

China Internet Cafe Holdings Group, Inc.
Form 10-K/A
August 20, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x1934

For the fiscal year ended December 31, 2011

or

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

For the transition period _____

Commission file number: 000-52832

CHINA INTERNET CAFÉ HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

Registrant's telephone number, including area code: **86-755- 89896008**

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 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 No

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.

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

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

Yes 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 June 30, 2011 was approximately \$6,732,958 (8,416,197 shares of common stock held by non-affiliates) based upon the closing price of \$0.80 per share of common stock as quoted by OTC Bulletin Board on June 30, 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 29, 2012 there are 21,308,247 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. 1 to Form 10-K (this “Amendment”) amends the Transition Report on Form 10-K/A for the year ended December 31, 2011, filed on March 30, 2012 (the “Original 10-K”) of China Internet Café Holdings Group, Inc. (the “Company”). Specifically, the amendments include:

- Revision to Note 15 to the Financial Statements and Item 9A. Controls and Procedures.
- Revision to the number of shares of issued and outstanding common stock and Consolidated Statements Of Stockholders' Equity

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 30, 2012. The Original 10-K has not been amended or updated to reflect events occurring after March 30, 2012, except as specifically set forth in this Amendment.

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PART II

Item 8. Financial Statements and Supplementary Data.

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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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 Cafe Holdings Group, Inc.

and Subsidiaries

We have audited the accompanying consolidated balance sheets of China Internet Cafe Holdings Group, Inc. and Subsidiaries as of December 31, 2011 and 2010, 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, 2011. China Internet Cafe Holdings Group, Inc. and Subsidiaries's 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 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 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 Cafe Holdings Group, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ EFP Rotenberg, LLP

EFP Rotenberg, LLP

Rochester, New York

March 30, 2012

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CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	\$ 19,629,680	\$ 3,836,824
Restricted cash	-	945,280
Loan receivable	-	2,419,916
Rental deposit	86,580	55,512
Equipment deposit	994,732	1,300,650
Inventory	212,607	180,582
Deferred tax assets	69,405	-
Total current assets	20,993,004	8,738,764
Property, plant and equipment, net	13,000,745	6,848,342
Intangible assets, net	161,083	191,087
Rental deposit-long term portion	314,736	235,509
Total assets	\$ 34,469,568	\$ 16,013,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term loan	\$ -	\$ 151,245
Accounts payable	100,480	69,373
Registration penalties payable	448,844	-
Deferred revenue	2,084,086	579,822
Payroll and payroll related liabilities	323,286	199,548
Income and other taxes payable	1,316,209	987,194
Accrued expenses	365,696	102,018
Amount due to a shareholder	2,135,218	465,741
Dividend payable on preferred stock	72,729	-
Derivative financial instrument - preferred stock	147,704	-
Derivative financial instrument - warrants	129,496	-
Total current liabilities	7,123,748	2,554,941
Commitments and contingencies (Note 20)		
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, 21,354,377 and 20,200,000 shares issued and outstanding as of December 31, 2011 and 2010, respectively)	212	202
Additional paid in capital	1,728,726	1,628,417
Statutory surplus reserves	718,744	718,744
Retained earnings	19,760,289	10,499,454

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Accumulated other comprehensive income	1,455,376	611,944
Total stockholders' equity	23,663,347	13,458,761
Total liabilities and stockholders' equity	\$ 34,469,568	\$ 16,013,702

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 Year Ended December 31,	
	2011	2010
Revenue	\$32,597,144	\$20,460,459
Cost of revenue	20,270,919	11,823,456
Gross profit	12,326,225	8,637,003
Operating Expenses		
General and administrative expenses	2,274,760	634,739
Total operating expenses	2,274,760	634,739
Income from operations	10,051,465	8,002,264
Non-operating income (expenses)		
Change in fair value of derivative financial instrument - preferred stock	1,457,090	-
Change in fair value of derivative financial instrument – warrants	783,290	-
Interest income	12,439	8,265
Interest expenses	(9,303)	(9,437)
Other expenses	(563)	(43)
Reorganizational expenses		(435,086)
Total non-operating income (expenses)	2,242,953	(436,301)
Income before income taxes	12,294,418	7,565,963
Income taxes	2,786,097	1,819,380
Net income	9,508,321	5,746,583
Dividend on preferred stock	(247,486)	-
Net income attributable to China Internet Cafe Holdings Group, Inc. common stockholders	\$9,260,835	\$5,746,583
Other comprehensive income		
Net income	\$9,508,321	\$5,746,583
Foreign currency translation	843,432	400,949
Total comprehensive income	\$10,351,753	\$6,147,532
Earnings per share		
- Basic	\$0.44	\$0.29
- Diluted	\$0.39	\$0.29
Weighted average common stock outstanding		
- Basic	21,025,803	19,601,644
- Diluted	24,691,507	19,601,644

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 STOCKHOLDERS' EQUITY**

	Common stock Number of shares	Amount	Additional paid-in capital	Statutory reserves	Retained Earnings	Accumulated other comprehensive income	Total Stockholders' Equity
Balance at December 31, 2008	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	19,000,000	190	1,373,484	718,744	4,752,871	210,995	7,056,284
Contributed capital by existing shareholders	-	-	251,612	-	-	-	251,612
Reorganization for reverse merger	1,200,000	12	3,321	-	-	-	3,333
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
Issuance of common stock	924,967	10	100,309	-	-	-	100,319
Preferred stock dividend	129,410	-	-	-	(247,486)	-	(247,486)
Net income for the year	-	-	-	-	9,508,321	-	9,508,321
Foreign currency translation difference	-	-	-	-	-	843,432	843,432
Balance at December 31, 2011	21,254,377	\$ 212	\$ 1,728,726	\$ 718,744	\$ 19,760,289	\$ 1,455,376	\$ 23,663,347

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

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 CASH FLOWS**

	For The Year Ended December 31,	
	2011	2010
Cash flows from operating activities		
Net income	\$9,508,321	\$5,746,583
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Change in fair value of derivative financial instrument - preferred stock	(1,457,090)	-
Change in fair value of derivative financial instrument- warrants	(783,290)	-
Advisory fee	450,000	-
Depreciation	2,948,401	1,664,405
Amortization	37,212	23,540
Deferred tax assets	(68,307)	-
Changes in operating assets and liabilities:		
Restricted cash	968,332	737,599
Prepayment	-	(2,360,317)
Rental deposit	(96,983)	(114,027)
Inventory	(24,259)	30,604
Accounts payable	29,718	31,592
Deferred revenue	1,457,156	(217,133)
Payroll and payroll related liabilities	113,758	69,171
Income and other taxes payable	284,120	432,880
Accrued expenses	704,897	52,936
Amount due to a shareholder	1,643,408	456,842
Net cash provided by operating activities	15,715,394	6,554,675
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,477,866)	(4,152,294)
Receipt of loan receivable due to termination of an investment agreement	2,478,929	-
Deposits paid for property, plant and equipment	(896,904)	(1,270,511)
Assets acquisition of cafes	-	(728,866)
Net cash used in investing activities	(5,895,841)	(6,151,671)
Cash flows from financing activities		
Net proceeds from issuance of preferred stock and warrants	5,675,614	-
Increase/(Decrease) from short term loan	(154,933)	-
Cash acquired from reverse merger	-	1,442
Capital contribution by shareholder	-	251,612
Net cash flows provided by financing activities:	5,520,681	253,054
Effect of foreign currency translation on cash	452,622	118,910
Net increase in cash	15,792,856	774,968

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Cash - beginning of year	3,836,824	3,061,856
Cash - end of year	\$19,629,680	\$3,836,824
Cash paid during the period for:		
Interest paid	\$9,303	\$9,437
Income taxes paid	\$2,775,996	\$1,630,711

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING
ACTIVITIES: