite service period stated in the 2004 Plan, 748,162 shares were vested as of January 2, 2016, of which 258,086 shares were issued to an employee as of December 31, 2015. The fair value of restricted shares is \$1.106, which equal to the fair market value of the Company's shares at the date of grant. The Company recognized share-based compensation expenses of \$762,568 and \$324,496 for the years ended December 31, 2014 and 2015. As of December 31, 2015, there were \$129,801 unrecognized share-based

compensation expenses relating to the restricted shares, which are expected to be recognized over a weighted average period of one year.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2007 Equity incentive plan

In July 2007, the Company adopted the 2007 Equity incentive plan (the "2007 Plan") and granted nonvested shares covering 10,558,493 ordinary shares of the Company to the employees who were eligible for the 2007 Plan. The vesting of the nonvested shares are subject to achieving certain operating performance targets and rendering service to the Company for the requisite service period stated in the 2007 Plan. Based on the Company's operating performance, 8,658,048 shares were vested as of December 31, 2010.

In June 2014, the Annual General Meeting approved the amendment to the 2007 Plan and the Restricted Stock Issuance and Allocation Agreement of 2007 Plan. Pursuant to such agreement, together with the remaining 1,900,445 ordinary shares which were not vested due to the operating performance targets under 2007 Plan not being achieved, 3,000,000 ordinary shares were collectively granted to the employees who were eligible. The fair value of a nonvested share on the grant date was measured at the quoted market price of the Company's equity shares. The nonvested shares shall become activated and vest during the period commencing from the grant date and ending on December 31, 2016 based on the Company's achievement of the performance targets.

As of December 31, 2014, there was no nonvested shares become activated and vested due to the performance targets were not achieved, and nil share-based compensation expenses relating to the nonvested shares was recognized.

As of December 31, 2015, the granted shares were activated and vested based on the Group's achievement of performance target. The fair value of granted share is \$0.82, which equal to the fair market value of the Company's shares at the date of grant. The Company recognized share-based compensation expenses of \$1,476,000 for the years ended December 31, 2015. As of December 31, 2015, there were \$984,000 unrecognized share-based compensation expenses relating to the restricted shares, which are expected to be recognized over a weighted average period of one year.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2007 Equity incentive plan - continued

A summary of the status of the nonvested shares as of December 31, 2013, 2014 and 2015, and changes during the year ended December 31, 2014 and 2015, respectively is presented below.

<u>Nonvested shares</u>	<u>Shares</u>	Weighted- average grant/ modification <u>date fair</u> <u>value</u>	Aggregate intrinsic <u>value</u>
At the beginning of year 2014	1,900,445	\$ 0.252	\$2,390,760
Granted	1,099,555	\$ 0.82	\$901,635
Vested	-	-	-
Forfeited	-	-	-
At the end of year 2014	3,000,000	\$ 1.064	\$3,192,000
Granted	-		
Vested	3,000,000	\$ 0.82	2,460,000
Forfeited	-	-	-
At the end of year 2015	3,000,000	\$ 1.082	\$3,246,000

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES - continued

2010 Equity incentive plan of iSTAR Financial Holdings

In November 2010, iSTAR Financial Holdings, a subsidiary of the Company, implemented the "2010 equity incentive plan" (the "2010 Plan") under which the Company transferred 1,500 nonvested shares which representing 15% of total iSTAR Financial Holdings' equity interest to its management group as a share incentive. If the grantees left the Company before the third anniversary of the grant date when the nonvested shares become vested, they should transfer the shares to the Company at no consideration. Therefore, the total share based compensation expenses are recognized ratably over the three years of vesting period. In addition, as the grantees are entitled to all the shareholder's rights, including the dividend rights since the date of grant, the 15% share of the earnings of iSTAR Financial Holdings is recognized as noncontrolling interest on the Company's consolidated financial statements since November 1, 2010, the date of grant.

The fair value of the share incentive was determined to be \$1,188 per share. The Group recognized \$495,848 share based compensation cost in 2013. As of December 31, 2013, all compensation cost relating to nonvested shares was recognized.

2014 Stock incentive plan

In July 2014, the Company adopted the 2014 stock incentive plan (the "2014 Plan") which allows the Company to offer a variety of incentive awards to employees, directors, officers and other eligible persons in the Group, and consultants and advisors outside the Group. The maximum number of ordinary Shares that may be delivered pursuant to awards granted to eligible persons under 2014 Plan during calendar year 2014 is equal to 5,000,000 ordinary shares; provided, that, as of January 1 of each calendar year thereafter during the term of 2014 plan, the maximum number of ordinary shares that may be delivered pursuant to awards granted to eligible persons under 2014 Plan shall be increased by 3,000,000 Ordinary Shares. As of result, the total number of ordinary shares authorized under the 2014 Plan was 8,000,000 as of December 31, 2015. As of December 31, 2015, 31,400 shares were available for future grant of awards.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES – continued

2014 Stock incentive plan – continued

Options to employees

During 2014 and 2015, the Company granted totaling 1,930,000 and 120,000 stock options to employees at an exercise price that equaled the trading price of the stock upon the stock option grant, respectively. These options vest over 3 years.

The fair value of employee options was estimated on the basis of the Black-Scholes Option Price model with the following assumptions:

	Years ended December		
	31,		
	2014	2015	2015
Weighted average risk free rate of return	1.39%	-1.62%	1.32%
Weighted average expected option life (in years)	6.82	-6.87	6.86
Expected volatility rate	77.74%-79.37%		77.81%
Dividend yield	-	-	-

(1)

Expected volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of the Company over the past years.

(2) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of treasury bonds of the United States with a maturity period close to the expected term of the options.

(3) Expected option life

The expected life was estimated based on historical information.

(4) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(5) Exercise price

Options are generally granted at an exercise price equal to the fair market value of the Company's shares at the date of grant.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES – continued

2014 Stock incentive plan – continued

Options to non-employees

During 2014, the Company granted 30,000 options under the 2014 Plan to a consultant. The fair value of non-employee options is estimated using the Black-Scholes Option Pricing model as such method provided a more accurate estimate of the fair value of services provided by the consultants and strategic advisers. The fair value of the stock options is remeasured as of the end of each reporting period until the services of these non-employees are complete under the service contracts. These options vest over 3 years.

Summary of stock options to employees and non-employees

A summary of the stock option activity is as follows:

	2014		2015	
	Number	Weighted	Number	Weighted
	of options	average	of options	average
		exercise		exercise
		price		price
Outstanding at beginning of year	-	\$ -	1,860,000	\$ 0.89
Granted	1,960,000	0.90	120,000	0.87
Exercised	-	-	(3,600)	0.92
Forfeited	(100,000)	0.88	(741,400)	0.89
Outstanding at end of year	1,860,000	\$ 0.89	1,235,000	\$ 0.88
Shares exercisable at end of year	-	-	480,200	\$ 0.89

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The following table summarizes information with respect to stock options outstanding at December 31, 2015:

Stock option with exercise price of:	Options outstanding		Weighted average exercise price	Option exercisable			
	Number outstanding	Weighted average remaining contractual life (in years)		Aggregate intrinsic value as of December 31, 2015	Number exercisable	Weighted average exercise price	Aggregate intrinsic value as of December 31, 2015
\$0.878	985,000				433,400		
\$0.92	30,000				10,800		
\$1.03	50,000				18,000		
\$1.04	50,000				18,000		
\$0.87	120,000				-		
	1,235,000	8.70	\$ 0.88	\$ 433,540	480,200	\$ 0.89	\$ 168,688

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES – continued

2014 Stock incentive plan – continued

Summary of stock options to employees and non-employees – continued

The weighted-average grant-date fair value of options granted during the years 2014 and 2015 was \$0.63 and \$0.61, respectively. The total intrinsic value of options exercised during the years ended December 31, 2014 and 2015 was nil and \$1,159, respectively. The total fair value of shares vested during the year ended December 31, 2014 and 2015 was nil and \$496,560, respectively.

The Company recognized share-based compensation expenses of \$148,451 and \$(187,485) for stock option in the years ended December 31, 2014 and 2015, respectively.

As of December 31, 2015, there were \$345,961 unrecognized share-based compensation expenses relating to the stock options, which are expected to be recognized over a weighted average period of two year.

Restricted shares to employees

During 2014, the Company granted 1,780,000 restricted shares under the 2014 Plan to directors and employees. The vesting of the restricted shares is subject to rendering service to the Company for two years. Based on the Company's requisite service period stated in the 2014 Plan, there were 890,000 shares vested, of which 15,000 shares were issued as of December 31, 2015. The fair value of restricted shares was \$0.878, which was the fair market value of the Company's shares at the date of grant.

On November 16, 2015, the Company granted 3,800,000 restricted shares under the 2014 Plan to selected directors and employees. Subject to the agreement, the awards shall become activated and vest during the period commencing on the grant date and ending on November 16, 2018 (the "Vesting Term"), provided that the participant has achieved all the performance targets. The fair value of restricted shares was \$0.742, which was the fair market value of the Company's shares at the date of grant.

The Company recognized share-based compensation expenses of \$310,888 and \$898,903 relating to the restricted shares granted to employees in 2014 and 2015, respectively. As of December 31, 2015, there were \$3,172,649 unrecognized share-based compensation expenses relating to the restricted shares granted to employees, which are expected to be recognized over a weighted average period of 2.6 year.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES – continued

2014 Stock incentive plan – continued

Restricted shares to non-employees

During 2014, the Company granted 1,150,000 restricted shares under the 2014 Plan to consultants. The fair value of the stock options is remeasured as of the end of each reporting period until the services of these non-employees are completed under the service contracts. These options vest over two years except 50,000 restricted shares granted to one consultant which vest over three years. The Company recognized share-based compensation expenses of \$245,958 and \$754,354 relating to the restricted shares granted to non-employees in 2014 and 2015, respectively. As of December 31, 2015, there were \$427,988 unrecognized share-based compensation expenses relating to the restricted shares granted to non-employees, which are expected to be recognized over a weighted average period of half year.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

19. STOCK OPTIONS AND NONVESTED SHARES – continued

Restricted shares of Shanghai Shangtong Co., Ltd. ("CFO Shangtong"), Fortune Zhengjin and CFO Tahoe

On July 1, 2014, CFO Shangtong and Fortune Zhengjin, two affiliates of the Company, entered into a series of contractual arrangement with selected employees of the Group. Pursuant to the agreement, these employees were granted 10% restricted shares of CFO Shangtong and Fortune Zhengjin. The vesting of the restricted shares is subject to rendering service to the Company for five years. The fair value of restricted shares is \$28,965 and \$2,464,455, which equal to the fair value of the CFO Shangtong and Fortune Zhengjin's 10% net assets at the effective date of the agreement, respectively.

On July 1, 2015, Fortune Zhengjin entered into an additional arrangement with selected employees of the Group. Pursuant to the agreement, these employees were granted 8% restricted shares of Fortune Zhengjin. The vesting of the restricted shares is subject to rendering service to the Company for five years. The fair value of restricted shares is \$4,681,533, which equal to the fair value of Fortune Zhengjin's 8% net assets at the effective date of the agreement. CFO Tahoe also entered an arrangement with selected employees of the Group. Pursuant to the agreement, these employees were granted 1.95% restricted shares of CFO Tahoe. The fair value of restricted shares is subject to rendering service to the Company for five years. The fair value of restricted shares is \$1,141,124, which equal to the fair value of CFO Tahoe's 1.95% net assets at the effective date of the agreement.

The Company recognized share-based compensation expenses of \$6,584 and \$560,187 in 2014 relating to CFO Shangtong, Fortune Zhengjin, respectively. There were \$10,200, \$1,965,535 and \$267,565 share-based compensation expenses recorded in 2015 relating to CFO Shangtong, Fortune Zhengjin and CFO Tahoe, respectively.

As of December 31, 2015, there were \$10,510 and \$4,478,097 and \$873,559 unrecognized share-based compensation expenses relating to CFO Shangtong, Fortune Zhengjin and CFO Tahoe, respectively, which are expected to be recognized over a weighted average period of 3.5 years.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

20.

INCOME TAXES

Hong Kong

China Finance Online, iSTAR Securities, iSTAR Futures, iSTAR Wealth Management, iSTAR Credit and other eight subsidiaries were established in Hong Kong. These companies were subject to Hong Kong profit tax at 16.5%. In addition, companies who incorporated outside of Hong Kong and carried on a trade, profession or business in Hong Kong were also subject to Hong Kong profit tax in respect of their profits arising in or derived from Hong Kong.

British Virgin Islands

Companies that were incorporated in the BVI are not subject to taxation in their country of incorporation. Subsidiaries incorporated in the BVI include iSTAR Financial Holdings and other eleven subsidiaries.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****20. INCOME TAXES - continued****PRC**

The Group's PRC entities are subject to 25% PRC Enterprise Income Tax ("EIT") on the taxable income in accordance with the relevant PRC income tax laws, except for certain entities that enjoy preferential tax rates, which are lower than the statutory rates, as described below.

Under the EIT Law and its implementing rules, an enterprise which qualifies as a "high and new technology enterprise" ("the HNTE") is entitled to a tax rate of 15%.

Under the EIT law and its implementing rules, enterprises that obtain status of "Software Enterprises" are entitled to be exempted from EIT tax for the first two profit-making years and enjoy a preferential 12.5% tax rate, which is half of the standard EIT rate of 25% for the three years thereafter.

A summary of the main PRC entities that subject to tax preferential policies for the year ended December 31, 2015 is as follows:

PRC entities	Chinese EIT rate	Qualification for preferential tax rate
CFO Qicheng	Preferential tax rate of 12.5% in 2013 and 2014.	Software Enterprises
CFO Shenzhen Shangtong	Preferential tax rate of 12.5% in 2013 and 2014.	Software Enterprises
CFO Software	Preferential tax rate of 15% in 2013.	HNTE
CFO Meining	Preferential tax rate of 15% from 2013 to 2015.	HNTE
CFO Genius	Preferential tax rate of 15% from 2013 to 2015.	HNTE
CFO Tibet	Preferential tax rate of 9% from 2015 to 2017 and 15% thereafter	Preferential tax rate for enterprises in Tibet, China

Under the EIT Law, the HNTE status is valid for three years and qualifying entities can then apply to renew for an additional three years provided their business operations continue to qualify for the HNTE status. CFO Software obtained its HNTE status in 2008 and its renewal in 2011. CFO Meining obtained its HNTE status in 2008 and obtained the renewal successfully in 2011 and 2014. In 2012, CFO Genius also obtained the HNTE status and successfully renewed it in 2015.

In 2013 and 2014, CFO Chongzhi and CFO Shangtong filed their EIT by adopting the "deemed-profit method". In 2014, Shanghai Yongfu Enterprises Management Consulting Co., Ltd. adopted this method. In 2015, Zhengjin (Jiangsu) Precious Metals Co., Ltd. also adopted this method. Under this method, the qualifying entities filed their income tax by calculating as 2.5% of the gross revenues. This method is subject to be reevaluated by the local tax authority in the future.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

20.

INCOME TAXES - continued

PRC - continued

The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for PRC Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that currently the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

If the Company were to be non-resident for PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries the withholding tax would be 10% not considering the arrangements for the Avoidance of Double Taxation on income and Prevention of Fiscal Evasion with respect to Taxes on Income between mainland and Hong Kong.

Aggregate deficits of the Company's subsidiaries located in the PRC were approximately \$20.3 million at December 31, 2015. And accordingly, no provision has been made for the Chinese dividend withholding taxes.

Aggregate undistributed earnings of the Company's VIEs and its VIEs' subsidiaries located in the PRC that is available for distribution to the Company of approximately \$30.0 million at December 31, 2015. A deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in VIEs because it believes such excess earnings can be distributed in a manner that would not be subject to

income tax.

Income tax (provision) benefit was as follows:

	December 31,		
	2013	2014	2015
Current	\$(478,966)	\$(558,696)	\$(2,071,154)
Deferred	378,908	44,782	686,892
Total	\$(100,058)	\$(513,914)	\$(1,384,262)

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****20. INCOME TAXES - continued****PRC - continued**

The principal components of deferred income taxes were as follows:

	December 31,	
	2014	2015
Current deferred tax assets:		
Deferred revenue - current	\$ 594,196	\$ 445,314
Accrued expenses and other liabilities	467,758	612,161
Net operating loss carrying forwards	4,233,246	4,718,396
Gross current deferred tax assets	5,295,200	5,775,871
Less: valuation allowance	(4,369,119)	(4,806,407)
Total current deferred tax assets	926,081	969,464
Non-current deferred tax assets		
Deferred revenue- non-current	\$ 268,393	\$ 121,133
Net operating loss carrying forwards	10,556,749	10,984,475
Gross non-current deferred tax assets	10,825,142	11,105,608
Less: valuation allowance	(10,753,602)	(11,085,358)
Total non-current deferred tax assets	\$ 71,540	\$ 20,250
Current deferred tax liabilities:		
Account receivable and other assets	(580,197)	(15,132)
Total current deferred tax liabilities	\$(580,197)	\$(15,132)
Non-current deferred tax liabilities:		

Intangible assets	(546,320)	(384,883)
Total non-current deferred tax liabilities	\$(546,320)	\$(384,883)

A valuation allowance of \$15,122,721 and \$15,891,765 was established as of December 31, 2014 and 2015, respectively, for the entities that have incurred losses because the Group believes that it is more likely than not that the related deferred tax assets will not be realized in the future. At December 31, 2015, operating loss carry forwards includes approximately \$52.3 million which will expire by 2020, and \$18.7 million which will carry forward indefinitely.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

20. INCOME TAXES - continued

PRC - continued

Reconciliation between total income tax expense (benefit) and the amount computed by applying the PRC EIT statutory rate to income before income taxes is as follows:

	Years ended December 31,		
	2013	2014	2015
Income (loss) before tax	\$ (8,073,832)	\$ (10,116,814)	\$ 28,201,950
Income tax (benefits) expenses calculated at 25%	(2,018,458)	(2,529,204)	7,050,488
Effect of tax holiday	(266,396)	(4,125,912)	(8,139,429)
Effect of income tax rate difference in other jurisdictions	305,505	1,789,762	645,873
Non-deductible expenses.	267,748	1,425,655	2,559,649
Non-taxable income	(439,861)	(549,315)	(893,950)
Change in valuation allowance	2,251,520	4,502,928	161,631
Income tax expense	\$ 100,058	\$ 513,914	\$ 1,384,262

During the years ended December 31, 2013, 2014 and 2015, if the Company's subsidiaries, VIEs and VIEs' subsidiaries in the PRC were neither in the tax holiday period nor had they been specifically allowed special tax concessions, they would have recorded additional income tax expense of \$31,910, \$20,851 and \$1,102,399, respectively. The impact of the tax holidays on basic net income per ordinary share was an increase of \$0.00, \$0.00 and \$0.01, for the years ended December 31, 2013, 2014 and 2015, respectively.

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2013, 2014 and 2015. The Group did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that the adoption of pronouncement issued by FASB regarding accounting for uncertainty in income taxes did not have a significant impact on the unrecognized tax benefits within 12 months from December 31, 2015.

In accordance with relevant PRC tax administration laws, tax years from 2010 to 2015 of the Group's PRC subsidiaries and VIEs remain subject to tax audits as of December 31, 2015, at the tax authority's discretion.

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

21. AMERICAN DEPOSITARY SHARES ("ADS") PLAN

In September 2015, the Group issued 4,000,000 ordinary shares to its American Depositary Receipt bank and in exchange received 800,000 ADSs under the 2004 Plan and 2014 Plan. As of December 31, 2015, 3,305,800 shares were available for future exercise of options and vesting of granted shares.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

22. NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted income (loss) per share for the years indicated:

	Years ended December 31,		
	2013	2014	2015
Net income (loss) attributable to China Finance Online Co. Limited	\$(8,573,128)	\$(7,167,849)	\$22,482,416
Weighted average ordinary shares outstanding used in computing basic net income (loss) per share	109,019,513	109,385,712	110,997,871
Plus: Incremental shares from assumed conversions of stock options and nonvested shares	-	-	14,131,892
Weighted average ordinary shares outstanding used in computing diluted net income (loss) per share	109,019,513	109,385,712	125,129,763
Net income (loss) per share attributable to China Finance Online Co. Limited			
- basic	\$(0.08)	\$(0.07)	\$0.20
- diluted	\$(0.08)	\$(0.07)	\$0.18

For the years ended December 31, 2013 and 2014, 24,505,348 options and 1,900,445 nonvested shares, 23,186,160 options, 4,030,240 restricted shares and 3,000,000 nonvested shares, were anti-dilutive, respectively, because the Group was in the loss position.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

23. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total provisions for such employee benefits were \$2,710,481, \$3,685,654 and \$4,353,944 for the years ended December 31, 2013, 2014 and 2015, respectively.

24. NONCONTROLLING INTERESTS

	Commodities brokerage services	Investment advisory services	Institutional Subscription Services	iSTAR Financial holdings brokerage services	Other	Total
Balance as of January 1, 2013	\$-	\$688,062	\$-	\$63,306	\$-	\$751,368
Acquisition of CFO Tahoe (Note 3)	9,508,295	-	-	-	-	9,508,295
Acquisition of Champion Connection (Note 3)	-	1,760,861	938,112	-	-	2,698,973
Acquisition of Nontrolling interests of CFO East Win	-	586,954	-	-	-	586,954
Changes in ownership of subsidiaries	-	289,656	(1,068,471)	-	-	(778,815)
Paid-in capital from noncontrolling shareholders	1,405,963	-	-	-	-	1,405,963
Share-based compensation (Note 19)	-	-	-	74,376	-	74,376
Net income (loss)	1,056,322	(419,202)	(64,585)	(173,297)	-	399,238
Balance as of December 31, 2013	\$11,970,580	\$2,906,331	\$(194,944)	\$(35,615)	\$-	\$14,646,352

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Business restructure	(2,569,160)	2,384,519	786,355	-	12,201	613,915
Dividends paid to noncontrolling shareholders	(1,030,012)	-	-	-	-	(1,030,012)
Share-based compensation (Note 19)	158,696	-	-	-	-	158,696
Net income (loss)	2,463,956	(5,290,850)	(591,411)	3,936	(48,510)	(3,462,879)
Balance as of December 31, 2014	\$ 10,994,060	\$-	\$-	\$(31,679)	\$(36,309)	\$ 10,926,072
Dividends paid to noncontrolling shareholders	(6,509,680)	-	-	-	-	(6,509,680)
Changes in controlling ownership interest	1,393,508	-	-	-	320,956	1,714,464
Paid-in capital from noncontrolling shareholders	641	-	-	-	-	641
Share-based compensation (Note 19)	724,285	-	-	-	-	724,285
Net income (loss)	4,815,506	-	-	(195,587)	(284,647)	4,335,272
Balance as of December 31, 2015	\$ 11,418,320	\$-	\$-	\$(227,266)	\$-	\$ 11,191,054

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

25. COMMITMENTS AND CONTINGENCIES

Commitments

The Group leases certain office premises and purchases data under non-cancelable leases. Rent expenses under operating leases for 2013, 2014 and 2015 were \$4,808,894, \$7,013,985 and \$6,044,119, respectively.

Future minimum payments under non-cancelable operating leases and data purchase agreements were as follows:

<u>Year ending</u>	
2016	\$5,437,871
2017	3,359,212
2018	1,632,872
Total	\$10,429,955

Securities Litigation

The Company and certain of its officers and directors were named as defendants in a putative securities class actions filed in Central District of California which was then transferred to Southern District of New York. The complaints allege that the Company violated Exchange Act Section 10(b) and Rule 10b-5 by failing to disclose certain its transactions as related party transaction. As the actions remain in their preliminary stages, the Company's management is unable to express any opinion on the likelihood of an unfavorable outcome or any estimate of the amount or range of any potential loss.

Litigation

The Group was involved in certain cases pending in some PRC courts as of December 31, 2015. These cases include a copyright infringement case, among others. Adverse results in these lawsuits may include awards of damages and may also result in a loss of revenue or otherwise harm the business of the Group.

For many proceedings, the Company is currently unable to estimate the reasonably possible loss or a range of reasonably possible losses as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Company believes that such matters, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

26. SEGMENT AND GEOGRAPHIC INFORMATION

The Group has three operating segments (1) commodities brokerage services, (2) online financial information and advisory service, and other related services in PRC, (3) Hong Kong brokerage services. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-makers in deciding how to allocate resources and in assessing performance. The Group's chief executive officer has been identified as the chief operating decision makers. The Group's chief operating decision maker directs the allocation of resources to operating segments based on the profitability and cash flows of each respective segment.

The Group evaluates performance based on several factors, including net revenue, cost of revenue, operating expenses, income from operation. The following tables show the operations of the Group's operating segments:

For the year ended December 31, 2015

	Commodities brokerage services	Subscription services and other related services	Hong Kong brokerage services	Consolidated
Net revenues	\$ 113,720,922	\$ 27,236,753	\$ 3,149,063	\$ 144,106,738
Less: intersegment sales	(34,018,268)	(2,683,704)	-	(36,701,972)
Net revenues from external customer	79,702,654	24,553,049	3,149,063	107,404,766
Cost of revenues	4,975,361	14,321,339	1,181,538	20,478,238
Less: intersegment cost of revenues	-	(739,501)	-	(739,501)
Cost of revenues after elimination	4,975,361	13,581,838	1,181,538	19,738,737
Operating expenses:				
General and administrative	4,026,984	11,148,924	2,978,161	18,154,069
Product development	2,549,731	8,188,718	-	10,738,449
Sales and marketing	69,674,657	12,139,100	566,396	82,380,153

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Loss from impairment of intangible assets	250,360	-	-	250,360
Total segments operating expenses	76,501,732	31,476,742	3,544,557	111,523,031
Less: intersegment operating expenses	(35,907,706)	(47,620)	(110,721)	(36,066,047)
Total operating expenses.	40,594,026	31,429,122	3,433,836	75,456,984
Government subsidies	251,828	-	-	251,828
Income (loss) from operations	\$34,385,095	\$(20,457,911)	\$(1,466,311)	\$12,460,873
Total segments assets.	\$109,286,634	\$179,706,230	\$47,011,111	\$336,003,975
Less: intersegment assets	(51,101,320)	(122,077,495)	(18,760,003)	(191,938,818)
Total assets.	\$58,185,314	\$57,628,735	\$28,251,108	\$144,065,157

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

26. SEGMENT AND GEOGRAPHIC INFORMATION - continued

For the year ended December 31, 2014

	Commodities brokerage services	Subscription services and other related Services	Hong Kong brokerage services	Consolidated
Net revenues	\$80,943,201	\$25,250,486	\$4,610,516	\$110,804,203
Less: intersegment sales	(20,852,084)	(6,256,234)	-	(27,108,318)
Net revenues from external customer	60,091,117	18,994,252	4,610,516	83,695,885
Cost of revenues	10,526,980	8,091,595	1,731,651	20,350,226
Less: intersegment cost of revenues	-	2,503	-	2,503
Cost of revenues after elimination	10,526,980	8,094,098	1,731,651	20,352,729
Operating expenses:				
General and administrative	8,320,540	19,544,999	2,655,925	30,521,464
Product development	2,460,048	13,567,759	-	16,027,807
Sales and marketing	52,371,135	12,845,724	586,015	65,802,874
Loss from impairment of intangible assets	-	1,802,125	-	1,802,125
Loss from impairment of goodwill	-	8,149,525	-	8,149,525
Total segments operating expenses	63,151,723	55,910,132	3,241,940	122,303,795
Less: intersegment operating expenses	(24,533,694)	(15,199,246)	(117,740)	(39,850,680)
Total operating expenses.	38,618,029	40,710,886	3,124,200	82,453,115
Government subsidies	655,437	3,980	-	659,417
Income (loss) from operations	\$11,601,545	\$(29,806,752)	\$(245,335)	\$(18,450,542)
Total segments assets.	\$62,272,231	\$171,870,606	\$52,776,273	\$286,919,110
Less: intersegment assets	(26,824,659)	(127,444,636)	(18,746,458)	(173,015,752)
Total assets.	\$35,447,572	\$44,425,970	\$34,029,815	\$113,903,358

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CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

26. SEGMENT AND GEOGRAPHIC INFORMATION - continued

For the year ended December 31, 2013

	Commodities brokerage services	Subscription services and other related Services	Hong Kong brokerage services	Consolidated
Net revenues	\$30,124,245	\$21,656,482	\$3,404,767	\$55,185,494
Less: intersegment sales		(2,447,417)		(2,447,417)
Net revenues from external customer	30,124,245	19,209,065	3,404,767	52,738,077
Cost of revenues	2,613,287	7,018,379	938,404	10,570,070
Operating expenses:				
General and administrative	1,087,048	10,831,336	3,291,718	15,210,102
Product development	784,083	8,248,244	-	9,032,327
Sales and marketing	22,015,190	10,429,389	591,074	33,035,653
Total segments operating expenses	23,886,321	29,508,969	3,882,792	57,278,082
Less: intersegment operating expenses	(2,447,417)			(2,447,417)
Total operating expenses	21,438,904	29,508,969	3,882,792	54,830,665
Government subsidies	-	11,187	-	11,187
Income (loss) from operations	\$6,072,054	\$(17,307,096)	\$(1,416,429)	\$(12,651,471)
Total segments assets	27,791,654	80,844,211	31,893,233	140,529,098
Less: intersegment balances	-	(7,036,363)	-	(7,036,363)
Total assets	\$27,791,654	\$73,807,848	\$31,893,233	\$133,492,735

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(In U.S. dollars)****26. SEGMENT AND GEOGRAPHIC INFORMATION - continued**Enterprise wide disclose

The Group derives revenue from external customers for each of the following services during the years presented:

	Years ended December 31,		
	2013	2014	2015
Commodities brokerage services revenues	\$30,124,245	\$60,091,117	\$79,702,654
Financial information and advisory services revenues	11,122,400	10,355,732	17,205,459
Advertising revenue	6,799,109	8,160,310	7,023,399
Hong Kong brokerage services revenues	3,404,767	4,610,516	3,149,063
Others	1,287,556	478,210	324,191
Total revenue from external customers..	\$52,738,077	\$83,695,885	\$107,404,766

Substantially all of the Company's revenues for the years ended December 31, 2013, 2014 and 2015 were generated from the PRC and Hong Kong.

As of December 31, 2013, 2014 and 2015, respectively, substantially all of long-lived assets of the Group are located in the PRC and Hong Kong.

CHINA FINANCE ONLINE CO. LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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

(In U.S. dollars)

27. STATUTORY RESERVES AND RESTRICTED NET ASSETS

PRC legal restrictions permit payments of dividends by the Group's PRC entities only out of their retained earnings, if any, determined in accordance with PRC regulations. Prior to payment of dividends, pursuant to the laws applicable to the PRC Domestic Enterprises and PRC Foreign Investment Enterprises, the PRC entities must make appropriations from after-tax profit to non-distributable statutory reserve funds as determined by the Board of Directors of the Group. These reserve funds include the (1) general reserve, (2) enterprise expansion fund and (3) staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriations of not less than 10% of after-tax profit (as determined under accounting principles and financial regulations applicable to PRC enterprises at each year-end); the other two funds are to be made at the discretion of the board of directors of each of the Group's subsidiaries.

These reserve funds can only be used for specific purposes and are not distributable as cash dividends.

The appropriation to these reserves by the Group's PRC subsidiaries was \$284,114, \$679,927 and \$1,820,080 in 2013, 2014 and 2015.

The balance of the statutory reserves was \$6,820,441 and \$8,640,521 as of December 31 2014 and 2015. Such reserves have been included in the retained earnings of the Company's consolidated balance sheet.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIEs. As of December 31, 2015, the aggregate amounts restricted which represented the amount of net assets of the relevant subsidiaries and VIEs in the Group not available for distribution was \$71,700,541. As a result of the above restrictions, parent-only financials are presented on financial statement Schedule I.

28.

SUBSEQUENT EVENT

In April, 2016, the Group signed a sale & purchase agreement with a third party, to transfer the 100% ordinary shares of iSTAR Wealth Management. The completion of this transaction was still subject to conditions, including but not limited to obtaining the approvals and consents of CSRC and Securities and Futures Commission of Hong Kong. The consideration of this transaction is approximately \$2.9 million (HK\$22.5 million, equivalently).

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CHINA FINANCE ONLINE CO. LIMITED

Additional Information - Financial Statement Schedule I**Financial information of Parent Company****Balance sheets****(In U.S. dollars, except share-related data)**

	December 31,	
	2014	2015
Assets		
Current assets:		
Cash and cash equivalents	\$1,383,205	\$971,500
Amounts due from subsidiaries, VIEs and VIE's subsidiaries	7,492,739	7,350,974
Prepaid expenses and other current assets	2,479,810	290,603
Dividends receivable	17,541,570	16,529,639
Total current assets	28,897,324	25,142,716
Investments in subsidiaries, VIEs and VIE's subsidiaries	48,389,562	76,682,094
Rental deposits	66,893	-
Total assets	\$77,353,779	\$101,824,810
Liabilities and shareholders' equity		
Current liabilities:		
Accrued expenses and other current liabilities	296,866	279,801
Amounts due to subsidiaries, VIEs and VIE's subsidiaries	12,441,549	13,506,638
Total current liabilities	\$12,738,415	\$13,786,439
Shareholders' equity		
Ordinary shares (112,417,933 and 118,098,018 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	56,386,606	56,856,000
Additional paid-in capital	24,207,606	28,145,846
Accumulated other comprehensive income	12,064,338	8,597,295
Retained deficits	(28,043,186)	(5,560,770)
Total shareholders' equity	64,615,364	88,038,371
Total liabilities and shareholders' equity	\$77,353,779	\$101,824,810

CHINA FINANCE ONLINE CO. LIMITED

Financial information of Parent Company**Statements of Comprehensive Income****(In U.S. dollars)**

	December 31,		
	2013	2013	2015
Cost of revenues	\$2,584	\$-	\$-
Gross loss	(2,584)	-	-
Operating expenses:			
General and administrative	1,417,843	1,418,198	1,226,800
Product development	62,914	50,859	-
Sales and marketing	160,112	108,384	-
Share-based compensation	2,539,274	4,132,182	3,812,733
Total operating expenses	4,180,143	5,709,623	5,039,533
Interest income	605	30	47
Equity in earnings (deficits) of subsidiaries, VIEs and VIE's subsidiaries	(4,985,519)	(6,394,055)	28,643,095
Exchange gain (loss), net	594,513	(76,351)	(1,011,509)
Other income (loss), net	-	674,414	(109,684)
Gain from sales of cost method investment	-	4,337,736	-
Net income (loss)	\$(8,573,128)	\$(7,167,849)	\$22,482,416
Other comprehensive income (loss), net of tax:			
Changes in foreign currency translation adjustment	1,195,795	(221,070)	(3,467,043)
Other comprehensive income (loss), net of tax	1,195,795	(221,070)	(3,467,043)
Comprehensive income (loss)	\$(7,377,333)	\$(7,388,919)	\$19,015,373

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CHINA FINANCE ONLINE CO. LIMITED

Financial Information of Parent Company

Statement of Shareholders' Equity

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

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained deficits	Total shareholders' equity
	Shares	Amount				
Balance as of January 1, 2013.	110,955,383	\$ 14,328	\$ 81,163,243	\$ 11,089,820	\$(12,302,209)	\$ 79,965,182
Exercise of share options by employees.	190,250	25	30,415	-	-	30,440
Share-based compensation.	-	-	2,539,274	-	-	2,539,274
Equity pick up from compensation of a subsidiary	-	-	421,473	-	-	421,473
Business combination.	-	-	191,861	-	-	191,861
Foreign currency translation adjustment	-	-	-	1,195,795	-	1,195,795
Net loss.	-	-	-	-	(8,573,128)	(8,573,128)
Balance as of December 31, 2013	111,145,633	\$ 14,353	\$ 84,346,266	\$ 12,285,615	\$(20,875,337)	\$ 75,770,897
Transfer share premium to share capital	-	55,718,184	(55,718,184)	-	-	-
Exercise of share options by employees	1,164,300	654,055	-	-	-	654,055
Restricted shares issued	108,000	14	-	-	-	14
Share-based compensation	-	-	4,132,182	-	-	4,132,182
Equity pick up from compensation of VIE's subsidiaries	-	-	408,075	-	-	408,075
Business restructure	-	-	(8,960,733)	-	-	(8,960,733)
Foreign currency translation adjustment	-	-	-	(221,277)	-	(221,277)
Net loss	-	-	-	-	(7,167,849)	(7,167,849)

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Balance as of December 31, 2014	112,417,933	\$56,386,606	\$24,207,606	\$12,064,338.00	\$(28,043,186)	\$64,615,364
Issuance of ordinary shares for the plan of stock options and restricted shares	4,000,000	520	-	-	-	520
Exercise of share options by employees	435,000	293,654	-	-	-	293,654
Exercise of share options by nonemployees	1,095,000	175,200	-	-	-	175,200
Restricted shares issued	150,085	20	-	-	-	20
Share-based compensation	-	-	3,812,733	-	-	3,812,733
Equity pick up from compensation of VIE's subsidiaries	-	-	1,519,015	-	-	1,519,015
Changes of controlling ownership interest	-	-	(1,393,508)	-	-	(1,393,508)
Foreign currency translation adjustment	-	-	-	(3,467,043)	-	(3,467,043)
Net income	-	-	-	-	22,482,416	22,482,416
Balance as of December 31, 2015	118,098,018	\$56,856,000	\$28,145,846	\$8,597,295	\$(5,560,770)	\$88,038,371

CHINA FINANCE ONLINE CO. LIMITED

Financial information of Parent Company**Statements of cash flows****(In U.S. dollars, except share-related data)**

	December 31,		
	2013	2014	2015
Operating activities:			
Net income (loss)	\$(8,573,128)	\$(7,167,849)	\$22,482,416
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation	2,539,274	4,132,182	3,812,733
Gain from sales of cost method investment	-	(4,337,736)	-
Equity in deficits (earnings) of subsidiaries, VIEs and VIE's subsidiaries	4,985,519	6,394,055	(28,643,095)
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(63,446)	(143,380)	20,339
Amounts due from subsidiaries, VIEs and VIE's subsidiaries	(4,092,500)	983,297	142,303
Rental deposits	(271)	-	66,893
Accrued expenses and other current liabilities	34,392	10,825	(8,035)
Amounts due to subsidiaries, VIEs and VIE's subsidiaries	1,779,098	1,535,073	1,065,088
Net cash (used in) provided by operating activities.	(3,391,062)	1,406,467	(1,061,358)
Investing activities:			
Dividend receivable from subsidiaries	1,140,713	1,375,727	1,011,931
Capital injection to subsidiaries.	-	(2,774,315)	(3,000,000)
Proceeds from sales of cost method investment	-	-	2,168,868
Net cash provided (used in) by investing activities..	1,140,713	(1,398,588)	180,799
Financing activities:			
Proceeds from stock options exercised by employees..	30,440	654,055	293,654
Proceeds from stock options exercised by nonemployees..	-	-	175,200
Net cash provided by financing activities	30,440	654,055	468,854
Net (decrease) increase in cash and cash equivalents	(2,219,909)	661,934	(411,705)
Cash and cash equivalents, beginning of the year	2,941,180	721,271	1,383,205
Cash and cash equivalents, end of the year	\$721,271	\$1,383,205	\$971,500

Note:

Basis for preparation

The parent-company Financial Information of China Finance Online has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that China Finance Online has used equity method to account for its investments in its subsidiaries and variable interest entities.

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