

China Finance Online Co. LTD
Form 20-F
May 23, 2006

Table of Contents

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

(Mark One)

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

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

For the fiscal year ended December 31, 2005

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____.

Commission file number: 000-50975

CHINA FINANCE ONLINE CO. LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Hong Kong

(Jurisdiction of incorporation or organization)

Room 610B, 6/F, Ping'an Mansion

No. 23 Financial Street

Beijing 100032, People's Republic of China

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

None

None

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

**American Depositary Shares, each representing 5 ordinary shares,
par value HK\$0.001 per share ***

(Title of Class)

***Not for trading, but only in connection with the listing on the Nasdaq National Market of American Depositary
Shares each representing 5 ordinary shares pursuant to the requirements of the Securities and Exchange Commission
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None

Edgar Filing: China Finance Online Co. LTD - Form 20-F

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 101,329,933 ordinary shares, par value HK\$0.001 per share.

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

Item 17 Item 18

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

	Page
<u>INTRODUCTION</u>	3
<u>PART I</u>	
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	4
<u>Item 2. Offer Statistics and Expected Timetable</u>	4
<u>Item 3. Key Information</u>	4
<u>Item 4. Information on the Company</u>	25
<u>Item 5. Operating and Financial Review and Prospects</u>	43
<u>Item 6. Directors, Senior Management and Employees</u>	57
<u>Item 7. Major Shareholders and Related Party Transactions</u>	64
<u>Item 8. Financial Information</u>	68
<u>Item 9. The Offer and Listing</u>	69
<u>Item 10. Additional Information</u>	70
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	76
<u>Item 12. Description of Securities Other than Equity Securities</u>	76
 <u>PART II</u>	
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	76
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	76
<u>Item 15. Controls and Procedures</u>	76
<u>Item 16A. Audit Committee Financial Expert</u>	77
<u>Item 16B. Code of Ethics</u>	77
<u>Item 16C. Principal Accountant Fees and Services</u>	77
<u>Item 16D. Exemption from the Listing Standard for Audit Committees</u>	77
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	77
 <u>PART III</u>	
<u>Item 17. Financial Statement</u>	78
<u>Item 18. Financial Statements</u>	78
<u>Item 19. Exhibits</u>	78
 <u>EX-4.15 SECURITIES INFORMATION OPERATION LICENSE CONTRACT</u>	
<u>EX-4.16 CONTRACT FOR LICENSE OF PROPRIETARY INFORMATION</u>	
<u>EX-4.17 CONTRACT FOR FINANCIAL AND ECONOMIC DATABANK SERVICE, AS AMENDED</u>	
<u>EX-4.20 LEASE CONTRACT FOR HOUSING UNIT</u>	
<u>EX-4.21 LEASE CONTRACT FOR HOUSING UNIT</u>	
<u>EX-4.22 LEASE CONTRACT FOR HOUSING UNIT</u>	
<u>EX-4.26 LABOR CONTRACT</u>	
<u>EX-12.1 CEO CERTIFICATION</u>	
<u>EX-12.2 CFO CERTIFICATION</u>	
<u>EX-13.1 CEO CERTIFICATION PURSUANT TO SECTION 906</u>	
<u>EX-13.2 CFO CERTIFICATION PURSUANT TO SECTION 906</u>	

Table of Contents

INTRODUCTION

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

we, us, our company and our refer to China Finance Online Co. Limited, or CFO Hong Kong, its subsidiaries China Finance Online (Beijing) Co., Ltd., or CFO Beijing, and Fortune Software (Beijing) Co., Ltd., or Fortune Software and, in the context of describing our operations, also include our PRC-incorporated affiliate, Fuhua Innovation Technology Development Co., Ltd., or Fuhua;

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

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

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

our future pricing strategies or policies;

our plans to expand our service offerings;

our plans to diversify our sources of revenues, including by expanding our online advertising business;

competition in the PRC financial data and information services industry;

performance of China's securities markets;

the expected growth in the number of Internet users in China, growth of personal computer penetration and developments in the ways most people in China access the Internet;

the future development of Internet consumers in China;

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

Table of Contents

PRC governmental policies relating to the distribution of content, especially the distribution of financial content over the Internet, or to the provision of advertising services over the Internet, including PRC governmental pronouncements concerning a proposal by the PRC government to extend the provision of advertising services to foreign invested enterprises.

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

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

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

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

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

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

The following table presents the selected consolidated financial information for the Company. You should read the following information in conjunction with Item 5, Operating and Financial Review and Prospects. The summary statement of operations data of the Company for the years ended December 31, 2003, 2004 and 2005 and the summary balance sheet data of the Company as of December 31, 2004 and 2005 set forth below are derived from, and are qualified in their entirety by reference to, the audited consolidated financial statements of the Company, including the notes thereto, which are included in this annual report beginning on page F-1 below. The summary statement of operations data for the years ended December 31, 2001 and 2002, and the summary balance sheet data as of December 31, 2001, 2002 and 2003 set forth below are derived from audited consolidated financial statements of the Company not included herein. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

(in thousands of U.S. dollars, except per share or per ADS data)(1)	For the year ended December 31,				
	2001	2002	2003	2004	2005
Consolidated statement of operations:					
Gross revenues(2)	\$102	\$1,098	\$2,354	\$6,064	\$7,627
Business tax	(5)	(48)	(83)	(48)	(145)

Table of Contents

(in thousands of U.S. dollars, except per share or per ADS data)(1)	For the year ended December 31,				
	2001	2002	2003	2004	2005
Net revenues	97	1,050	2,271	6,016	7,482
Cost of revenues	(265)	(254)	(298)	(394)	(482)
Gross (loss) profit	(168)	796	1,973	5,622	7,000
Operating expenses:					
General and administrative	(258)	(253)	(400)	(727)	(1,740)
Product development	(185)	(157)	(149)	(173)	(236)
Sales and marketing	(128)	(275)	(284)	(801)	(1,795)
Total operating expenses	(571)	(685)	(833)	(1,701)	(3,771)
Income (loss) from operations	(738)	111	1,140	3,921	3,229
Interest income	100	95	51	294	1,486
Interest expense	(6)				
Other income (expense)		(4)	(1)	(2)	
Exchange gain					366
Income (loss) before income taxes benefit (expense)	(644)	203	1,190	4,213	5,081
Income tax benefit (expense) - current				384	(457)
Net income (loss)	\$ (644)	\$ 203	\$ 1,190	\$ 4,597	\$ 4,624
Dividends on preference shares			(352)		
Income (loss) attributable to ordinary shareholders	\$ (644)	\$ 203	\$ 838	\$ 4,597	\$ 4,624
Income (loss) per share-basic	\$(0.04)	\$ 0.01	\$ 0.04	\$ 0.12	\$ 0.05
Income (loss) per share-diluted	\$(0.04)	\$ 0.00	\$ 0.01	\$ 0.05	\$ 0.04
Income per ADS equivalent-basic(3)	\$(0.18)	\$ 0.06	\$ 0.21	\$ 0.59	\$ 0.25
Income per ADS equivalent-diluted(3)	\$(0.18)	\$ 0.01	\$ 0.06	\$ 0.26	\$ 0.22
Dividends declared per ordinary share or preference shares			\$ 0.01		

(in thousands of U.S. dollars)(1)	For the year ended December 31,				
	2001	2002	2003	2004	2005
Consolidated balance sheet data:					
Cash and cash equivalents	\$3,487	\$4,451	\$5,806	\$70,596	\$46,168
Current working capital(4)	3,366	3,565	4,306	67,590	45,227
Total assets	3,994	4,929	6,606	71,861	63,113
Deferred revenue	186	934	1,278	3,487	1,859
Total current liabilities	249	982	1,875	3,773	2,282
Total shareholders equity	\$3,745	\$3,947	\$4,731	\$68,088	\$60,831

(1) For the results of operations for a specified period, all translations

from Renminbi to U.S. dollars were calculated at the average exchange rate for that period, calculated by using the average of the exchange rates on the last day of each month during the period. For the years ended December 31, 2001, 2002, 2003, 2004 and 2005, all translations from Renminbi to U.S. dollars were calculated at RMB8.2770, RMB8.2770, RMB8.2770, RMB8.2768 and RMB8.1472 per US\$1.00, respectively. For consolidated balance sheet data, all translations from Renminbi to U.S. dollars were calculated at the exchange rate at the end of that year. The exchange rates as at December 31, 2001, 2002, 2003, 2004 and 2005 were RMB8.2766, RMB8.2800, RMB8.2769, RMB8.2765, and RMB8.0702

per US\$1.00,
respectively.

- (2) We receive subscription fees at the beginning of the subscribers subscription periods. Revenues from the subscription fees are deferred and recognized ratably over the twelve month subscription period.
- (3) Each ADS represents five ordinary shares.
- (4) Current working capital is the difference between total current assets and total current liabilities.

Exchange Rate Information

We have published our financial statements in U.S. dollars. Our business is primarily conducted in China and denominated in Renminbi. Periodic reports will be made to shareholders and will be expressed in U.S. dollars using the then-current exchange rates. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars

Table of Contents

in this annual report were made at \$1.00 to RMB8.0702, which was the prevailing rate on December 31, 2005. The prevailing rate on March 31, 2006 was \$1.00 to RMB8.0270. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

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

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

	Average(1)	High	Low	Period-end
		<i>(RMB per U.S.\$1.00)</i>		
2001	8.2770	8.2786	8.2676	8.2766
2002	8.2770	8.2800	8.2669	8.2800
2003	8.2770	8.2800	8.2765	8.2769
2004	8.2768	8.2774	8.2764	8.2765
2005	8.1472	8.2765	8.0702	8.0702
November	8.0839	8.0877	8.0796	8.0796
December	8.0764	8.0808	8.0709	8.0709
2006				
January	8.0668	8.0705	8.0608	8.0608
February	8.0500	8.0608	8.0420	8.0420
March	8.0345	8.0503	8.0170	8.0170
April	8.0155	8.0248	8.0040	8.0165
May (through May 15)	8.0067	8.0165	7.9982	7.9982

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and indebtedness.

Not Applicable.

C. Reasons for the offer and use of proceeds.

Not Applicable.

D. Risk factors.

Risks relating to our business

Our business is substantially dependent on the level of trading activity in China's securities markets. Volatility and the lack of hedging instruments in China's securities markets could dampen investors' interest in investing in China's securities markets and materially and adversely affect our revenue and profitability.

6

Table of Contents

Our business is substantially dependent on user demand for market intelligence on China's securities markets. Such demand has fluctuated with the level of trading activity in China's securities markets. During the past several years, China's securities markets have experienced significant volatility and decrease in value. The Shanghai Stock Exchange A-Share Index and the Shenzhen Stock Exchange A-Share Index declined 38.8% and 51.8%, respectively, from January 2, 2001 to March 31, 2006. On June 6, 2005, the Shanghai Stock Exchange Index reached its lowest level since March 1997. If China's securities markets weaken in the future, and investors' interest in China's securities markets declines, our business could be materially and adversely affected.

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

Potential increases in inflation in China could dampen investors' interest in investing in China's securities markets and materially and adversely affect our revenue and profitability.

In recent years, China has not experienced significant inflation, and thus inflation has not had a significant effect on our business historically. According to the National Bureau of Statistics of China, China's average national inflation rate, as represented by the change in the general Consumer Price Index in China, was 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively. In response to the increased inflation rate during 2004, the Chinese government announced measures to restrict lending and investment in China in order to reduce inflationary pressure on China's economy; the inflation rate reduced in 2005. If China experiences increased inflation in future, the Chinese government may introduce further measures intended to reduce the inflation rate in China. Any such measures adopted by the Chinese government may not be successful in reducing or slowing the increase in China's inflation rate. Sustained or increased inflation in China may have an adverse impact on China's economy, which could lead to weak performance of China's stock markets and, as a result, dampen investors' interest in investing in China's stock markets. Since our business is substantially dependent on investors' demand for market intelligence on China's securities markets, lack of investors' interest in China's securities markets may materially and adversely affect our business and financial results.

Our revenues and profits could decline if we fail to attract sufficient numbers of subscribers to our more comprehensive service packages or if we fail to retain our existing subscribers.

We depend on the sale of our more comprehensive service packages such as Grand Reference for a significant portion of our total revenues. For the year ended December 31, 2005, subscription fees generated from sales of Grand Reference were \$3.6 million, representing 86% of our total subscription fees during the same period. For the year ended December 31, 2005, we had a total of approximately 11,011 subscribers to Grand Reference, representing 70% of our total number of subscribers during the same period. As our service packages become more comprehensive and higher priced, we expect that our future revenues and revenue growth will increasingly depend on sales of our more comprehensive service packages to a much greater extent than sales of our other service packages. If we fail to attract a sufficient number of subscribers to our more comprehensive service packages, our revenues and profits could decline. Moreover, our financial success depends on our ability to retain our subscribers and migrate them to newer, more comprehensive and higher priced service packages. We may not be able to continue to develop newer and more comprehensive service packages that our subscribers will be willing to purchase. Moreover, from time to time we may offer discounts and promotional rates. For example, we launched a promotional program in December 2005, in which, the existing subscribers can upgrade their services to Grand Reference V at a promotion price. If we are unsuccessful at developing new service packages that are attractive to our users, or if our users elect to renew existing service packages rather than purchase newer or more comprehensive service offerings, our revenues and profits could decline.

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

Our business was incorporated in November 1998, and our current operations were established in April 2000. Our service offerings have only been commercially available since April 2001. Our senior management and employees have worked together at our company for only a relatively short period of time. Accordingly, we have a limited operating history upon which you can evaluate our business and prospects.

Table of Contents

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

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

In addition to our subscription-based service offerings, we also intend to increase our online advertising revenue from our website by increasing the number of sponsors for some of our website content and by developing other forms of Internet advertisement. Our current online advertising business has been limited and, to date, we do not have significant experience with selling Internet-based advertising. Moreover, we would need to hire additional employees and incur costs relating to any efforts to increase our advertising revenues, which could adversely affect our financial condition and operating results. We cannot assure you that we will be able to efficiently or effectively implement and grow our online advertising business, or that online advertising on our website will not detract from our users experience and thereby adversely affect our brand name or our subscription-based service offerings.

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

We rely principally on the acceptance of the Internet as a source of information and as a means to perform investment research and analysis, and our success will depend on the continuation of this trend.

The Internet, as a source of information and as a means to perform investment research and analysis, has only recently begun to be accepted by users and investors in China. Our future revenues and profits are substantially dependent upon the growth in acceptance by users and investors of our service offerings and the use of Internet-based information and investment research tools. We cannot assure you that our service offerings or the Internet as a means to perform investment research and analysis will continue to experience growth in user acceptance, if at all.

Our business could be materially and adversely affected if we fail to develop or introduce new features and new research tools or if these new features and research tools are not accepted by users.

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

Our business could be materially and adversely affected if our service package Tao of Wealth is not accepted by middle class individuals and financial services professionals.

We launched Tao of Wealth, a new service package we developed to target middle class individuals and financial service professionals such as financial advisers in China in August 2005. We have invested significant resources into developing Tao of Wealth and expect to continue our efforts in developing new editions of Tao of Wealth. If Tao of Wealth is not favorably received by our target customers, if other service offerings not offered by us are preferred by our target customers over Tao of Wealth, or if we experience difficulties that could delay or prevent us from introducing new editions of Tao of Wealth, we may not be able to grow our business in the personal finance market as we have projected and our business could be materially and adversely affected.

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

The online financial data and information services market in China is relatively new, has few substantial barriers to entry and is competitive and rapidly changing. More broadly, the number of financial news and information sources competing for consumers' attention and spending has increased since we commenced operations and we

Table of Contents

expect that competition will continue to intensify. We currently compete, directly and indirectly, for paying subscribers and viewers with companies in the business of providing financial data and information services, including publishers and distributors of traditional media, Internet portals providing information on business, finance and investing, dedicated financial information websites, personal stock research software vendors and stock brokerage companies, especially stock brokerage companies with online trading capabilities. Some of the sponsors with which we currently maintain sponsorship arrangements could also become our competitors in the future.

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

In addition, a number of companies in China, including us, offer stock quotes, economic and company-specific news, historical stock performance statistics, online chatting regarding individual securities and other features for free over the Internet. If users determine that the information available for free over the Internet is sufficient for their investing needs, they would be unlikely to pay for subscription to our services, thus reducing our revenues and net income and forcing us to develop a new business model. Furthermore, the amount and quality of information available for free over the Internet may expand in the future, reducing the attractiveness of our services and forcing us to spend additional money to develop more sophisticated services in order to compete. There can be no assurance that we would be successful in developing a new business model or more advanced services in response to either of the above challenges. Failure to do so would lead to significant declines in our number of subscribers, revenues and net income. *Our business could be materially and adversely affected if the stock exchanges from which we receive data and information fail to deliver us reliable data and price quotes or other trading related information on a real-time basis, or if we cannot maintain our current business relationships with our historical data providers on commercially reasonable terms.*

We depend on two securities data providers associated with the Shanghai and Shenzhen Stock Exchanges to provide us with real-time stock, bond and mutual fund quotes and other trading related information. We primarily rely on contractual arrangements with Shanghai Stock Exchange Information Network Co., Ltd., which is associated with the Shanghai Stock Exchange, and with Shenzhen Securities Information Co., Ltd., which is associated with the Shenzhen Stock Exchange, pursuant to which we pay fixed service fees in exchange for receiving real-time price quotes and other trading related information through satellite communication. Our contract with Shanghai Stock Exchange Information Network Co., Ltd. will expire on December 31, 2006, and our contract with Shenzhen Securities Information Co., Ltd. will expire on March 1, 2007.

We also depend on other data and information providers to supply us with historical data and information on listed companies, bonds and mutual funds, in accordance with our specifications and requirements. The contractual arrangement we have with our current primary data provider, Shenzhen Securities Information Co., Ltd., will expire in April 2007. The contractual arrangement we had with our previous primary data provider, Shanghai Wind Information Co., Ltd., expired in September 2005. In addition, we have entered into raw data provision contracts with Financial China Information & Technology Co., Ltd. and Shanghai Gildata Service Co., Ltd, respectively, as alternative sources of historical data and information.

We cannot assure you that we will be able to enter into business arrangements with either of the two securities data providers associated with the Shanghai and Shenzhen Stock Exchanges on commercially reasonable terms, or at all, after our current contracts expire. We cannot assure you that the two securities data providers will not charge us service fees substantially higher than the service fees we are currently paying. Our business, financial condition and results of operations could be materially and adversely affected if either of our two securities data providers imposes

on us service fees substantially higher than the service fees we are currently paying. Even if we are able to

Table of Contents

maintain our current business arrangements for data on commercially reasonable terms, either of the two securities data providers may fail to deliver us reliable price quotes or other trading related information on a real-time basis. In either case, it would be difficult for us to receive reliable real-time price quotes and other trading related information from a different source, which could materially and adversely affect our business.

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

We depend on establishing and maintaining sponsorship arrangements with high-traffic websites as one of our primary means for attracting users. Our business could be adversely affected if we cannot maintain these relationships or establish new relationships on commercially reasonable terms or if these relationships do not result in increased use of our website.

We depend on establishing and maintaining sponsorship arrangements with high-traffic Internet portals, search engines, online stock brokerage websites, and news and financial information websites for a significant portion of our website traffic. We have established more than 72 such sponsorship arrangements, whereby we place our website link on our sponsors' financial web pages or, in some cases, provide our content directly on their web pages. There is intense competition for website link placements on many of these sites, and we may not be able to enter into or maintain such relationships on commercially reasonable terms or at all. If any of our sponsors determines to enter into direct competition against us, we may lose its sponsorship. Even if we enter into or are able to maintain sponsorship arrangements with these websites, these arrangements may not attract significant numbers of users to our website. Our business could be adversely affected if these relationships do not result in increased use of our website. Moreover, we may have to pay significant fees to establish or maintain these relationships. Our business could be adversely affected if we do not establish and maintain these relationships on commercially reasonable terms.

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

We market our service offerings through our website, as well as through our customer service center, which as of March 31, 2006 had 35 full-time and trained customer support personnel. We depend on our customer support force to explain our service offerings to our existing and potential subscribers and resolve our subscribers' technical problems. Many of our customer support personnel have only worked for us for a short period of time, and some of them may not have received sufficient training or gained sufficient experience to effectively serve our customers. In addition, we will need to further increase the size of our customer support force as our business continues to grow. We may not be able to hire, retain, integrate or motivate additional customer support personnel without any short-term disruptions of our operations. As a result, our business could be adversely affected if we do not continue to expand and maintain an effective customer support force.

We invested in a Chinese wireless technology and service company in December 2005. The financial condition and operating performance of the company we invested in may be disappointing that will negatively affect our business. Moreover in the future we may face difficulties implementing our acquisition strategy, including identifying suitable opportunities and integrating them with our existing operations, which could have a material adverse effect on our business, financial condition and results of operations.

As part of our business strategy, we intend to use partnerships and acquisitions to facilitate the introduction of new service offerings as well as to add capabilities that we do not currently have. For example, we invested in Moloon International, Inc., or Moloon, a Chinese wireless technology and service provider, in December 2005. We also entered into a strategic cooperation agreement with Moloon in December 2005, pursuant to which we will work with Moloon to co-develop wireless financial service products for Chinese mobile users. However, the financial condition and operating results of Moloon may be disappointing which could negatively affect our business and financial condition. Moreover, our cooperation with Moloon may not generate meaningful revenue or any at all. In the future, we may also consider acquiring or entering into partnerships with companies that specialize in non-

Table of Contents

exchange traded financial products in order to acquire their expertise in that area which we believe are difficult to obtain otherwise.

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

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

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

We also depend on other Internet content providers, such as other financial information websites, to provide data and information to our website on a timely basis. Our website could experience disruptions or interruptions in service due to the failure or delay in the transmission or receipt of this information. In addition, our users depend on Internet service providers, online service providers and other website operators for access to our website. Each of them has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. These types of occurrences could cause users to perceive our website as not functioning properly and therefore cause them to use other methods to obtain the financial data and information services they need.

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

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

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

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

Table of Contents

types of claims even if they do not result in liability. Any such claim may also damage our reputation if our users and subscribers do not view this content as reliable or accurate, which could adversely affect our business.

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

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

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

We regard our copyrights, trademarks, trade secret and other intellectual property as critical to our success.

Unauthorized use of the intellectual property used in our business may adversely affect our business and reputation.

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

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

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

Furthermore, since our industry is characterized by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future. Our employees are required to enter into one-year employment agreements with us. We seek to enter into employment and non-competition agreements with our senior executives for longer terms. We cannot assure you that we will be able to attract or retain the key personnel that we will need to achieve our business objectives. We do not maintain key-man life insurance for any of our key personnel.

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

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

The discontinuation of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Table of Contents

Our PRC wholly-owned subsidiaries, CFO Beijing and Fortune Software, enjoy preferential tax treatments, including reduced tax rates, tax holidays and tax refunds, provided by either the PRC government or its local agencies or bureaus. For example, as a foreign invested software development company, CFO Beijing was granted by the Beijing branch of the PRC tax bureau three tax incentives that have the effect of:

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

Providing the company a preferential enterprise income tax rate of 12% from 2005 to 2007, 25.5% from 2008 to 2012 and 27% for taxable years thereafter, the rate currently applicable to wholly foreign-owned enterprises based in Beijing and not subject to other tax holidays.

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

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

Providing the company a preferential enterprise income tax rate of 7.5% from 2008 to 2010, and 15% for taxable years thereafter, the rate currently applicable to companies classified as high-technology companies based in Beijing and not subject to other tax holidays.

In the absence of these incentives, CFO Beijing and Fortune Software would be subject to the enterprise income tax rate of 33% applicable to domestic PRC companies generally. If CFO Beijing and Fortune Software had not received these preferential tax treatments in 2004 and 2005 and was required to pay enterprise income tax at the same rate as domestic PRC companies, our net incomes for these two periods would have been \$3.4 million and \$3.2 million, respectively, representing decreases of 27% and 31% from the reported amounts, respectively.

In addition, with respect to revenue generated from the sale of certain approved software products, including our service packages, CFO Beijing and Fortune Software both obtain value-added-tax, or VAT, refunds to reduce their effective VAT rates from 17% to 3%. We cannot assure you that we will continue to enjoy any of these preferential tax treatments in the future. The discontinuation of any of these preferential tax treatments could materially and adversely affect our financial condition.

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

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

We believe that we were not a PFIC for the taxable year 2005. However, there can be no assurance that we will not be a PFIC for the taxable year 2006 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year. For example, we would be a PFIC for the taxable year 2006 if the sum of our average market capitalization, which is our share price multiplied by the total amount of our outstanding shares, and our liabilities over that taxable year is not more than twice the value of our cash, cash equivalents, and other assets that are readily converted into cash. In particular, the value of our ADSs have declined to \$5.22 per ADS on May 5, 2005 from our initial public offering price of \$13.00 per ADS. If the value of our outstanding stock were to continue to decrease for an extended period of time in which we hold substantial cash and cash equivalents, we would likely become a PFIC. We could also be a PFIC for any taxable year if the gross income that we and our subsidiaries earn from investing the portion of the cash raised in our initial public offering in 2004 that exceeds the immediate

Table of Contents

capital needs of our active online business is substantial in comparison with the gross income from our business operations.

While we will continue to examine our results under the PFIC tests, we cannot assure you that we will not be a PFIC for any future taxable year. For more information on the U.S. tax consequences to you that would result from our classification as a PFIC please see Taxation United States federal income taxation U.S. Holders Passive Foreign Investment Company.

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

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance make having such insurance impractical for us. As a result, except for directors and officers insurance we do not have any other business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

Risks relating to our industry

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

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

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

Although the use of personal computers in China has increased in recent years, the penetration rate for personal computers in China is much lower than in the United States. In addition, despite a decrease