

China Internet Cafe Holdings Group, Inc.  
Form 10-Q/A  
June 15, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q/A**

**(Amendment No. 2)**

**(Mark One)**

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2011**

**OR**

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

**For the transition period from                      to**

**COMMISSION FILE NUMBER: 000-52832**

**CHINA INTERNET CAFE HOLDINGS GROUP, INC.**

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(Exact Name of small business issuer as specified in its charter)

Nevada 98-0500738  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

Issuer's telephone Number: **011-86-755-8989-6008**

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO ISSUERS 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 Sections 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 ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of August 15, 2011 there are 21,200,507 shares of \$0.00001 par value common stock issued and outstanding.

## **EXPLANATORY NOTE**

This Amendment No. 2 to Form 10-Q (this “Amendment No. 2”) amends the Quarterly Report on Form 10-Q for the period ended June 30, 2011 filed on August 15, 2011 (the “Original 10-Q”) of China Internet Café Holdings Group, Inc. (the “Company”), as amended by Amendment No. 1 filed on August 17, 2011.

For convenience, this Amendment No. 2 sets forth the Original 10-Q in its entirety, as amended where necessary to reflect the following amendment:

In light of the guidance from the Securities Exchange and Commission, we have re-considered our use of an enterprise value approach to determine the fair value of our derivative instruments. We have revised our accounting to use the quoted market price of the Company’s common stock at each relevant date to determine the fair value of our derivative instruments. Accordingly, we have revised our unaudited quarterly financial statements for the period ended June 30, 2011 that have been restated to correct the errors in the valuation of derivative instruments. Selling, general & administrative expenses and non-operating income/(loss) were restated in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section accordingly.

Additionally, we have disclosed the components of deferred tax assets and liabilities on a gross basis in note 14 Income Tax to the financial statement.

This Amendment No. 2 should be read in conjunction with the Original 10-Q, and the Company’s other filings made with the Securities and Exchange Commission subsequent to the filing of the Original 10-Q on August 15, 2011. The Original 10-Q has not been amended or updated to reflect events occurring since the Original 10-Q, except as specifically set forth in this Amendment No. 2 and Amendment No. 1.

FORM 10-Q

CHINA INTERNET CAFE HOLDINGS GROUP, INC.

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited).****CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash	\$ 16,424,142	\$ 3,836,824
Restricted cash	967,043	945,280
Loan receivable	-	2,419,916
Rental deposit	68,614	55,512
Equipment deposit	-	1,300,650
Prepayment	15,782	-
Inventory	261,794	180,582
Deferred advisory fee	157,808	-
Deferred tax assets	65,241	-
Total current assets	17,960,424	8,738,764
Property, plant and equipment, net	11,692,619	6,848,342
Intangible assets, net	176,905	191,087
Rental deposit-long term portion	294,312	235,509
Total assets	\$ 30,124,260	\$ 16,013,702
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short term loan	\$ 154,727	\$ 151,245
Accounts payable	93,611	69,373
Deferred revenue	1,964,584	579,822
Payroll and payroll related liabilities	297,906	199,548
Income and other taxes payable	1,687,455	987,194
Accrued expenses	348,307	102,018
Amount due to a shareholder	1,896,569	465,741
Dividend payable on preferred stock	101,978	-
Derivative financial instrument - preferred stock	927,391	-
Derivative financial instrument - warrants	554,974	-
Total current liabilities	8,027,502	2,554,941

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Commitments and contingencies (Note 18)

Preferred stock (\$0.00001 par value, 100,000,000 shares authorized, 4,274,703 and 0 shares issued and outstanding; preference in liquidation - \$5,770,849 and \$0)	3,682,473	-
Stockholders' Equity:		
Common stock (\$0.00001 par value, 100,000,000 shares authorized, 21,124,967 and 20,200,000 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively)	212	202
Additional paid in capital	1,553,969	1,628,417
Statutory surplus reserves	718,744	718,744
Retained earnings	15,114,305	10,499,454
Accumulated other comprehensive income	1,027,055	611,944
Total stockholders' equity	22,096,758	13,458,761
Total liabilities and stockholders' equity	\$ 30,124,260	\$ 16,013,702

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

**CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED****STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	For The Six Months Ended June 30,		For The three Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 15,114,661	\$ 8,302,413	\$ 8,625,080	\$ 4,581,308
Cost of revenue	9,067,523	4,667,565	5,072,181	2,507,426
Gross profit	6,047,138	3,634,848	3,552,899	2,073,882
Operating Expenses				
General and administrative expenses	992,604	162,728	548,137	93,934
Total operating expenses	992,604	162,728	548,137	93,934
Income from operations	5,054,534	3,472,120	3,004,762	1,979,948
Non-operating income (expenses)				
Change in fair value of derivative financial instrument - preferred stock	677,403	-	2,116,729	-
Change in fair value of derivative financial instrument - warrants	357,812	-	1,120,455	-
Interest income	5,102	2,460	5,102	2,460
Interest expenses	(5,164 )	(4,713 )	(2,633 )	(3,572 )
Other expenses	(472 )	(33 )	(2,466 )	(4 )
Total non-operating income (expenses)	1,034,681	(2,286 )	3,237,187	(1,116 )
Net income before income taxes	6,089,215	3,469,834	6,241,949	1,978,832
Income taxes	1,372,386	768,521	812,697	434,657
Net income attributable to China Internet Cafe Holdings Group, Inc.	4,716,829	\$ 2,701,313	\$ 5,429,252	\$ 1,544,175
Dividend on preferred stock	(101,978 )	-	(68,776 )	-
Net income attributable to China Internet Cafe Holdings Group, Inc. Common stockholders	4,614,851	2,701,313	5,360,476	1,544,175
Other comprehensive income				
Net income	\$ 4,716,829	2,701,313	5,429,252	1,544,175
Foreign currency translation	415,111	40,049	359,738	38,927
Net Comprehensive income	\$ 5,131,940	\$ 2,741,362	\$ 5,788,990	\$ 1,583,102
Earnings per share				



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- Basic	0.22	0.14	0.25	0.08
- Diluted	0.20	0.14	0.21	0.08
Weighted average common stock outstanding				
- Basic	20,854,258	19,000,000	21,124,967	19,000,000
- Diluted	23,877,252	19,000,000	25,399,670	19,000,000

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

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**CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For The Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$4,716,829	\$2,701,313
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Derivative financial instruments - day-one loss	0	-
Change in fair value of derivative financial instrument - preferred stock	(677,403 )	-
Change in fair value of derivative financial instrument- warrants	(357,812 )	-
Advisory fee	292,192	-
Depreciation	1,305,607	704,376
Amortization	18,386	5,799
Deferred tax assets	(64,556 )	-
Changes in operating assets and liabilities:		
Prepayment	(15,616 )	5,001
Rental deposit	(64,595 )	(21,334 )
Inventory	(76,246 )	(11,109 )
Accounts payable	24,275	22,165
Deferred revenue	1,357,008	(51,503 )
Payroll and payroll related liabilities	92,779	(7,293 )
Income and other taxes payable	670,417	249,699
Accrued expenses	241,006	17,200
Amount due to a shareholder	1,414,776	195,037
Net cash provided by operating activities	8,877,045	3,809,351
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,626,368 )	(1,292,087 )
Receipt of loan receivable due to termination of an investment agreement	2,449,629	-
Acquisition of cafes	-	(348,839 )
Net cash used in investing activities	(2,176,739 )	(1,640,926 )
Cash flows from financing activities		
Net proceeds from issuance of preferred stock and warrants	5,675,614	10,000
Issuance of shares for reverse merger	-	251,612
Compensation for reorganization	-	(129,032 )
Net cash flows provided by financing activities:	5,675,614	132,580
Effect of foreign currency translation on cash	211,398	20,635
Net increase in cash	12,587,318	2,321,640

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Cash - beginning of period	3,836,824	3,063,298
Cash - end of period	\$ 16,424,142	\$ 5,384,938

Cash paid during the period for:

Interest paid	\$ 5,164	\$ 2,383
Income taxes paid	\$ 942,480	\$ 333,927

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Transfer of equipment deposits paid in property and equipment	\$ 1,235,497	\$ -
Dividend payable on preferred stock	\$ 101,978	\$ -
Advisory fee	\$ 292,192	\$ -

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

**CHINA INTERNET CAFÉ HOLDINGS, GROUP, INC.**

**NOTES TO AUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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” or “China Internet Cafe”) was incorporated in the State of Nevada on March 14, 2006. The Company was a development company from incorporation to 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, China Internet Cafe completed a reverse acquisition transaction through a share exchange with Classic Bond Development Limited, a British Virgin Islands corporation (“Classic Bond”) and its shareholders, whereby we acquired 100% of the issued and outstanding capital stock of Classic Bond, in exchange for 19,000,000 shares of our common stock, which shares constituted 94% of our issued and outstanding shares on a fully-diluted basis, as of and immediately after the consummation of the reverse acquisition. As a result of the reverse acquisition, Classic Bond became our wholly owned subsidiary and the former shareholders of Classic Bond, became our controlling shareholders. The business, assets and liabilities did not change as a result of the reverse acquisition.

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 common stock.

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 fees of \$129,033 and interest expenses of \$6,053 related to the short-term loan for the payment of restructuring expenses. All of these expenses amounting to a total of \$435,086, which was recorded as reorganizational expenses in the 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 shares of 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, 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 \$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 the existing shareholders of Junlong Culture Communication Co., Ltd., a company controlled by China Internet Cafe (as explained herein) 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.

**Classic Bond Development Limited (“Classic Bond”)**

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

**Shenzhen Zhonghefangda Network Technology Co., Ltd. (“Zhonghefangda”)**

Zhonghefangda was incorporated in the PRC on June 10, 2010 with registered capital of \$129,032 (HK\$1 million). Zhonghefangda is engaged in the 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 was able to consolidate the assets, liabilities, and 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. Gou Dishan, Zhonghefangda and Junlong were deemed, until June 11, 2010, to be under the common control.

**Exclusive Management and Consulting Agreement**

On June 11, 2010, Zhonghefangda signed an 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 Junlong's 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 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 is deemed to control Junlong as a VIE and should be consolidated in the accompanying financial statements.

**Shenzhen Junlong Culture Communication Co., Ltd.**

Junlong is a Chinese enterprise organized in the PRC on December 26, 2003 in accordance with the Laws of the People's Republic of China with registered capital of \$0.136 million (Renminbi ("RMB") 1 million). In 2001, the Chinese government imposed higher capital and facility requirements for the establishment of internet cafes (RMB 10 million for regional internet cafe chains and RMB 50 million for national internet cafe chains). 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). Its capital verification process has been completed.

In 2005, Junlong obtained licenses to operate internet cafe chains from the Ministry of Culture, and opened their first internet cafe in April, 2006. We continued to open a total of 7 internet cafes in 2006, 5 internet cafes in 2007, 11 internet cafes in 2008, 5 internet cafes in 2009, 16 internet cafes in 2010 and 13 internet cafes opened during the first six months of 2011. In total, we own 57 internet cafes within the Longgang District of Shenzhen.

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## 2. Summary of Significant Accounting Policies

### (a) Basis of presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The functional currency is the Chinese Renminbi, however the accompanying condensed consolidated financial statements have been translated and presented in United States Dollars (\$).

It is management's opinion that the unaudited condensed consolidated financial statements include all adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company for the periods presented. All adjustments are of a normal recurring nature. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of operating results expected for the full year or future interim periods. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report of Form 10-K for the year ended December 31, 2010, filed on March 31, 2011 (the "Annual Report").

Results of operations for the interim periods are not indicative of annual results.

### (b) Principle of consolidation

The condensed consolidated financial statements include the accounts of China Internet Cafe, Classic Bond, Zhonghefangda and the Junlong. All significant intercompany balances and transactions have been eliminated in the consolidation. The condensed 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 cafe 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 cafe 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 six months ended June 30, 2011 and 2010, the commission income was \$111,640 and \$30,423, respe