China Internet Cafe Holdings Group, Inc.
Form 10-K/A
August 17, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

FORM 10-K/A

(Amendment No. 3)

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

For the fiscal year ended ____

or

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

For the transition period from July 1, 2010 to December 31, 2010

Commission file number: 000-52832

CHINA INTERNET CAFÉ HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada	98-0500738
State of other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

#1707, Block A, Genzon Times Square Longcheng Blvd, Centre City, Longgang District Shenzhen, Guangdong Province, People's Republic of China	518172
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **86-755-8989-6008**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Not Applicable	Not Applicable

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $0.00001 par value

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes xNo

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes x No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Note.—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

The aggregate market value of the voting and non-voting common stock of the issuer held by non-affiliates as of December 31, 2010 was approximately $18,232,434 (9,116,217 shares of common stock held by non-affiliates) based upon the closing price of $2.00 per share of common stock as quoted by OTC Bulletin Board on March 18, 2011.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

As of March 4, 2011 there are 21,124,967 shares of common stock, par value $0.00001 issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

EXPLANATORY NOTE

This Amendment No. 3 to Form 10-K (this “Amendment”) amends the Transition Report on Form 10-K for the transition period from July 1, 2010 to December 31, 2010, filed on March 31, 2011 (the “Original 10-K”) of China Internet Café Holdings Group, Inc. (the “Company”) and amended by Amendment No. 1 on August 16, 2011 and Amendment No. 2 on June 11, 2012. Specifically, the amendments include:

- Revision to Note 15 to the Financial Statements and Item 9A. Controls and Procedures.

This Amendment should be read in conjunction with the Original 10-K, and the Company’s other filings made with the Securities and Exchange Commission subsequent to the filing of the Original 10-K on March 31, 2011. The Original 10-K has not been amended or updated to reflect events occurring after March 31, 2011, except as specifically set forth in this Amendment and Amendments No. 1 and No. 2.

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of China Internet Café Holdings Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of China Internet Café Holdings Group, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2010. China Internet Café Holdings Group, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 company'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 consolidated 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 Internet Café Holdings Group, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ EFP Rotenberg, LLP

EFP Rotenberg, LLP

Rochester, New York

March 29, 2011, except note 23 as to which the date is July 12, 2011

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash	$3,836,824	$3,061,856
Restricted cash	945,280	1,645,411
Loan receivable	2,419,916	-
Rental deposit	55,512	-
Equipment deposit	1,300,650	81,217
Inventory	180,582	204,971
Total current assets	8,738,764	4,993,455
Property, plant and equipment, net	6,848,342	3,572,696
Intangible assets, net	191,087	-
Rental deposit-long term portion	235,509	144,504
Total assets	$16,013,702	$8,710,655
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term loan	$151,245	$146,259
Accounts payable	69,373	33,979
Deferred revenue	579,822	775,985
Payroll and payroll related liabilities	199,548	124,390
Income and other taxes payable	987,194	525,470
Accrued expenses	102,019	43,126
Amount due to a shareholder	465,741	5,162
Total current liabilities	2,554,941	1,654,371
Commitments and contingencies (Note 18)		
Stockholders' Equity		
Preferred stock ($0.00001 par value, 100,000,000 shares authorized, 0 share issued and outstanding)	-	
Common stock ($0.00001 par value, 100,000,000 shares authorized, 20,200,000 and 19,000,000 shares issued and outstanding as of December 31, 2010 and 2009,	202	190

respectively)		
Additional paid in capital	1,628,417	1,373,484
Statutory surplus reserves	718,744	718,744
Retained earnings	10,499,454	4,752,871
Accumulated other comprehensive income	611,944	210,995
Total stockholders' equity	13,458,761	7,056,284
Total liabilities and stockholders' equity	$16,013,702	$8,710,655

The accompanying notes are an integral part of the consolidated financial statements

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For The Years ended December 31	
	2010	2009
Revenue	$20,460,459	$14,038,931
Cost of revenue	11,823,456	8,409,527
Gross profit	8,637,003	5,629,404
Operating Expenses		
General and administrative expenses	634,739	166,141
Total operating expenses	634,739	166,141
Income from operations	8,002,264	5,463,263
Non-operating income (expenses)		
Interest income	8,265	-
Interest expenses	(9,437)	(819)
Other expenses	(43)	(5,733)
Reorganizational expenses	(435,086)	-
Total non-operating expenses	(436,301)	(6,552)
Net income before income taxes	7,565,963	5,456,711
Income taxes	1,819,380	1,068,262
Net income	$5,746,583	$4,388,449
Other comprehensive income		
Foreign currency translation adjustment	400,949	8,958
Net comprehensive income	$6,147,532	$4,397,407
Basis and diluted earnings per share of common stock	$0.29	$0.23
Basis and diluted weighted average common stock outstanding	19,601,644	19,000,000

The accompanying notes are an integral part of the consolidated financial statements

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common stock						
	Number of share	Amount	Additional paid-in capital	Statutory reserves	Retained Earnings	Accumulated other comprehensive income	Total Stockholders' Equity
Balance at December 31, 2008 (1)	19,000,000	$ 190	1,367,032	399,802	683,364	202,037	2,652,425
Contributed capital by existing shareholders	-	-	6,452	-	-	-	6,452
Transfers to statutory reserves	-	-	-	318,942	318,942	-	-
Net income for the year	-	-	-	-	4,388,449	-	4,388,449
Foreign currency translation difference	-	-	-	-	-	8,958	8,958
Balance at December 31, 2009 (1)	19,000,000	190	1,373,484	718,744	4,752,871	210,995	7,056,284
Reorganization for reverse merger	1,200,000	12	3,321	-	-	-	3,333
Contributed capital by existing shareholders	-	-	251,612	-	-	-	251,612
Net income for the year	-	-	-	-	5,746,583	-	5,746,583
Foreign currency translation difference	-	-	-	-	-	400,949	400,949
Balance at December 31, 2010	20,200,000	202	1,628,417	718,744	10,499,454	611,944	13,458,761

(1) See footnote 1 regarding the recapitalization of Classic Bond Development Limited

The accompanying notes are an integral part of the consolidated financial statements

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31	
	2010	2009
Cash flows from operating activities		
Net income	$5,746,583	$4,388,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,664,405	1,303,177
Amortization	23,540	-
Changes in operating assets and liabilities:		
Prepayment	(2,360,317)	-
Rental deposit	(114,027)	(13,449)
Inventory	30,604	(130,619)
Accounts payable	31,592	11,499
Deferred revenue	(217,133)	(26,466)
Payroll and payroll related liabilities	69,171	4,457
Income and other taxes payable	432,880	(420,123)
Accrued expenses	52,936	10,632
Amount due to a director	456,842	(346,093)
Net cash provided by operating activities	5,817,076	4,781,464
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,152,294)	(1,324,220)
Deposits paid for property, plant and equipment	(1,270,511)	(19,952)
Assets Acquisition of cafes	(728,866)	-
Restricted Cash	737,599	(1,644,525)
Net cash used in investing activities	(5,414,072)	(2,988,697)
Cash flows from financing activities		
Cash acquired from reverse merger	1,442	-
Capital contribution by shareholder	251,612	-
Proceeds from short term loan	451,245	146,180
Repayment of short term loan	(451,245)	-
Net cash flows provided by financing activities:	253,054	146,180
Effect of foreign currency translation on cash	118,910	3,811
Net increase in cash	774,968	1,942,758
Cash- beginning of year	3,061,856	1,119,098

Cash- end of year	$3,836,824	$3,061,856
Cash paid during the year for:		
Interest paid	$9,437	$1,423
Income taxes paid	$1,630,711	$962,623
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVIES:		
Summary of Assets Acquired from Acquisitions:		
Net Property and Equipment	$503,492	$-
Other Current Assets	15,792	-
Intangible Assets	209,582	-
Net Assets Acquired	$728,866	$-
Transfer of equipment deposits paid in property and equipment	$83,811	$-

The accompanying notes are an integral part of the consolidated financial statements

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. Organization, Recapitalization and Nature of Business

China Internet Cafe Holdings Group, Inc. ("China Internet Cafe")

China Internet Cafe Holdings Group, Inc. (formerly known as China Unitech Group, Inc.) ("the Company", "we", "us", "our") was incorporated in the State of Nevada on March 14, 2006. The Company was a development company from incorporation on June 30, 2010. On July 2, 2010, the Company successfully closed a share exchange transaction with the shareholders of Classic Bond Development Limited, a British Virgin Islands corporation (" Classic Bond"). The Company will operate through its variable interest entities in China to execute the current business plan of those affiliates which involves the operation of a chain of China-based internet cafes.

On February 1, 2011, the Company changed its name from China Unitech Group, Inc. to China Internet Cafe Holdings Group, Inc.

Recapitalization of Classic Bond Development Limited

On July 2, 2010, the China Internet Cafe Holdings Group, Inc. ("China Internet Cafe"), entered into a share exchange transaction with Classic Bond Development Limited, a British Virgin Islands corporation ("Classic Bond"), and the shareholders of Classic Bond. Pursuant to the Share Exchange Agreement, China Internet Cafe acquired 100% of the issued and outstanding capital stock of Classic Bond in exchange for 19,000,000 newly issued shares of the Company's common stock, which represented approximately 94% of the 20,200,000 issued and outstanding shares of common stock after the transaction and after the coincident cancellation of 4,973,600 shares of common stock held by the Company's former majority stockholder which have a net effect of increase of 1,200,000 shares. The business, assets and liabilities did not change as a result of the reverse acquisition.

This share exchange transaction resulted in those shareholders obtaining a majority voting interest in the Company. Generally accepted accounting principles require that the Company whose shareholders retain the majority interest in a combined business be treated as the acquirer for accounting purposes, resulting in a reverse acquisition with Classic Bond as the accounting acquirer and China Internet Cafe as the acquired party. Accordingly, the share exchange transaction has been accounted for as a recapitalization of Classic Bond whereby Classic Bond is deemed to be the continuing, surviving entity for accounting purposes, but through reorganization, has deemed to have adopted the capital structure of China Internet Cafe . The equity section of the accompanying financial statements has been restated to reflect the recapitalization of the Company due to the reverse acquisition as of the first day of the first period presented.

Accordingly, all references to common shares of Classic Bond's common stock have been restated to reflect the equivalent number of China Internet Cafe's common shares. In other words, the 2,000,000 Classic Bond shares outstanding are restated as 20,200,000 common shares, as of July 2, 2010. Each share of Classic Bond is restated to 10.10 shares of China Internet Cafe.

The book value of the net assets that for accounting purposes, were deemed to have been acquired by Classic Bond from China Internet Cafe, as of the date of acquisition (July 2, 2010) were $3,333.

During the recapitalization, the Company incurred restructuring expenses of $300,000, related legal and professional fee of $ 129,033 and the interest expenses of $6,053 related to the short term loan for paying restructuring expenses. All of these expenses amounting to $435,086 in total which recorded as reorganizational expenses in statement of income.

Classic Bond Development Limited ("Classic Bond")

Classic Bond Development Limited was incorporated on November 2, 2009 in the British Virgins Islands ("BVI") with 50,000 authorized common stock with no par value. On November 2, 2009, 50,000 common stock at $0.129 (HK$1) each were issued for cash at $6,452 (HK$50,000) to several shareholders including Mr. Guo Dishan who is the 65% equity interest shareholder and the sole director of the Company.

On June 23, 2010, the Company further issued 1,950,000 shares of common stock to 42 individuals to raise fund of $84,093 (HK$651,721) for 651,721 shares and 1,308,954 shares associated with the reorganization of the Company at a value of $167,519 (HK$1,308,954) which is reflected as contributed capital by existing shareholders of Junlong and the total amount was $251,612. At December 31, 2010 and December 31, 2009, the issued and outstanding of Common Stock were 2,000,000 and 50,000 shares.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. Organization and Nature of Business - Continued

Classic Bond Development Limited ("Classic Bond") - Continued

Classic Bond is in the business of operations of internet café, throughout the Lungang District of Shenzhen in Province of Guangdong of People's Republic of China ("PRC"). The Company conducts its operations through the following subsidiaries: (a) a wholly-owned subsidiary of the Company located in the PRC: Shenzhen Zhonghefangda Network Technology Co., Ltd. ("Zhonghefangda") and (b) an entity located in the PRC: Shenzhen Junlong Culture Communication Co., Ltd. ("Junlong'), which is controlled by the Company through contractual arrangements between Zhonghefangda and Junlong, as if Junlong were a wholly-owned subsidiary of the Classic Bond.

Shenzhen Zhonghefangda Network Technology Co., Ltd. ("Zhonghefangda")

Zhonghefangda , Classic Bond's wholly-owned subsidiary, was incorporated in People's Republic of China ("PRC") on June 10, 2010 with registered capital of $129,032 (HK$1 million). Zhonghefangda is engaged in provision of management and consulting services.

On June 11, 2010, to protect the Company's shareholders from possible future foreign ownership restrictions, Zhonghefangda and Junlong entered into a series of agreements. Under these agreements Zhonghefangda obtained the ability to direct the operations of Junlong and to receive a majority of the residual returns. Therefore, management determined that Junlong became a variable interest entity ("VIE") under the provisions of Financial Accounting Standards Board ("FASB") ASC 810-10 and Zhonghefangda was determined to be the primary beneficiary of Junlong. Accordingly, beginning June 11, 2010, Zhonghefangda is able to consolidate the assets, liabilities, results of operations and cash flows of Junlong in the financial statements. Because the legal representatives and ultimate major stockholder of Zhonghefangda and Junlong is the same person, Mr. Guo Dishan, Zhonghefangda and Junlong were deemed, until June 11, 2010, to be under the common control.

On June 10, 2010, Classic Bond formed Shenzhen Zhonghefangda Network Technology Co., Ltd. ("Zhonghefangda") and Mr. Guo Dishan is the legal representative of Zhonghefangda and thereafter Zhonghefangda becomes a wholly owned subsidiary of Classic Bond and the whole reorganization is completed.

Exclusive Management and Consulting Agreement

On June 11, 2010, Zhonghefangda signed exclusive management and consulting services agreement with Junlong. Pursuant to the agreement, Zhonghefangda agreed to provide management and consulting services to Junlong, upon request, in connection with the operation of the Business. The agreement provides that Junlong will compensate Zhonghefangda in consideration for its right to receive the aggregate net profit of Junlong for a period of twenty (20) years and for succeeding periods of the same duration until terminated by both parties under agreed conditions. Zhonghefangda will reimburse to Junlong the full amount of any net losses incurred by Junlong during the term of this agreement. As a result of entering into the exclusive management and consulting agreement, Zhonghefangda should be deemed to control Junlong as a Variable Interest Entity and should be consolidated in the accompanying financial statements.

Shenzhen Jun Long Culture Communication Co., Ltd. ("Junlong")

Junlong is a Chinese enterprise organized in the People's Republic of China ("PRC") on December 26, 2003 in accordance with the Laws of the People's Republic of China with the registered capital of $0.136 million (equivalent to RMB 1 million). In 2001, the Chinese government imposed higher capital (RMB10 million for regional internet café chain and RMB50 million for national internet café chain) and facility requirements for the establishment of internet cafes. On August 19, 2004, Junlong was granted approval from Shenzhen Municipal People's Government to increase its registered capital by $1,230,500 from $136,722 to $1,367,222 million (increased by RMB 9 million, from RMB 1 million to RMB 10 million) The capital verification process has been completed.

In 2005, Junlong obtained internet cafe licenses of operating internet café chain from the Ministry of Culture, and opened the internet first cafe in April, 2006 and our members can access the internet at our venues. We started our internet cafes in 2006 and we opened 10 internet cafes in 2006, 3 internet cafes opened in 2007, 10 internet cafes opened in 2008, 5 internet cafes opened in 2009 and 13 internet cafes opened during the year of 2010. In addition, we acquired assets of 3 cafes in 2010 and as a result, we own 44 internet cafes within the Longgang District of Shenzhen.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies

(a) Basis of presentation

The Company’s accounting policies used in the preparation of the accompanying financial statements conform to accounting principles generally accepted in the United States of America ("US GAAP") and have been consistently applied.

(b) Principle of consolidation

The consolidated financial statements include the accounts of China Internet Cafe Holdings Group, Inc., Classic Bond Development Limited, Zhonghefangda and the VIE-Junlong. All significant intercompany balances and transactions have been eliminated in the consolidation. The consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission.

(c) Use of estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported periods. Actual results could differ from those estimates

Significant Estimates

These financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to depreciation of property, plant and equipment, deferred revenue,, impairment testing of long-lived assets and various contingent liabilities. It is reasonably possible that the above-mentioned estimates and others may be adjusted as more current information becomes available, and any adjustment could be significant in future reporting periods.

(d) Revenue recognition

Internet café members purchase prepaid IC cards which include stored value that will be deducted based on time usage of computer at the internet cafe. Revenues derived from the prepaid IC cards at the internet café are recognized when services are provided. This is based upon the usage of computer time at the internet cafe. Outstanding customer balances in the IC cards are included in deferred revenue on the balance sheets. The Company does not charge any service fees that cause a decrement to customer balances. There is no expiration date for IC cards.

The Company also records revenue from commission received from the sale of third parties on-line gaming cards, snacks and drinks. Commission revenue amounted to 20% of the value of the on-line gaming cards, snacks and drinks is recognized at the time the gaming cards, etc. are sold to customers. During the years ended December 31, 2010 and 2009, the commission income was $162,976 and $116,651, less than 1% of total revenue.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies - Continued

(e) Cost of revenue

Cost of revenue consists primarily of depreciation of Café computer equipment and hardware, overhead associated with the internet cafes, including rental payments, utilities, business tax and surcharge. Companies in China are generally subject to business tax and related surcharges by various local tax authorities at rates ranging from 5% to 6% on gross revenue generated from internet cafés.

(f) Credit risk

The Company may be exposed to credit risk from its cash at bank. An allowance has been considered for estimated irrecoverable amounts determined by reference to past default experience and the current economic environment. No allowance is considered necessary for the period.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time certificates of deposit with a maturity of three months or less when purchased.

(h) Restricted cash

At December 31, 2010 and 2009, restricted cash of $945,280 (equivalent to RMB6,250,000) and $1,645,411(equivalent to RMB11,250,000) represented cash held by two escrow agents on behalf of the Company for registered capital and operating cash flow purposes of two new subsidiary companies to be established in Yiwu city, Zhejiang province and Anshun city, Guizhou province.

(i) Inventory

Inventory represented the IC cards we purchased from IC cards manufacturer. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method.

(j) Fair Value of Financial Instruments

FASB accounting standard requires disclosing fair value to the extent practicable for financial instruments that are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

For certain financial instruments, including cash, accounts payable, short-term loans, accruals and other payables, it was assumed that the carrying amounts approximate fair value because of the near term maturities of such obligations.

(k) Stock-Based Compensation

Our advisor assists the Company for ongoing corporate compliance and development are accounted for under ASC 505-50. ASC 505-50-30-11 (previously EITF 96-18) further provides that an issuer shall measure the fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of the following dates, referred to as the measurement date:

i. The date at which a commitment for performance by the counterparty to earn the equity instruments is reached (a performance commitment); and

ii. The date at which the counterparty's performance is complete.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies – Continued

(l) Equipments deposits

The Company prepaid the equipments deposits to the computer suppliers for purchase of computer and equipments for the new internet cafes.

(m) Property, plant and equipment

Property, plant and equipment, comprising computer equipment and hardware, leasehold improvements, office furniture and vehicles and are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives listed below.

	Estimated Useful Lives
Leasehold improvement	5 years
Café computer equipment and hardware	5 years
Café furniture and fixtures	5 years
Office furniture, fixtures and equipments	5 years
Motor vehicles	5 years

(n) Intangible Assets

Our intangible assets consist of definite-lived assets subject to amortization such as Business License and Customer Lists. The useful lives of the Business License is 9 to 15 years and we amortized the customer lists by 5 years. We calculate amortization of the definite-lived intangible assets on a straight-line basis over the useful lives of the related intangible assets.

(o) Deferred Revenue

Deferred revenue represents unused balances of the prepaid amounts from the IC cards that are unused balance. The Outstanding customer balances are $579,822 and $775,985 as at December 31, 2010 and 2009 and are included in deferred revenue on the balance sheets.

(p) Comprehensive income

The Company follows the FASB's accounting standard. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income for the periods presented includes net income and foreign currency translation adjustments.

(q) Income taxes

Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities or assets are recorded to reflect the tax consequences in future differences between the tax basis of assets and liabilities and the financial reporting amounts at each year end. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies - Continued

(r) Consolidation of Variable Interest Entities

According to the requirements of Statement of Financial Accounting Standards No. 810-10, “Variable interest Entities”, the Company has evaluated the economic relationships of its wholly owned subsidiary, Shenzhen Zhonghefangda Network Technology Co., Ltd. (“Zhonghefangda”) with Junlong and has determined that it is required to consolidate Zhonghefangda and Junlong pursuant to the rules of FASB ASC Topic 810-10. Therefore Junlong is considered to be a VIE, as defined byFASB ASC Topic 810-10, of which Classic Bond is the primary beneficiary as a result of its wholly owned subsidiary Zhonghefangda. Classic Bond, as mentioned above, will absorb a majority of the economic risks and rewards of all of these VIE that are being consolidated in the accompanying financial statements.

The carrying amount of the VIEs’ assets and liabilities are as follows:

	December 31, 2010	December 31, 2009
Current assets	$8,968,001	$5,131,507
Property, plant and equipment	6,848,343	3,572,696
Intangible assets	191,087	-
Total assets	16,007,431	8,704,203
Total liabilities	(2,182,851)	(1,654,371)
Net assets	$13,824,580	$7,049,832

(s) Foreign currency translation

Assets and liabilities of the Company with a functional currency other than US$ are translated into US$ using period end exchange rates. Income and expense items are translated at the average exchange rates in effect during the period. Foreign currency translation differences are included as a component of Accumulated Other Comprehensive Income in Stockholders' Equity.

The exchange rates used to translate amounts in RMB into USD for the purposes of preparing the financial statements were as follows:

	12/31/2010	12/31/2009
Year end RMB : USD exchange rate	6.6118	6.8372
Average yearly RMB : USD exchange rate	6.7788	6.8409

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into USD at the rates used in translation.

(t) Post-retirement and post-employment benefits

The Company contributes to a state pension plan in respect of its PRC employees. Other than the above, neither the Company nor its subsidiary provides any other post-retirement or post-employment benefits.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies - Continued

(u) Earnings per share (EPS)

Earnings per share is calculated in accordance with ASC 260-10 which requires the Company to calculate net income (loss) per share based on basic and diluted net income (loss) per share, as defined. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

There is no dilution factor occurred during the year, the basic EPS equals diluted EPS.

(v) Retained earnings-appropriated

In accordance with the relevant PRC regulations and the Company’s PRC articles of association, Junlong is required to allocate their respective net income to statutory surplus reserve.

(w) Statutory surplus reserves

In accordance with the relevant laws and regulations of the PRC and the articles of associations of the Company, Junlong is required to allocate 10% of their net income reported in the PRC statutory accounts, after offsetting any prior years’ losses, to the statutory surplus reserve, on an annual basis. When the balance of such reserve reaches 50% of the respective registered capital of the subsidiaries, any further allocation is optional.

As of December 31, 2010, the statutory surplus reserves of the subsidiary already reached 50% of the registered capital of the subsidiary and the Company did not have any further allocation on it.

The statutory surplus reserves can be used to offset prior years' losses, if any, and may be converted into registered capital, provided that the remaining balances of the reserve after such conversion is not less than 25% of registered capital. The statutory surplus reserve is non-distributable.

(x) Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies - Continued

(y) Recent Accounting Pronouncements

In June 2009, the FASB issued ASC 810, (formerly the SFAS No.167, "Amendments to FASB Interpretation No.46(R)". ASC 810 amends FASB Interpretation No.46(R), "Variable Interest Entities" for determining whether an entity is a variable interest entity ("VIE") and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. Under ASC 810, an enterprise has a controlling financial interest when it has a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. ASC 810 also requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most significantly impact the entity's economic performance. ASC 810 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. ASC 810 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU 2009-17")". ASU 2009-17 amends the variable-interest entity guidance in FASB ASC 810-10-05-8 to clarify the accounting treatment for legal entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without financial support. ASU 2009-17 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820 to require additional disclosures regarding fair value measurements. One of the areas concerned is related to the inclusion of information about purchases, sales, issuances and settlements of recurring Level 3 measurements. Such disclosure requirements will be effective for annual reporting periods beginning after December 15, 2010. The Company is currently evaluating the impact of this standard upon its adoption on the

Company’s consolidated financial statements.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

3. Business Acquisitions

Assets Acquisition of Langman internet café on April 6, 2010 and Chaosu internet café on April 16, 2010.

The Company acquired property, plant and equipment, other current assets and intangible assets of Langman internet café on April 6, 2010 and Chaosu internet café on April 16, 2010 for total gross consideration amount of $497,457 (RMB3,400,000) and the Company paid the whole purchase consideration on July 28, 2010. The intangible assets are comprised of business licenses and customer lists. In accordance with the purchase method of accounting, the estimated fair market value of these assets has been included in the consolidated financial statements from the date of acquisitions.

The primary reason for business acquisitions of Langman and Chaosu are for the development of market ownership in Longgang district. Langman and Chaosu Internet cafes are located in the center of Longgang Center City. For each individual internet café has a coverage of 5kms, after the acquisition of these two cafes, Junlong has developed full coverage in Longgang Center City.

All intangible and tangible assets acquired, based on their appraised fair values, were as follows:

Property, plant, and equipment	$346,003
Other current assets	10,973
Intangible assets	140,481
Net assets acquired	$497,457

Assets Acquisition of Gainianshikong internet café on July 1, 2010.

The Company acquired property, plant and equipment, other current assets and intangible assets of Gainianshikong internet café on July 1, 2010 for total gross consideration amount of $231,409 (RMB1,550,000) and the Company paid the whole purchase consideration on October 29, 2010. The intangible assets are comprised of business licenses and customer lists. In accordance with the purchase method of accounting, the appraised fair market value of these assets has been included in the consolidated financial statements from the date of acquisitions.

Acquisition of Gainianshikong internet café is for the expansion of business in Baoan District. Baoan is a recent fast developing district of west Shenzhen, which is next to Dongguan City of Guangdong.

All intangible and tangible assets acquired, based on their appraised fair values, were as follows:

Property, plant, and equipment	$157,489
Other current assets	4,819
Intangible assets	69,101
Net assets acquired	$231,409

These acquisitions were asset acquisitions, and there was no goodwill resulting from these acquisitions because the fairly market values were equal to the purchase prices.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

4. Cash

Cash is summarized as follows:

	December 31, 2010	December 31, 2009
Cash at bank	$3,811,136	$2,975,991
Cash in hand	25,688	85,865
	$3,836,824	$3,061,856

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents (Note 2). As of December 31, 2010 and 2009, substantially all of the Company's cash and cash equivalents were held by major banks located in the PRC, which management believes are of high credit quality.

5. Restricted Cash

	December 31, 2010	December 31, 2009
Bank deposits held by:		
Mr. Fangrong, Zheng – Anshun city in Guizhou province	$945,280	$914,117
Mr. Jinping Zeng - Yiwu city in Zhejiang province	-	731,294
	$945,280	$1,645,411

At December 31, 2009, the restricted cash represented bank deposits of $1,645,411 (equivalent to RMB11,250,000) held by two escrow agents on behalf of the Company for registered capital and operating cash flow purposes of two new subsidiary companies to be established in Anshun city in Guizhou province and Yiwu city in Zhejiang province.

During the year of 2010, the escrow agent of Yiwu city in Zhejiang province returned the restricted cash to the Company because the Company did not proceed with the establishment of the new subsidiary in Yiwu city.

As December 31, 2010, the restricted cash represented the bank deposits of $945,280 (equivalent to RMB6,250,000) held by an escrow agent on behalf of the Company for registered capital and operating cash flow purposes of a new subsidiary company to be established in Anshun city in Guizhou province.

Incorporation of Two New Subsidiary Companies

The Company was committed to establish two new subsidiary companies, which are located in Yiwu city, Zhejiang province and Anshun city, Guizhou province with the investment of approximately $2.195 million (equivalent to RMB15 million) each, with total of $4.39 million as registered capital and operating cash flow purposes. The registered capital of each subsidiary company will be $0.439 million (RMB3,000,000). As of September 30, 2010 and December 31, 2009, the Company paid approximately $1.6 million (RMB11.25 million) in total to two escrow agents and the amounts were recorded under restricted cash.

Upon the establishment of the two subsidiary companies, the two escrow agents will be appointed as the General Manager of the two subsidiary companies. The Company is committed to pay a monthly salary of approximately $1,100 (RMB7,500) plus 3% of the net income of the respective subsidiary companies as bonus.

The company decided to close down the subsidiary company located in Yiwu city, Zhejiang province and withdraw the investment of approximately $737,594 (equivalent to RMB5,000,000) on 30th November, 2010 due to the change in the national expansion strategy.

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

6. Loan receivable

Loan receivable consists of:

	December 31, 2010	December 31, 2009
Name of Payee: Mr. Long Weijun Terms: Interest free, unsecured and repayment date is February 28, 2011.	$2,419,916	$ -

The Company entered into a trust agreement with Mr. Long Weijun on 25th December 2010 and appointed Mr.Long Weijun as the General Manger of Yunnan subsidiary company. The Company was committed to establish a new subsidiary company located in Kunming city, Yunnan province with the total investment of approximately $3.02 million (equivalent to RMB 20 million) with 1.51 million (equivalent to RMB 10 million) as registered capital and 1.51 million (equivalent to RMB 10 million) as capital proceeds. The initial proceed was released to Long Weijun on 31st December 2010 of total sum of $2.42 million (equivalent to RMB 16 million), the rest $0.6 million (equivalent to RMB 4 million) was released on 7th January 2011.

The Company will regularly review the loan receivable and if the Company does not receive the loan until 31st December 2011 and if the Yunnan subsidiary has not been set up, the Company will write off it as bad debts.

However, the Company entered into a termination agreement with Mr. Long Weijun on 13th February 2011 to terminate the trust agreement signed on 25th December 2010. The total proceed of $3.02 million (equivalent to RMB 20 million) is returned to the company on 28th February 2011.

7. Equipment Deposit

Equipment deposit consists of:

	December 31, 2010	December 31, 2009
Equipment deposit for purchase computers for 4 new internet cafés and 3 of them was opened in March 2011 and 1 will be opened in April, 2011	$ 1,300,650	$ 81,217

8. Inventory

Inventory consists of:

	December 31, 2010	December 31, 2009
Purchased IC cards	$ 180,582	$ 204,971

There was no allowance made for obsolete or slow moving inventory as of December 31, 2010 and December 31, 2009.

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

9. Property, Plant and Equipment, net

Property, plant and equipment, net, consist of the following:

	December 31, 2010	December 31, 2009
Leasehold improvement	$3,178,890	$2,388,938
Café computers equipments and hardware	7,045,296	3,333,037
Café furniture and fixtures	1,320,392	858,846
Office furniture, fixtures and equipments	52,293	21,117
Motor vehicles	252,967	94,072
	$11,849,838	$6,696,010
Less: Accumulated depreciation	(5,001,496)	(3,169,385)
Property, plant and equipment in service, net	6,848,342	3,526,625
Construction in progress	-	46,071
Property, plant and equipment, net	$6,848,342	$3,572,696

During the year ended December 31, 2010, depreciation expenses amounted to $1,664,405, of which $1,615,096 and $49,309 were recorded as cost of sales and general and administrative expense, respectively.

During the year ended December 31, 2009, depreciation expenses amounted to $1,303,177, of which $1,276,415 and $26,762were recorded as cost of sales and general and administrative expense, respectively.

10. Intangible Assets

Intangible assets are summarized as follows:

	December 31, 2010	December 31, 2009
Business License	$ 95,115	$ -
Customer Lists	120,106	-
	215,221	-
Less: Accumulated Amortization	24,134	-
Total	$ 191,087	$ -

During the years ended December 31, 2010 and 2009, amortization expenses amounted to $24,134 and $ 0 respectively which was recorded under cost of sales.

Estimated amortization for the next five years and thereafter is as follows:

Year ending December 31,	
2011	$36,325
2012	36,325
2013	36,325
2014	36,325
2015	20,117
Thereafter	25,670
Total	$191,087

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

11. Short Term Loan

The short term loan due within one year as of December 31, 2010 and December 31, 2009 consist of the following:

Bank	Loan Period	Interest rate	December 31, 2010	December 31, 2009
China Construction Bank	October 27, 2009 to October 25, 2010	6.372 %	$ -	$ 146,259
China Construction Bank	November 15, 2010 to November 14, 2011	6.372 %	151,245	-
			$ 151,245	$ 146,259

On October 27, 2009, the Company entered into a loan agreement with China Construction Bank for $146,259 (RMB1,000,000) which was secured by director's guarantee. The annual interest rate is 6.372% and is due on October 25, 2010. On October 19, 2010, the Company settled the loan.

On November 15, 2010, the Company entered into a loan agreement with China Construction Bank for $151,245 (RMB1,000,000) which was secured by director's guarantee. The annual interest rate is 6.372% and is due on November 14, 2011.

On July 1, 2010, the Company entered into a loan agreement with Shenzhen Yuzhilu Aviation Service Co., Ltd. for $300,000. The annual interest rate is 8.000% and is due on October 1, 2010. The Company settled such loan on October 8, 2010.

12. Income and Other Taxes Payable

Income and other tax payables consist of the following:

	December 31, 2010	December 31, 2009
Business tax payable	$ 420,236	$ 240,015
Income tax	483,006	280,027
Withhold individual income tax payable	4,022	2,907
Other tax payable	79,930	2,521
Total	$ 987,194	$ 525,470

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

13. Due To A Shareholder

	December 31, 2010	December 31, 2009
Mr. Guo Di Shan, a shareholder of the Company	$465,741	$ 5,162

The amount due to Mr. Guo Di Shan is unsecured with no stated interest and payable on demand.

14. Cost of revenue

Cost of revenue consists of the following:

	For The Years ended December 31	
	2010	2009
Cost of revenue consists of		
Depreciation and amortization	$1,615,096	$1,276,415
Salary	1,746,098	830,944
Rent	1,089,910	814,954
Utility	1,541,090	1,367,545
Business tax and surcharge	4,839,276	3,319,554
Others	991,986	800,115
	$11,823,456	$8,409,527

15. Income Tax

The components of income before income taxes from continuing operations consisted of the following:

	2010	2009
	US$	US$
Income (loss) subject to domestic income taxes only	(626,899)	-
Income (loss) subject to foreign income taxes only	8,192,862	5,456,711
	7,565,963	5,456,711

The Company is subject to U.S. federal and state income taxes. The Company's subsidiaries incorporated in the PRC are subject to enterprise income taxes in China. The provision for income taxes from continuing operations consisted of the following:

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	2010 US$	2009 US$
Current:		
Federal	-	-
State	-	-
PRC	1,819,380	1,068,262
	1,819,380	1,068,262
Deferred:		
Federal	-	-
State	-	-
PRC	-	-
Total provision for income taxes	1,819,380	1,068,262

On March 16, 2007, the National People's Congress enacted a new enterprise income tax law (“New EIT Law”), which took effect on January 1, 2008. The New EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. While the New EIT Law equalizes the tax rates for foreign invested enterprises and domestic companies, preferential tax treatment would continue to be given to companies in certain encouraged economic sectors in PRC. Based on Circular 39—Circular on the Implementation of the Preferential Policies for Corporate Income Tax during the Transition Period, which was issued by the PRC State Council in 2007, enterprises that previously enjoyed a preferential tax rate, would transit to the statutory enterprise income tax rate of 25% over five years starting from January 1, 2008. During this transition period, for enterprises which previously enjoyed preferential tax rate of 15%, the applicable tax rate would increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

Prior to 2008, Junlong enjoyed a preferential tax rate of 15% as a foreign invested enterprise because it was located in Shenzhen Special Economic Zone. Under the New EIT Law, Junlong was no longer entitled to 15% preferential tax rate but still enjoyed the reduced transitional tax rate at 20% for 2009 and 22% for 2010.

The aggregate dollar effect of preferential tax rate is as follows:

	2010	2009
Aggregate dollar effect of tax holiday	(245,786)	(272,836)
Per share effect—basic	$0.01	$0.01
Per share effect—diluted	$0.01	$0.01

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the federal statutory rate on income from continuing operations before income taxes:

	2010 US$	2009 US$
Tax at federal statutory rate	1,891,491	1,364,178
Loss not benefited	156,725	-
PY true-ups	16,950	(23,080)
Tax holiday	(245,786)	(272,836)
	1,819,380	1,068,262

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Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred taxes are comprised of the following:

	2010 US$	2009 US$
DTA:		
PRC Deferred assets - others	-	-
Deferred assets - NOL	137,918	-
Total Deferred assets	137,918	-
Total Gross DTA	137,918	-
Valuation allowance	(137,918)	-
Net deferred assets	-	-

The Company has recorded a valuation allowance against all of its US deferred tax assets at December 31, 2010. In accordance with ASC 740 Accounting for Income Taxes, based on all available evidence, including the Company's historical results and the forecast of its future income, it is more likely than not that its US entity will not be able to realize its deferred tax assets, and that all of its PRC entities will be able to realize the deferred tax assets.

For U.S. federal income tax purposes, the Company has net operating loss or NOL carry forwards of approximately \$0.16 million at December 31, 2010, respectively. The 2010 net operating loss carry forwards will expire after 20 years beginning 2028, if not utilized. The company also has no net operating loss carry forwards for PRC enterprise income tax purposes, at December 31, 2010, respectively.

On March 16, 2007, the PRC National People's Congress passed the PRC Enterprise Income Tax Law ("New EIT Law") which became effective on January 1, 2008. The New EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises. The New EIT Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the New EIT Law and which were entitled to a preferential tax treatment such as a reduced tax rate or a tax holiday. On December 26, 2007, the PRC State Council issued the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives ("Circular 39"). Based on Circular 39, certain specifically listed categories of enterprises which enjoyed a preferential tax rate are eligible for a graduated rate increase to 25% over the 5-year period beginning from January 1, 2008.

Undistributed earnings of the Company's PRC subsidiary amounted to approximately \$12 million as of December 31, 2010. Those earnings are considered to be permanently reinvested and accordingly, no deferred tax expense is recorded for U.S. federal and state income tax or applicable withholding taxes. The PRC tax authorities have clarified that dividend distributions made out of pre-January 1, 2008 retained earnings will not be subject to withholding taxes.

The Company and its subsidiaries are subject to taxation in the U.S. and the PRC. Our U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before 2006. The tax authorities in the PRC may examine the tax returns of the Company three years after its fiscal year ended.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

16. Employee Benefits

The Company contributes to a state pension scheme organized by municipal and provincial governments in respect of its employees in PRC. The pension expense related to this plan, which is calculated at a range of 8% of the average monthly salary. The pension expense was $ 9,555 and $6,671 for the year ended December 31,2010 and 2009, respectively.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

17. Stockholders' Equity

(i) Common Stock

On July 2, 2010, the China Internet Cafe Holdings Group, Inc. ("China Internet Cafe"), entered into a share exchange transaction with Classic Bond Development Limited, a British Virgin Islands corporation ("Classic Bond"), and the shareholders of Classic Bond. Pursuant to the Share Exchange Agreement, China Internet Cafe acquired 100% of the issued and outstanding capital stock of Classic Bond in exchange for 19,000,000 newly issued shares of the Company's common stock, which represented approximately 94% of the 20,200,000 issued and outstanding shares of common stock after the transaction and after the coincident cancellation of 4,973,600 shares of common stock held by the Company's former majority stockholder which have a net effect of increase of 1,200,000 shares. The business, assets and liabilities did not change as a result of the reverse acquisition.

As of December 31, 2010 and 2009, there are 20,200,000 and 19,000,000 shares issued and outstanding respectively.

(ii) Stock based compensation

On November 22, 2010, the Company signed an agreement with an advisor, and advisor agrees to represent the Company, as a non-exclusive advisor to assist the Company in its business and corporate development, in structuring its capital transactions.

The Company agreed to pay advisor a flat fee of $10,000 per month as cash compensation. Besides, the company agreed to grant 400,000 shares of common stock as stock based compensation to the advisor base on the following vesting schedule:

1) 200,000 shares upon completion of a Transaction in February of 2011;

2) 100,000 shares six months after the completion of a Transaction in August of 2011; and

3) 100,000 share twelve months after the completion of a Transaction in February of 2011.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

18. Commitments and Contingencies

Operating Leases

In the normal course of business, the Company leases office space and internet cafes under operating leases agreements, which expire through 2014. The Company rents internet cafes venues and office space, primarily for regional sales administration offices that are conducive to administrative operations. The operating leases agreements generally contain renewal options that may be exercised in the Company's discretion after the completion of the base rental terms. In addition, many of the leases provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis.

As of December 31, 2010, the Company was obligated under operating leases requiring minimum rentals as follows:

Fiscal year	
2011	$1,476,433
2012	1,238,483
2013	950,672
2014	855,669
2015	449,488
	$4,970,745

During the year ended December 31, 2010, rent expenses amounted to $1,153,802, of which $1,089,910 and $63,892 was recorded as cost of sales and general and administrative expense, respectively.

During the year ended December 31, 2009, rent expenses amounted to $823,730, of which $814,954 and $8,776 was recorded as cost of sales and general and administrative expense, respectively.

Purchase of Plant & Equipment of a total consideration of $174 million

During the fiscal year ended December 31, 2010, the Company signed two contracts for leasehold improvement and to purchase of plant and equipment for the four internet cafes under construction, totaling $1,743,587 (representing RMB11,528,250). As of December 31, 2010, the Company paid $1,300,650 (representing RMB8,599,635) was recorded in Equipments Deposits for those plant and equipments not delivered yet.

19. Concentrations

The Company did not have any customer constituting greater than 10% of net sales for the years ended December 31, 2010 and 2009.

At December 31, 2010 and 2009, there was one supplier of consignment snacks and drinks with amount of $67,224 and $33,979 respectively which accounted for 97% and 100% of the Company's account payable.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. Operating Risk and Uncertainties

Interest rate risk

The interest rates and terms of repayment of bank and other borrowings are disclosed in Note 11. Other financial assets and liabilities do not have material interest rate risk.

Foreign currency risk

Most of the transactions of the Company were settled in Renminbi. In the opinion of the directors, the Company does not have significant foreign currency risk exposure.

Company's operations are substantially in foreign countries

Substantially all of the Company's services are provided in China. The Company's operations are subject to various political, economic, and other risks and uncertainties inherent in China. Among other risks, the Company's operations are subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations.

The Chinese government began tightening its regulation of internet cafes since 2001. In particular, a large number of unlicensed internet cafes have been closed. In addition, the Chinese government has imposed higher capital (RMB10,000,000 for regional internet café chain is required and RMB50,000,000 for national internet café chain) and facility requirements for the establishment of internet cafes. Furthermore, the Chinese government's policy, which encourages the development of a limited number of national and regional internet cafe chains and discourages the establishment of independent internet cafes, may slow down the growth of internet cafes. Recently, the Ministry of Culture, together with other government authorities, issued a joint notice suspending the issuance of new internet cafe chain licenses. Any intensified government regulation of internet cafes could restrict our ability to maintain and expand our internet cafes.

Currently, the Company uses only one internet service provider. However, there are other internet service providers available to the Company. The management of the Company believes that the risk of loss of internet services is not that high because of other service providers available to the Company.

21. Segment Information

The Company applies the provisions of ASC 280, "Disclosures about Segments of an Enterprise and Related Information". The Company views its operations and manages its business as one segment: the operation of internet café chain. Factors used to identify the Company's single operating segment include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance. The Company operates predominantly in one geographical area, the PRC.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

22. Subsequent Event

Securities Purchase Agreement

On February 18, 2011, in connection with a security purchase agreement between China Internet Café Holdings Group, Inc. and the investors, we closed a private placement of approximately $6.4 million from offering a total of 474,967 units at a purchase price of $13.50 per Unit, each consisting of:(i) nine shares of the Company's 5% Series A Convertible Preferred Stock, par value $0.00001 per share, convertible on a one to one basis into nine shares of the Company's common stock, par value $0.00001 per share; (ii) one share of Common Stock; (iii) two three-year Series A Warrants, each exercisable for the purchase of one share of Common Stock, at an exercise price of $2.00 per share; and (iv) two three-year Series B Warrants, each exercisable for the purchase of one share of Common Stock, to purchase one share of Common Stock, at an exercise price of $3.00 per share.

Registration Rights Agreement

In connection with the Offering, the company also entered into a registration rights agreement with the Investors, in which the company agreed to file a registration statement with the Commission to register for resale the Common Stock and the Common Stock issuable upon conversion of the Preferred Stock, the Series A Warrant Shares and the Series B Warrant Shares, within 45 calendar days of the Closing Date, and to have the registration statement declared effective within 150 calendar days of the Closing Date or within 180 calendar days of the Closing Date in the event of a full review of the registration statement by the U.S. Securities and Exchange Commission ("SEC"). If the company does not comply with the foregoing obligations under the Registration Rights Agreement, the company will be required to pay cash liquidated damages to each Investor, at the rate of 1% of the applicable subscription amount for each 30 day period in which we are not in compliance; provided, that such liquidated damages will be capped at 10% of the subscription amount of each investor and will not apply to any registrable securities that may be sold pursuant to Rule 144 under the Securities Act, or are subject to an SEC comment with respect to Rule 415 promulgated under the Securities Act.

Securities Escrow Agreement

In connection with the Offering, we also entered into a securities escrow agreement with the Investors and Mr. Dishan Guo (the "Stockholder"), the Company's chairman, pursuant to which, the Stockholder agrees to deliver into an escrow account one share of our Common Stock for each $10 sold to the Purchasers in the Offering to be used as escrow shares, equal to 641,205 shares of common stock (the "Escrow Shares"). The distribution of the Escrow Shares shall be based on a performance threshold for the Company. With respect to the 2011fiscal year, if the company earn less than $9,500,000, then the Escrow Shares for such year will be delivered to the Investors in the amount of 10% of the Escrow Shares for each full percentage point by which such threshold was not achieved up to a maximum of the Escrow Shares.

Lock-up Agreement

On the Closing Date, the company entered into a lock-up agreement (the "Lock-Up Agreement") with Mr. Dishan Guo (the "Affiliate"), whereby the Affiliate is prohibited from selling our securities that they directly or indirectly own (the "Lock-Up Shares") until 9 months after the Registration Statement is declared effective by the Commission (the "Lock-Up Period"). In addition, the Affiliate further agrees that during the 12 months immediately following the Lock-Up Period, the Affiliate shall not offer, sell, contract to sell, assign, transfer (the "Transfer") more than 0.83333% of the Lock-Up Shares during each calendar month following the Lock-Up Period, other than engaging in a Transfer in a private sale of the Lock-Up Shares if the transferee agrees in writing to be bound by and subject to the terms of the Lock-Up Agreement.

The Company engaged TriPoint Global Equities, LLC (the "Agent") as placement agent in connection with the sale of securities in the Offering and agreed to pay the Agent (i) cash commissions equal to 7% of the gross proceeds received by the Company; (ii) a cash management finance fee equal to 1% of the gross proceeds raised by the Company in the Offering, payable at the time of each closing; (iii) a non-accountable expense fee equal to 0.5% of the gross proceeds; and (iv) warrants to purchase such number of securities equal to 9% of the aggregate number of shares of common stock issuable in connection with the Offering (the "Agent Warrants"). The Agent's Warrants will all have three year terms and will be exercisable at the following prices: (i) $1.35 per share (427,470 warrants), (ii) $2,00 per share (85,494 warrants and (iii) $3.00 per share (85,494 warrants). The Company also agreed to compensate the Placement Agent for all of its reasonable expenses in connection with the Offering.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

22. Subsequent Event - continued

Series A Preferred Stock Certificate of Designation

On February 16, 2011, the Company filed with the Secretary of State of Nevada a Certificate of Designation, Preferences and Rights for the 5% Series A Convertible Preferred Stock (the "**Certificate of Designation**") as an amendment to its Articles of Incorporation. Capitalized terms not defined herein shall have the meaning ascribed to them in the Certificate of Designation.

For each outstanding share of Series A Preferred Stock, dividends shall be payable quarterly, at the rate of 5% per annum, on or before each date that is thirty days following the last day of each June, September, December and March of each year. Dividends on the Series A Preferred Stock shall accrue and be cumulative from and after the date of the initial issuance of the Series A Preferred Stock.

Upon liquidation of the Company, holders of Series A Preferred Stock are entitled to be paid, prior to any distribution to any holders of common stock, or any other class or series of stock issued hereafter or junior to the Series A Preferred Stock, an amount equal to $1.35 per share plus the amount of any accrued but unpaid dividends thereon, as of the date of liquidation (the "**Series A Liquidation Preference Amount**").

Each share of Series A Preferred Stock at the option of the holder may be convertible into a number of fully paid and nonassessable shares of Common Stock equal to the quotient of (i) the Series A Liquidation Preference Amount divided by (ii) the Conversion Price in effect as of the date of the Conversion Notice.

Until conversion, the Preferred Stock shall have no voting rights other than with respect to matters that may adversely affect the rights of the holders of the Series A Preferred Stock.

The description of the Series A Preferred Stock above is qualified in its entirety by reference to a copy of the Certificate of Designation attached to this Current Report on Form 8-K as Exhibit 3.2.

Name Change

On January 20, 2011, China Internet Café Holdings Group, Inc. filed with the Nevada Secretary of State a Certificate of Amendment to Articles of Incorporation to give effect to a name change from “China Unitech Group, Inc.” to “China Internet Café Holdings Group, Inc.” The Certificate of Amendment was approved by our board of directors on July 30, 2010 and was approved by a stockholder holding 59.45% of our outstanding common stock by written consent on July 30, 2010.

The Company filed a definitive information statement on Schedule 14C with the Securities and Exchange Commission regarding the amended and restated articles of incorporation on August 8, 2010, and mailed the information statement to our stockholders on August 13, 2010. In connection with the name change, on January 25, 2011, the Company filed an Issuer Company-Related Action Notification Form with the Financial Industry Regulatory Authority (“FINRA”) requesting a name change from “China Unitech Group, Inc.” to “China Internet Café Holdings Group, Inc.” as well as an OTC voluntary symbol change from “CUIG” to “CICC.” These changes became effective on February 1, 2011. Our common stock began trading under the Company’s new name on the Over-the Counter Bulletin Boards on Tuesday, February 1, 2011 under our new trading symbol “CICC.”

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

22. Subsequent Event - continued

Yunnan Subsidiary Company

The company has entered into a trust agreement with Mr. Long Weijun on 25th December 2010 and appoint Mr.Long Weijun as the General Manger of Yunnan subsidiary company. The Company is committed to establish a new subsidiary company located in Kunming city, Yunnan province with the total investment of approximately $3.02 million (equivalent to RMB 20 million) with 1.51 million (equivalent to RMB 10 million) as registered capital and 1.48 million (equivalent to RMB 10 million) as capital proceeds. The initial proceed was released to Long Weijun on 31st December 2010 of total sum of $2.42 million (equivalent to RMB 16 million), the rest $0.60 million (equivalent to RMB 4 million) was released on 7th January 2011.

Upon the establishment of the new subsidiary company, the company is committed to pay a monthly salary of approximately $1,100 (RMB7,500) plus 3% of the net income of the respective subsidiary companies as bonus.

The Company has entered into a termination agreement with Mr.Long Weijun on 13th February 2011 to terminate the trust agreement signed on 25th December 2010. The total proceed of $3.02 million (equivalent to RMB 20 million) is returned to the company on 28th February 2011.

New Opened Cafes

In March 2011, the Company opened three Internet cafes in Shenzhen and as a result, the Company own 47 internet cafes within PRC, with 1 internet cafes under construction and expected to open on April 2, 2011.

23. Additional Information - Condensed Financial Statements of the Company

The Company is required to include the condensed financial statements of the Company in accordance with Regulation S-X promulgated by the United States Securities and Exchange Commission. The separate condensed financial statements of the Company as presented below have been prepared in accordance with Securities and Exchange Commission Regulation S-X Rule 5-04 and Rule 12-04 and present the Company's investments in its subsidiaries under the equity method of accounting. Subsidiaries income is included as the Company's "Share of income from subsidiaries" on the condensed statement of income and comprehensive income.

As of December 31, 2010 and 2009, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those which have been separately disclosed in the Consolidated Financial Statements, if any.

FINANCIAL INFORMATION OF CHINA INTERNET CAFE HOLDINGS GROUP, INC.

Condensed Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Rental deposit	$3,333	$ -
Investment in subsidiaries	44,100,984	
Total assets	$44,104,317	$ -
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued expenses	$54,401	$ -
Amount due to a shareholder	300,000	-
Total current liabilities	354,401	-
Stockholders' Equity		
Preferred stock ($0.00001 par value, 100,000,000 shares authorized, 0 share issued and outstanding)	-	-
CoCCommon stock ($0.00001 par value, 100,000,000 shares authorized, 20,200,000 and 0 share issued and outstanding as of December 31, 2010 and 2009, respectively)	202	-
Additional paid in capital	38,003,131	-
Retained earnings	5,746,583	-
Total stockholders' equity	43,749,916	-

Total liabilities and stockholders’ equity	$44,104,317	$ -

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

23. Additional Information - Condensed Financial Statements of the Company - Continued

Condensed Statements of Income and Comprehensive Income

	For The Years ended December 31	
	2010	2009
Investment Income	$ -	$ -
Operating Expenses		
General and administrative expenses	54,401	-
Total operating expenses	54,401	-
Loss from operations	(54,401)	-
Non-operating income (expenses)		
Equity in earnings in unconsolidated subsidiaries	6,100,984	
Interest income	9,168	-
Other expenses	(3,114)	-
Reorganizational expenses	(306,054)	-
Total non-operating expenses	5,800,984	-
Net income before income taxes	5,746,583	-
Income taxes	-	-
Net income	5,746,583	-
Other comprehensive income		
Foreign currency translation adjustment	$ 400,949	$ -
Comprehensive income	$ 6,147,532	$ -

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

23. Additional Information - Condensed Financial Statements of the Company - Continued

Condensed Statements of Cash Flows

	For The Years Ended December 31	
	2010	2009
Cash flows from operating activities		
Net income	$ 5,746,583	$ -
Adjustments to reconcile net income to net cash provided by operating activities		
Changes in operating assets and liabilities:		
Investment (income)/loss from unconsolidated subsidiaries	(6,100,984)	
Rental deposit	3,333	-
Accrued expenses	54,401	-
Amount due to a shareholder	300,000	-
Net cash used in operating activities	3,333	-
Cash flows from financing activities		
Capital contribution by shareholder	(3,333)	-
Net cash provided by financing activities	(3,333)	-
Effect of foreign currency translation on cash	-	-
Net increase in cash	-	-
Cash - beginning of year	-	-
Cash - end of year	$ -	$ -

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including Dishan Guo, the Company's chief executive officer, and chief financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the fiscal year ended December 31, 2010. Based upon that evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2010 as a result of the material weaknesses identified in our internal control over financial reporting. These material weaknesses are discussed in "Management's Report on Internal Control over Financial Reporting" below. Our management considers our internal control over financial reporting to be an integral part of our disclosure controls and procedures.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's management is also required to assess and report on the effectiveness of the Company's internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements and that receipts and expenditures of company assets are made in accordance with management authorization; and (iii) provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*, including the following five framework components: i) control environment, ii) risk assessment, iii) control activities, iv) information and communications, and v) monitoring.

Based on management's evaluation, our chief executive officer and chief financial officer concluded that, as a result of the material weakness described below, as of December 31, 2010, our internal control over financial reporting was not effective.

Specifically, our management identified certain matters involving internal control and our operations that it considered to be material weaknesses. As defined in the Exchange Act, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified by our management as of December 31, 2010, is described below:

We did not maintain sufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of GAAP commensurate with our complexity and our financial accounting and reporting requirements. This control deficiency is pervasive in nature. Further, there is a reasonable possibility that material misstatements of the financial statements including disclosures will not be prevented or detected on a timely basis as a result.

2011 Planned Remediation

We are committed to improving our financial organization. As part of this commitment, we will look to increase our personnel resources and technical accounting expertise within the accounting function by the end of fiscal 2011 to resolve non-routine or complex accounting matters. We have in the past, and will continue to engage outside consultants in the future as necessary in order to ensure proper treatment of non-routine or complex accounting matters.

Management believes that hiring additional knowledgeable personnel with technical accounting expertise will remedy the material weakness of having insufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of GAAP commensurate with our complexity and our financial accounting and reporting requirements.

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Changes in Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting have come to management's attention during the Company's last fiscal quarter that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Limitations on Controls

Management does not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART V

Item 15. Exhibits, Financial Statement Schedules.

Exhibit No.	Description
2.1*	Form of Share Exchange Agreement, dated July 2, 2010, among the Company, Classic Bond Development Limited and its shareholders.
3.1**	Articles of Incorporation of the Company
3.2**	Bylaws of the Company
3.3***	Amended and Restated Bylaws, adopted on July 30, 2010
3.4******	Certificate of Designations Preferences and Rights of the 5% Series A Convertible Preferred Stock of China Internet Café Holdings Group, Inc.
4.1*	Form of Cancellation Agreement, dated July 2, 2010, among the Company and certain shareholders.

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4.2**	Specimen Stock Certificate
10.1*	Management Consulting Service Agreement, dated June 11, 2010, among Zhonghefangda, Junlong and Junlong's shareholders.
10.2*	Equity Pledge Agreement, dated June 11, 2010, among Zhonghefangda, Junlong and Junlong's shareholders.
10.3*	Option Agreement, dated June 11, 2010, among Zhonghefangda, Junlong and Junlong's shareholders.
10.4*	Proxy Agreement, dated June 11, 2010, among Zhonghefangda, Junlong and Junlong's shareholders.
10.5*	English Translation of Employment Agreement, dated April 1, 2009, between Junlong and Tu Fan.
10.6*	English Translation of Form of Non-disclosure and Non-competition Agreement, dated March 11, 2010, between Junlong and its employees.
10.7*	English Summary of Loan Agreement, dated October 23, 2009, between Junlong and Shenzhen Branch of China Construction Bank.
10.8*	English Summary of Guaranty Contract of Maximum Amount, dated October 23, 2009, between Dishan Guo and Shenzhen Branch of China Construction Bank.

10.9*	English Summary of Purchase Agreement, dated June 7, 2010, between Junlong and Shenzhen SEG Industrial Investment Co., Ltd.
10.10*	English Summary of Lease Contract, dated September 1, 2006, between Junlong and Zou Zhiwei.
10.11*	English Summary of Lease Contract, dated December 15, 2009, between Junlong and Hao Changsheng
10.12*****	Lease contract re: No. 1 Xinxin Garden, Fangjicun, Xudong Road, Wuchang, Wuhan, Hubei Province, China 430062 between the Company and Xuezheng Yuan.

10.13******	Securities Purchase Agreement, dated February 22, 2011, by and among China Internet Café Holdings Group, Inc. and Investors identified therein
10.14******	Registration Rights Agreement, dated February 22, 2011
10.15******	Securities Escrow Agreement, dated February 22, 2011
10.16******	Lock-up Agreement, dated February 22, 2011
10.17******	Form of Series A Warrant
10.18******	Form of Series B Warrant
14.1****	Code of Ethics

21*	Subsidiaries of the Company.
31.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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91.1****** Press Release

99.2****** Investor Presentation

* Incorporated by reference to our Current Report on Form 8-K filed with the SEC on July 9, 2010.

** Incorporated by reference to our Registration Statement on Form SB-2 filed on August 30, 2006.

* **Incorporated by reference to our Current Report on Form 8-K filed with the SEC on August 3, 2010.

* ***Incorporated by reference to our Annual Report on Form 10-K filed with the SEC on June 30, 2008.

***** Incorporated by reference to our Annual Report on Form 10-K filed with the SEC on September 28, 2010.

****** Incorporated by reference to our Current Report on Form 8-K filed with the SEC on February 23, 2011.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 17, 2012

CHINA INTERNET CAFÉ HOLDINGS GROUP, INC.

By: /s/ Dishan Guo
Dishan Guo
Chief Executive Officer & Chief Financial Officer

(Principal Executive Officer & Principal Financial Officer

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Dishan Guo Dishan Guo	Chief Executive Officer, Chief Financial Officer, and Chairman of the Board (principal executive officer and principal financial officer)	August 17, 2012
/s/ Zhenquan Guo Zhenquan Guo	Director	August 17, 2012
/s/ Lei Li Lei Li	Director	August 17, 2012
/s/ Wenbin An Wenbin An	Director	August 17, 2012
/s/ Lizong Wang Lizong Wang	Director	August 17, 2012