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. 1)

(Mark One)

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

For the quarterly period ended September 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.

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

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

#1707, Block A, Genzon Times Square
Longcheng Blvd, Centre City, Longgang District
Shenzhen, Guangdong Province
People's Republic of China 518172

(Address of principal executive offices) (Zip Code)

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 x 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 x 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 x

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

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 November 9, 2011, there are 21,200,507 shares of $0.00001 par value common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q (this "Amendment No. 1") amends the Quarterly Report on Form 10-Q for the period ended September 30, 2011 filed on November 21, 2011 (the "Original 10-Q") of China Internet Café Holdings Group, Inc. (the "Company").

For convenience, this Amendment No. 1 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 and Exchange Commission, we have re-considered our use of an enterprise value approach in determining the fair value of our derivative instruments. We have revised our accounting by using the quoted market price of the Company's common stock at each relevant date to determine the fair value of our derivative instruments. Our unaudited quarterly financial statements for the period ended September 30, 2011 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 disclosed the components of deferred tax assets and liabilities on a gross basis in note 9 Income Tax to the financial statements.

This Amendment No. 1 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 November 21, 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. 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

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 20,628,454	$ 3,836,824
Restricted cash	-	945,280
Loan receivable	-	2,419,916
Rental deposit	96,752	55,512
Equipment deposit	-	1,300,650
Prepayment	15,653	-
Inventory	201,724	180,582
Deferred advisory fee	56,986	-
Deferred tax assets	67,422	-
Total current assets	21,066,991	8,738,764
Property, plant and equipment, net	11,123,057	6,848,342
Intangible assets, net	169,569	191,087
Rental deposit-long term portion	270,376	235,509
Total assets	$ 32,629,993	$ 16,013,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term loan	$ 156,531	$ 151,245
Accounts payable	112,139	69,373
Deferred revenue	1,958,396	579,822
Payroll and payroll related liabilities	316,185	199,548
Income and other taxes payable	1,541,846	987,194
Accrued expenses	421,364	102,018
Amount due to a shareholder	1,995,338	465,741
Dividend payable on preferred stock	72,729	-
Derivative financial instrument - preferred stock	278,039	-
Derivative financial instrument - warrants	201,690	-
Total current liabilities	7,054,257	2,554,941
Commitments and contingencies (Note 13)		

Preferred stock ($0.00001 par value, 100,000,000 shares authorized, 4,274,703 shares issued and outstanding; preference in liquidation - $5,770,849 as of September 30, 2011	3,682,473	-
Stockholders' Equity:		
Common stock ($0.00001 par value, 100,000,000 shares authorized, 21,200,507 and 20,200,000 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively)	212	202
Additional paid in capital	1,655,947	1,628,417
Statutory surplus reserves	718,744	718,744
Retained earnings	18,210,062	10,499,454
Accumulated other comprehensive income	1,308,298	611,944
Total stockholders’ equity	21,893,263	13,458,761
Total liabilities and stockholders’ equity	$ 32,629,993	$ 16,013,702

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 INCOME AND COMPREHENSIVE INCOME

	For The Nine Months Ended September 30,		For The three Months Ended September 30,	
	2011	2010	2011	2010
Revenue	$23,722,727	$14,142,866	$8,608,066	$5,840,453
Cost of revenue	14,180,296	7,797,869	5,112,773	3,130,304
Gross profit	9,542,431	6,344,997	3,495,293	2,710,149
Operating Expenses				
General and administrative expenses	1,530,926	351,888	538,322	75,906
Reorganization expenses	-	435,086		435,086
Total operating expenses	1,530,926	786,974	538,322	510,992
Income from operations	8,011,505	5,558,023	2,956,971	2,199,157
Non-operating income (expenses)				
Change in fair value of derivative financial instrument - preferred stock	1,326,755	-	649,352	-
Change in fair value of derivative financial instrument - warrants	711,096	-	353,284	-
Interest income	12,055	4,287	6,953	1,827
Interest expenses	(7,826)	(7,115)	(2,662)	(2,402)
Other expenses	(552)	(43)	(80)	(10)
Total non-operating income (expenses)	2,041,528	(2,871)	1,006,847	(585)
Net income before income taxes	10,053,033	5,555,152	3,963,818	2,198,572
Income taxes	2,167,718	1,340,823	795,332	572,302
Net income attributable to China Internet Cafe Holdings Group, Inc.	7,885,315	4,214,329	3,168,486	1,626,270
Dividend on preferred stock	(174,707)	-	(72,729)	-
Net income attributable to China Internet Cafe Holdings Group, Inc. common stockholders	$7,710,608	$4,214,329	$3,095,757	$1,626,270
Other comprehensive income				
Net income	$7,885,315	$4,214,329	$3,168,486	$1,626,270
Foreign currency translation	696,354	229,549	281,243	209,872
Total comprehensive income	$8,581,669	$4,443,878	$3,449,729	$1,836,142
Earnings per share				

- Basic	$0.37	$0.22	$0.15	$0.08
- Diluted	$0.33	$0.22	$0.12	$0.08
Weighted average common stock outstanding				
- Basic	20,957,601	19,400,000	21,162,737	20,186,957
- Diluted	23,545,846	19,400,000	25,437,440	20,186,957

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 CASH FLOWS

	For The Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net income	$ 7,885,315	$ 4,214,329
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Derivative financial instruments - day-one loss	-	-
Change in fair value of derivative financial instrument - preferred stock	(1,326,755)	-
Change in fair value of derivative financial instrument- warrants	(711,096)	-
Advisory fee	393,014	-
Depreciation	2,111,933	1,161,497
Amortization	27,763	14,601
Deferred tax assets	(66,384)	-
Changes in operating assets and liabilities:		
Restricted cash	963,258	-
Prepayment	(15,412)	-
Rental deposit	(65,035)	(81,776)
Inventory	(14,602)	1,156
Accounts payable	41,601	45,374
Deferred revenue	1,337,394	(130,200)
Payroll and payroll related liabilities	107,974	27,431
Income and other taxes payable	512,138	442,125
Accrued expenses	312,290	82,094
Amount due to a shareholder	1,505,459	231,668
Net cash provided by operating activities	12,998,854	6,008,299
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,759,757)	(2,696,834)
Receipt of loan receivable due to termination of an investment agreement	2,465,939	-
Acquisition of cafes	-	(635,233)
Net cash used in investing activities	(2,293,818)	(3,332,067)
Cash flows from financing activities		
Net proceeds from issuance of preferred stock and warrants	5,675,614	-
Issuance of shares for reverse merger	-	251,612
Net proceeds from short term loan	-	300,000
Compensation for reorganization	-	1,442
Net cash flows provided by financing activities:	5,675,614	553,054
Effect of foreign currency translation on cash	410,979	117,906
Net increase in cash	16,791,630	3,347,192

Cash - beginning of period	3,836,824	3,061,856
Cash - end of period	$ 20,628,454	$ 6,409,048
Cash paid during the period for:		
Interest paid	$ 7,826	$ 7,115
Income taxes paid	$ 1,935,931	$ 1,051,472
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVTIES:		
Summary of Assets Acquired from Acquisitions:		
Net property and equipment	-	499,776
Other current assets	-	15,678
Intangible assets	-	207,964
Net assets acquired	-	723,418
Transfer of equipment deposits paid in property and equipment	$ 1,243,723	$ 83,811
Dividend payable on preferred stock	$ 72,729	$ -
Advisory fee	$ 393,014	$ -

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

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CHINA INTERNT CAFÉ HOLDINGS, GROUP, INC.

NOTES TO AUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 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 to 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 nine months of 2011. In total, we own 57 internet cafes within the Longgang District of Shenzhen.

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 nine months ended September 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 nine months ended September 30, 2011 and 2010, the commission income was $179,515 and $113,696, respectively, less than 1% of total revenue.

(e) Cost of revenue

Cost of revenue consists primarily of depreciation of each internet café's computer equipment and hardware and overhead associated with the internet cafes including rental payments, utilities, business taxes and surcharges. Our internet surfing business tax is 20% on gross revenue generated from our internet cafes. Our other surcharges are an education surcharge of 3%, city development surcharge of 1%, a culture development surcharge of 3%, and a snacks and drinks business tax of 5%. All surcharges are calculated on the basis of business tax amount.

(f) Credit risk

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

(g) Cash and cash equivalents

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

(h) Restricted cash

At September 30, 2011 and December 31, 2010, restricted cash of $0 and $945,280 (RMB 6,250,000), respectively, represented cash held by an escrow agent on behalf of the Company for registered capital and operating cash flow purposes of a new subsidiary company to be established in Anshun city, Guizhou Province.

(i) Inventory

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

(j) Fair Value of Financial Instruments

The Financial Accounting Standards Board (“FASB”) accounting standards require disclosing fair value to the extent practicable for financial instruments that are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

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

(k) Stock-Based Compensation

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

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

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

(l) Equipments deposits

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

(m) Property and equipment

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

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

Leasehold improvements mainly result from decoration expenses. All of our lease contracts state lease terms of 5 years and leasehold improvements are amortized over 5 years, which represents the shorter of useful life and lease term.

(n) Intangible Assets

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

Development cost of internal-use software is insignificant and has been recorded as expense in the period such cost occurs.

(o) Deferred Revenue

Deferred revenue represents unused balances of the prepaid amounts from the IC cards that are unused balance. The Outstanding customer balances are $1,958,396 and $579,822 as of September 30, 2011 and December 31, 2010, respectively, and are included in deferred revenue on the balance sheets. Management has evaluated the deferred revenue balance and has determined any potential revenue from the unused balance to be immaterial at the quarter ended September 30, 2011.

(p) Comprehensive income

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

(q) Income taxes

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

(r) Consolidation of Variable Interest Entities

According to the requirements of Statement of Financial Accounting Standards No. 810-10, “Variable interest Entities”, the Company has evaluated the economic relationships of its Zhonghefangda with Junlong and has determined that it is required to consolidate Zhonghefangda and Junlong pursuant to the rules of FASB ASC Topic 810-10. Therefore Junlong is considered to be a VIE, as defined by FASB ASC Topic 810-10, of which Classic Bond is the primary beneficiary as a result of its 100% ownership of Zhonghefangda. Classic Bond, as mentioned above, will absorb a majority of the economic risks and rewards of the VIEs being consolidated in the accompanying financial statements.

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

	September 30, 2011	December 31, 2010
Current assets and Long term rental deposit	$ 21,256,285	$ 8,968,000
Property, plant and equipment	11,018,866	6,848,342
Intangible assets	273,759	191,087
Total assets	32,548,911	16,007,431
Total liabilities	(11,269,333)	(2,182,851)
Net assets	$ 21,279,578	$ 13,824,580

(s) Foreign currency translation

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

The exchange rates used to translate amounts in RMB into USD for the purposes of preparing the financial statements were as follows (source: www.onanda.com):

	Sept 30, 2011	Sept 30, 2010
Quarter end RMB : USD exchange rate (closing buying rate)	6.3885	6.6781
Nine months average RMB : USD exchange rate (average ask rate)	6.4884	6.7983

	12/31/2010
Year end RMB : USD exchange rate (closing buying rate)	6.6118
Average yearly RMB : USD exchange rate (average ask rate)	6.7788

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

(t) Post-retirement and post-employment benefits

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

(u) Earnings per share (EPS)

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

There is a dilution factor related to dividend on preferred stock occurred during the year. See related details in note 16.

(v) Statutory surplus reserves(Appropriated retained earnings)

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

As of September 30, 2011, the statutory surplus reserves of the subsidiary already reached 50% of the registered capital of the subsidiary and the Company did not have any further allocation requirement.

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

(w) Recent Accounting Pronouncements

In December 2010, the FASB issued amended guidance to clarify the acquisition date that should be used for reporting pro-forma financial information for business combinations. If comparative financial statements are presented, the pro-forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been completed as of the beginning of the comparable prior annual reporting period. The amendments in this guidance became effective prospectively for business combinations for which the acquisition date is on or after January 1, 2011. The Company adopted this guidance on January 1, 2011 which had no impact in the consolidated financial results as the amendments relate only to additional disclosures.

In December 2010, the FASB issued amendments to the guidance on goodwill impairment testing. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In making that determination, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The amendments were effective January 1, 2011 and the Company adopted this guidance on January 1, 2011 which did not have a material impact in the Consolidated Financial Statements.

In January 2010, the FASB issued additional disclosure requirements for fair value measurements which the Company included in its interim and annual financial statements in 2010. Certain disclosure requirements relating to fair value measurements using significant unobservable inputs (Level 3) were deferred until January 1, 2011. These new requirements did not have an impact in the consolidated financial results as they relate only to additional disclosures.

3. Loan Receivable

Loans receivable consist of:

	September 30, 2011	December 31, 2010
Name of Payee: Mr. Long Weijun		
Terms: Interest free, unsecured and repayment date is February 28, 2011.	$ -	$ 2,419,916

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

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

4. Equipment Deposit

Equipment deposit consists of:

	September 30, 2011	December 31, 2010
Equipment deposit for the purchase of computers for 4 new internet cafes of which 3 were opened in March 2011 and 1 was opened in April, 2011	$ -	$ 1,300,650

5. Inventory

Inventory consists of:

	September 30, 2011	December 31, 2010
Purchased IC cards	$ 201,724	$ 180,582

There was no allowance made for obsolete or slow moving inventory as of September 30, 2011 and December 31, 2010.

6. Short Term Loan

The short-term loans due within one year as of September 30, 2011 and December 31, 2010 consist of the following:

Bank	Loan Period	Interest rate		September 30, 2011	December 31, 2010
China Construction Bank	November 15, 2010 to November 14, 2011	6.372	%	$ 156,531	$ 151,245

On November 15, 2010, the Company entered into a loan agreement with China Construction Bank for $154,727 (RMB 1,000,000), which was secured by director's guarantee. The annual interest rate is 6.372% and is due on November 14, 2011.

7. Income and Other Taxes Payable

Income and other taxes payable consist of the following:

	September 30, 2011	December 31, 2010
Business tax payable	$ 558,858	$ 420,236
Income tax	805,647	483,006
Withhold individual income tax payable	1,320	4,022
Other tax payable	176,021	79,930
Total	$ 1,541,846	$ 987,194

8. Amount Due To A Shareholder (Related party loan)

	September 30, 2011	December 31, 2010
Mr. Guo Dishan, a shareholder of the Company	$ 1,995,338	$ 465,741

The related party loan due to Mr. Guo Dishan is unsecured with no stated interest and payable on demand.

9. Income Tax

The Company's subsidiary incorporated in PRC is subject to PRC enterprises income tax at the applicable tax rates on the taxable income as reported in their Chinese statutory accounts in accordance with the relevant enterprises income tax laws. Junlong was charged a tax rate of 22% of its taxable income in 2010 and 24% in 2011. As approved by the relevant tax authority in the PRC, Junlong's income tax rates will be 25% for 2012 and thereafter.

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

	September 30, 2011 US$	December 31, 2010 US$
DTA:		
Deferred assets - accrued expenses	67,422	-
Deferred assets - NOL of US shell company	382,928	137,918
Total Deferred assets	450,350	137,918
DTL:		-
US shell company	-	-
Total Gross DTA (DTL)	450,350	137,918
Valuation allowance	(382,928)	(137,918)
Net WW deferred assets(liabilities)	67,422	-

The Company applied the provisions of ASC 740.10.50, "Accounting for Uncertainty in Income Taxes", which provides clarification related to the process associated with accounting for uncertain tax positions recognized in our financial statements. The Company classified all interest and penalties related to unrecognized tax benefits, if any, as a

component of income tax provisions. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of September 30, 2011 and through the financial statements issue date, the management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for the uncertain position in future. Our policy for recording interest and penalties associated with tax audits is to record such items as a component of income tax expense. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the nine months ended September 30, 2011 and 2010, respectively.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities and the major one is the China Tax Authority. The open tax year for examination in PRC is 10 years.

All of the Group's income before income taxes is from PRC sources. Actual income tax expense reported in the consolidated statements of operations and comprehensive income differ from the amounts computed by applying the PRC statutory income tax rate of 24% and 22% to income before income taxes for the nine months ended September 30, 2011 and 2010 for the followings reasons:

	2011	2010
Income before income taxes	$10,053,033	$5,555,152
Computed "expected" income tax expense at 24% and 22% in 2011 and 2010	$2,412,728	$1,222,133
Tax effect of net taxable timing differences	67,422	-
Effect of cumulative tax (gains)/losses	(312,432)	118,690
	$2,167,718	$1,340,823

Our policy for recording interest and penalties associated with audits is to record such items as a component of income tax expense. There were no interest and penalties recorded for the nine months ended September 30, 2011 and 2010.

10. Employee Benefits

The Company contributes to a state pension scheme organized by municipal and provincial governments with respect to its employees in PRC. The pension expense related to this plan is calculated at a range of 8% of the average monthly salary. The pension expense was $ 9,887 and $5,483 for the nine months ended September 30, 2011 and 2010, respectively. The pension expense was $3,588and $2,552 for the three months ended September 30, 2011 and 2010, respectively.

11. Stockholders' Equity

Common Stock

On July 2, 2010, the China Internet Cafe Holdings Group, Inc. ("China Internet Cafe"), entered into a share exchange transaction with Classic Bond Development Limited, a British Virgin Islands corporation ("Classic Bond"), and the shareholders of Classic Bond. Pursuant to the Share Exchange Agreement, China Internet Cafe acquired 100% of the issued and outstanding capital stock of Classic Bond in exchange for 19,000,000 newly issued shares of the Company's common stock, which represented approximately 94% of the 20,200,000 issued and outstanding shares of common

stock after the transaction and after the coincident cancellation of 4,973,600 shares of common stock held by the Company's former majority stockholder which have a net effect of increase of 1,200,000 shares. The business, assets and liabilities did not change as a result of the reverse acquisition.

As of September 30, 2011 and December 31, 2010, there are 21,200,507 and 20,000,000 shares of Common Stock issued and outstanding respectively.

Series A Preferred Stock

On February 16, 2011, the Company filed with the Secretary of State of Nevada a Certificate of Designation, Preferences and Rights for the 5% Series A Convertible Preferred Stock, par value $0.00001 per share (the "Series A Preferred Stock"), as an amendment to its Articles of Incorporation.

For each outstanding share of Series A Preferred Stock, dividends are payable quarterly, at the rate of 5% per annum ($0.675 per share), on or before each date that is thirty days following the last day of March, June, September, and December of each year, commencing September 30, 2011. Dividends on the Series A Preferred Stock accrue and are cumulative from and after the date of initial issuance.

Upon liquidation of the Company, holders of Series A Preferred Stock are entitled to be paid, prior to any distribution to any holders of common stock, or any other class or series of stock issued hereafter or junior to the Series A Preferred Stock, an amount equal to $1.35 per share plus the amount of any accrued but unpaid dividends thereon, as of the date of liquidation (the "Series A Liquidation Preference"). Until conversion, the Series A Preferred Stock has no voting rights other than with respect to matters that may adversely affect the rights of the holders of the Series A Preferred Stock.

Each share of Series A Preferred Stock may be converted at any time, at the option of the holder, into a number of fully paid and non-assessable shares of Common Stock equal to the quotient of (i) the Series A Liquidation Preference divided by (ii) the conversion price in effect as of the date of the Conversion Notice. The initial conversion price of the Series A Preferred Stock is $1.35 per share. The conversion price is subject to adjustment for standard anti-dilution events, including stock splits or similar adjustments. In addition, for a period of 12 months following the effective date of the Registration Statement required to be filed under the Registration Rights Agreement discussed below, in the event the Company issues or sells any additional shares of Common Stock or any securities convertible into or exchangeable for, directly or indirectly, Common Stock at a price per share less than the then-applicable Conversion Price or without consideration, then the Conversion Price upon each such issuance will be reduced to the price determined by multiplying the Conversion Price by a fraction: (1) the numerator of which is equal to the sum of (i) the number of shares of outstanding Common Stock immediately prior to the issuance of such additional shares of Common Stock plus (ii) the number of shares of Common Stock which the aggregate consideration for the total number of such additional shares of Common Stock so issued would purchase at a price per share equal to the outstanding Conversion Price in effect immediately prior to such issuance; and (2) the denominator of which is equal to the number of shares of outstanding Common Stock immediately after the issuance of such additional shares of Common Stock.

The Series A Preferred Stock is not subject to mandatory redemption (except on liquidation) but is redeemable in certain circumstances:

If, upon the Company's receipt of a Conversion Notice, the Company cannot issue shares of Common Stock registered for resale under the Registration Statement for any reason, including, without limitation, because the Company (i) does not have a sufficient number of shares of Common Stock authorized and available, (ii) is otherwise prohibited by applicable law or by the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Company or its securities from issuing all of the Common Stock which is to be issued to a holder of Series A Preferred Stock pursuant to a Conversion Notice or (iii) subsequent to the effective date of the Registration Statement, fails to have a sufficient number of shares of Common Stock registered for resale under the Registration Statement, then the Company shall issue as many shares of Common Stock as it is able to issue in accordance with such holder's Conversion Notice and with respect to the unconverted Series A Preferred Stock, the holder, solely at such holder's option, can require the Company to redeem the shares that cannot be converted at their Series A Liquidation Preference of $1.35 per share.

If an “Organic Change” occurs (defined as (i) a capital reorganization of the Company (other than by way of a stock split or combination of shares or stock dividends or distributions or similar events, or (ii) a merger or consolidation of the Company with or into another corporation where the holders of the Company’s outstanding voting securities prior to such merger or consolidation do not own over 50% of the outstanding voting securities of the merged or consolidated entity, immediately after such merger or consolidation, or (iii) the sale of all or substantially all of the Company’s properties or assets to any other person, the holders of the Series A Preferred Stock may request redemption at 110% of the Series A Liquidation Preference of $1.35 per share. Because of the possible redemption conditions, the Series A Preferred Stock is classified as mezzanine equity.

In addition to the holder's right to convert the Series A Preferred Stock at any time, provided that the Common Stock underlying the Series A Preferred Stock is registered under an effective registration statement or is available for resale under Rule 144, without limitation, all outstanding shares of the Series A Preferred Stock will automatically convert into shares of Common Stock (subject to a restriction that the holder may not convert if it would result in them holding in excess of 9.99% of the then issued and outstanding shares of Common Stock, unless they waive such restriction in writing at least 61 days prior) at the earlier to occur of (i) the 24 month anniversary of the Closing Date, or (ii) at such time that the volume-weighted average price of the Company's Common Stock is equal to or greater than $3.00 (as may be adjusted for any stock splits or combinations of the Common Stock) for a period of ten consecutive trading days and such Common Stock has an average daily trading volume, for ten consecutive trading days, equal to or greater than 50,000 shares.

As of September 30, 2011 and December 31, 2010, there were 4,274,703 and -0- shares of Series A Preferred Stock outstanding, which were issued on February 22, 2011.

12. Sale of Common Stock, Series A Preferred Stock and Warrants

Securities Purchase Agreement

On February 22, 2011 (the "Closing Date"), the Company completed a private placement (the "Offering") of 474,967 units at a purchase price of $13.50 per unit, each unit consisting of:(i) nine shares of the Company's Series A Preferred Stock, convertible on a one to one basis into nine shares of the Company's common stock; (ii) one share of Common Stock; (iii) two three-year Series A Warrants (the "Series A Warrants"), each exercisable for the purchase of one share of Common Stock, at an exercise price of $2.00 per share; and (iv) two three-year Series B Warrants (the "Series B Warrants"), each exercisable for the purchase of one share of Common Stock, at an exercise price of $3.00 per share. The Company received aggregate gross proceeds of $6,412,055. The Offering was conducted pursuant to a Securities Purchase Agreement (the "Agreement") between the Company and various accredited investors (the "Investors).

Because certain of the instruments issued in the Offering are derivative instruments which will be initially and continuously carried at fair value, we believe the aggregate proceeds received should be allocated following the principles implicit in the guidance at ASC 815-15-30-2. The proceeds are first allocated to those derivative instruments that will initially and continuously be carried at fair value. The remaining proceeds, if any, are then allocated between the non-derivative host contract and other non-derivative instruments on a relative fair value basis.

The Company reviewed the features of the Series A Preferred Stock, other than the conversion feature, and concluded that, on balance, the terms and features of the host contract should be considered to be more akin to a debt instrument. Accordingly, the embedded conversion option may be required to be bifurcated and accounted for as a derivative instrument unless it meets the exemption provided by ASC 815-10-15-74a.

The conversion price of the Series A Preferred Stock is subject to adjustment if the Company subsequently sells Common Stock at a lower price. Also, as described below for the Warrants, the conversion option is denominated in U.S. dollars, a currency other than the Company's functional currency. Accordingly, the embedded conversion option is not considered to be indexed only to the Company's common stock. In addition, the Company may be required to redeem the Series A Preferred Stock for cash if, on receipt of a conversion request, it is unable to issue shares registered for resale for any reason. In addition, the conversion price of the Series A Preferred Stock is subject to adjustment if the Company subsequently sells Common Stock at a lower price but there is no explicit limit on the number of shares that the Company may be required to issue. As a result of the foregoing, the exemption provided by ASC 815-10-15-74a is not available and the embedded conversion option has been bifurcated and accounted for as a derivative liability. Because the embedded conversion option has been bifurcated and accounted for as a derivative liability, no beneficial conversion option was required to be recognized.

Warrants

The Series A and Series B Warrants are exercisable at any time and from time to time at an exercise price of $2.00 and $3.00 per share, respectively, and expire on February 22, 2014. The holder may elect a cashless exercise of the Warrants beginning 12 months after the issuance date but only if the shares underlying the Warrants are not registered for sale.

The Warrants contain standard anti-dilution adjustments for stock splits and similar events but the exercise price is not otherwise subject to adjustment.

The Company may call the Series A and Series B Warrants for redemption at a redemption price of $0.01 per Warrant share if the shares underlying the Warrants are registered for sale and the volume-weighted average price of the Company's Common Stock is equal to or greater than $6.00 per share or $9.00 per share, respectively, for a period of ten consecutive trading days and such Common Stock has an average daily trading volume, for ten consecutive trading days, equal to or greater than 75,000 shares per day.

The Warrants are free-standing derivative instruments. Although the Company is a U.S. entity, the Company has no U.S. operations and all of its operations are conducted, through its subsidiaries, in the People's Republic of China. Accordingly, because the Company is fully invested in China and those operations in China represent the Company's only source of future revenues or income, the Company concluded that its functional currency should be considered to be the RMB. As a result, because the Warrants are denominated in U.S. dollars, they are denominated in a currency different from the Company's functional currency and therefore, in accordance with the guidance at ASC 815-40-15-7I, the Warrants are not considered to be indexed only to the Company's common stock. As a result, the exemption provided by ASC 815-10-15-74a is not available and the Warrants are recorded as a derivative liability.

Registration Rights Agreement

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

The required registration statement was filed by the required due date.

Placement Agent Fees

In connection with the Offering, the Company paid its placement agents (i) a cash fee of 7% of the gross proceeds from sale of the Units, (ii) a cash management fee of 1% and (iii) a 0.5% non-accountable expense allowance. In addition to these placement agent cash fees aggregating $545,025, the Company paid $181,415 in legal fees and other expense related to the Offering. After payment of the placement agent cash fees and legal and other expenses, the Company received net proceeds of $5,675,614.

In addition, the placement agents received warrants to purchase such number of securities equal to 9% of the aggregate number of shares of common stock issuable in connection with the Units (the “Placement Agent Warrants”). The Placement Agent Warrants expire after three years and are exercisable at the following prices: (i) 427,740 Warrants - $1.35 per share (ii) 85,494 Series A Warrants - $2.00 per share and (iii) 85,494 Series B Warrants - $3.00 per share. The terms of the Warrants, including anti-dilution protection for stock splits and similar events, are similar to the Warrants issued to the Investors, except that the 427,740 Warrants do not permit the Company to call the Warrants.

Securities Escrow Agreement

In connection with the Offering, we also entered into a Securities Escrow Agreement with the Investors and Mr. Dishan Guo (the “Stockholder”), the Company’s chairman and principal stockholder, pursuant to which the Stockholder placed in escrow one share of our Common Stock for each $10 of Units sold to the Investors, equal to 641,205 shares of Common Stock (the “Escrow Shares”). The escrow agreement establishes a performance threshold for the Company based on net income (as defined and subject to certain non-cash adjustments) for the year ending December 31, 2011 of $10,000,000. If the Company achieves 95% or more of the performance threshold, the shares will be returned to the Stockholder. If the Company’s net income is less than $9,500,000, then the shares will be delivered to the Investors in the amount of 10% of the escrow shares for each full percentage point by which such performance threshold was not

achieved, up to a maximum of the 641,205 shares placed in escrow.

The Stockholder’s agreement to place the shares in escrow was undertaken in his capacity as a major stockholder of the Company. In accordance with the guidance at ASC 718-10-S99-2, the Company does not believe the potential return of the shares to the Stockholder is compensatory because such return is not contingent on his continued employment with the Company. The Investors who may receive shares under the escrow arrangement have no relationship with the Company other than in their capacity as shareholders.

The shares are outstanding and are included in the weighted average shares outstanding for purposes of computing basic earnings per share.

Lock-up Agreement

On the Closing Date, the Company entered into a lock-up agreement (the "Lock-Up Agreement") with the Stockholder whereby the Stockholder is prohibited from selling our securities that they directly or indirectly own (the "Lock-Up Shares") until nine months after the Registration Statement is declared effective (the "Lock-Up Period"). In addition, the Stockholder further agreed that during the 12 months immediately following the Lock-Up Period, the Stockholder will not offer, sell, contract to sell, assign or transfer more than 0.833% of the Lock-Up Shares during each calendar month following the Lock-Up Period, other than engaging in a transfer in a private sale of the Lock-Up Shares if the transferee agrees in writing to be bound by and subject to the terms of the Lock-Up Agreement.

Accounting for Derivative Instruments

The Warrants and Placement Agent Warrants are derivative instruments as defined in ASC 815-10-15-83. ASC 815-10-15-74 provides that a contract that would otherwise meet the definition of a derivative instrument but that is both (a) indexed to a company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. FASB ASC 815-40-15 and 815-40-25 provide guidance for determining whether those two criteria are met. For purposes of this evaluation, the Company has concluded that the Company's functional currency is the Renminbi. Because the Warrants are denominated in U.S. Dollars, FASB ASC 815-40-15-7I provides that they are not considered to be indexed only to the Company's Common Stock. Accordingly, the exemption in FASB ASC 815-10-15-74 is not available and the Warrants are classified as a derivative instrument liability.

The Series A Preferred Stock is a hybrid financial instrument that embodies the risks and rewards typically associated with both equity and debt instruments. Accordingly, we are required to evaluate the features of this contract to determine its nature as either an equity-type contract or a debt-type contract. We determined that the Series A Preferred Stock is generally more akin to a debt-type contract, principally due to its potential redemption requirements, its fixed rate quarterly dividend requirement and its lack of voting rights. This determination is subjective. However, in complying with the guidance provided in FASB ASC 815, we concluded, based upon the preponderance and weight of all terms, conditions and features of the host contract, that the Series A Preferred Stock was more akin to a debt instrument for purposes of considering the clear and close relationship of the embedded derivative features to the host contract. ASC 815 requires bifurcation when the embedded derivative features and the host contract have risks that are not clearly and closely related. Certain exemptions to this rule, such as that for conventional convertible instruments that are convertible into a fixed number of shares, were not available to us because the conversion price of the Series A Preferred Stock is not fixed and will be adjusted if the Company sells shares of Common Stock at a price lower than the conversion price. Also, because the conversion price of the Series A Preferred Stock is denominated in U.S. Dollars, as for the warrants discussed above, the embedded conversion option is not considered to be indexed only to the Company's Common Stock. In addition, the Company may be required to redeem the Series A Preferred Stock if it is unable to deliver registered shares on conversion. Accordingly, the exemption in FASB ASC 815-10-15-74 is not available and the embedded conversion option, along with certain other

features of the Series A Preferred Stock that have risks of equity, required bifurcation and classification in liabilities as a compound embedded derivative financial instrument.

Derivative financial instruments are initially measured at their fair value and are then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income.

Valuation of Derivative Instruments

The Warrants and the Placement Agent Warrants were initially valued, using a binomial model, at $649,821 and $262,966, respectively, based on the quoted market price of the Common Stock of $1.00 per share, a term equal to the remaining life of the Warrants, an expected dividend yield of 0%, a risk-free interest rate of 1.32% based on constant maturity rates published by the U.S. Federal Reserve applicable to the remaining life of the Warrants and estimated volatility of 85%, based on a review of the historical volatility of publicly-traded companies considered by management to be comparable to the Company.

The compound embedded derivative financial instrument related to the Series A Preferred Stock, consisting primarily of the embedded conversion option, was initially valued, using a binomial model, at $1,604,794, based on the quoted market price of the Common Stock of $1.00, a term equal to the expected life of the conversion option, an expected dividend yield of 0%, a risk-free interest rate of 0.78% based on constant maturity rates published by the U.S. Federal Reserve applicable to the expected life and estimated volatility of 85%.

After allocating a portion of the proceeds received to the fair value of the Warrants and the embedded derivative instrument in the Series A Preferred Stock, the remaining proceeds were allocated to the Common Stock component of the Units and the carrying value of the Series A Preferred Stock host contract.

At September 30, 2011, the Warrants, the Placement Agent Warrants and the embedded derivative instrument related to the Series A Preferred Stock were re-valued at $135,867, $65,823 and $278,039, respectively, using a binomial model, based on the quoted market price of $0.50, a term equal to the remaining life of the instruments, an expected dividend yield of 0%, risk-free interest rates of 0.18% to 0.32% based on constant maturity rates published by the U.S. Federal Reserve applicable to the remaining life of the instruments and estimated volatility of 85%. The aggregate change in the fair value of the derivative liabilities between February 18, 2011 and June 30, 2011 of $2,037,851 has been debited to income.

Accounting for Series A Preferred Stock

$3,682,473 of the proceeds received was allocated to the carrying value of the Series A Preferred Stock host contract. The 4,274,703 shares of Series A Preferred Stock have a liquidation value of $5,770,849. Because the Series A Preferred Stock has conditions for its redemption that are outside our control, it is classified outside of Stockholders' Equity, in the mezzanine section of our balance sheet, in accordance with ASC 480-10-S99-3A. Because the Series A Preferred Stock is not currently redeemable and the Company currently believes that it is not probable that it will become redeemable, no adjustment of the carrying value of the Series A Preferred Stock has been recognized. If it becomes probable that the Series A Preferred Stock will be redeemed, it will be adjusted to its redemption value.

Placement Agent Fees

The placement agent cash fees of $545,025, other expenses related to the sale of the Units of $181,415 and the initial fair value of the Placement Agent Warrants of $262,966, aggregating $989,406, have been charged to additional paid-in capital.

Advisory Fees

On November 22, 2010, the Company entered into a 12 month Advisory Agreement with an affiliate of its placement agent, under which the affiliate agreed to render on-going financial advisory and investment banking services to the Company. As compensation for its services, the Company agreed to pay a monthly fee of $10,000, payable on the first day of each month after the completion of a Transaction, as defined in the agreement between the Company and its placement agent. Payment of these fees commenced on March 1, 2011, following completion of the sale of the Units.

The Company also agreed to place in escrow for issuance to the affiliate a total of 400,000 shares of Common Stock, with 200,000 shares to be released following the completion of a Transaction, 100,000 shares to be released six months after the completion of a Transaction and 100,000 shares to be released 12 months after the completion of a Transaction. In accordance with ASC 505-50-25-7, the Company concluded that the value of the shares should be measured at the date the Transaction was completed because the shares are effectively fully vested as of that date and non-forfeitable and the agreement does not provide for any further specific performance criteria to be met. The Company valued the shares issued at $1.00 per share (based on the quoted market price), resulting in compensation expense for the services rendered and to be rendered of $400,000. The expense related to the services provided and to be provided was recognized over the period from November 22, 2010, the date from which services commenced under the agreement, to the one year anniversary, when the agreement expired. For the nine months ended September 30, 2011, expense $299,178 was recognized.

In addition to the above fees, the Company issued 50,000 shares to its legal counsel, in consideration for their introducing the Company to the placement agent. The cost of these shares, which were valued at $1.00 per share (determined as described above), $50,000 was fully recognized.

Fair Value Considerations

As required by FASB ASC 820, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments that are measured at fair value on a recurring basis under FASB ASC 815 are all measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value using Level 3 inputs during the nine months ended September 30, 2012:

	Preferred – Embedded Derivative	Warrants	Total
Beginning balance, December 31, 2010	$-	$-	$-
Issued – February 22, 2011	1,604,794	912,786	2,517,580
Fair value adjustments	1,326,755	711,096	2,037,851
Ending balance, September 30, 2011	$278,039	$201,690	$479,729

Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, valuation techniques are sensitive to changes in the estimated fair value of our common stock and our estimates of its volatility. Because derivative financial instruments are initially and

subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

13. Commitments and Contingencies

Operating Leases

In the normal course of business, the Company leases office space and internet cafes under operating lease agreements, which expire through 2016. The Company rents internet cafes venues and office space, primarily for regional sales administration offices that are conducive to administrative operations. The operating lease agreements generally contain renewal options that may be exercised in the Company's discretion after the completion of the base rental terms. In addition, many of the leases provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis.

As of September 30, 2011, the Company was obligated under operating leases requiring minimum rentals as follows:

Fiscal year	
Remainder of 2011	$499,527
2012	1,678,110
2013	1,369,896
2014	1,271,876
2015	590,396
2016	23,440
	$5,433,245

During the three and nine months ended September 30, 2011, rent expenses amounted to $538,854 and $1,473,919, respectively, of which $504,608 and $1,367,160 was recorded as cost of sales, respectively.

During the three and nine months ended September 30, 2010, rent expenses amounted to $308,482 and $765,392, respectively, of which $306,243 and $748,723 was recorded as cost of sales, respectively.

14. Concentrations

The Company did not have any customer constituting greater than 10% of net sales for the nine months ended September 30, 2011 and 2010.

At September 30, 2011 and December 2010, there was one supplier of consignment snacks and drinks in the amount of $111,825 and $67,224, respectively, which accounted for 99.7% and 97% of the Company's accounts payable.

15. Operating Risk and Uncertainties

Interest rate risk

The interest rates and terms of repayment of bank and other borrowings are disclosed in Note 6. Other financial assets and liabilities do not have material interest rate risk.

Foreign currency risk

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

Company's operations are substantially in foreign countries

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

The Chinese government began tightening its regulation of internet cafes in 2001. In particular, a large number of unlicensed internet cafes have been closed. In addition, the Chinese government has imposed higher capital and facility requirements for the establishment of internet cafes (RMB 10,000,000 for regional internet cafe chains and RMB 50,000,000 for national internet cafe chains). Furthermore, the Chinese government's policy, which encourages the development of a limited number of national and regional internet cafe chains and discourages the establishment of independent internet cafes, may slow down the growth of internet cafes. Recently, the Ministry of Culture, together with other government authorities, issued a joint notice suspending the issuance of new internet cafe chain licenses. Any intensified government regulation of internet cafes could restrict our ability to maintain and expand our operations.

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

16. Earnings per Share

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including convertible preferred stock, stock options and warrants, in the weighted average number of common shares outstanding for the period, if dilutive. The numerators and denominators used in the computations of basic and dilutive earnings per share are presented in the following table:

	For The 3 Months Ended Sept 30,		For The 9 Months Ended Sept 30,	
	2011	2010	2011	2010
BASIC				
Numerator for basic earnings per share attributable to the Company's common stockholders:				
Net income	$ 3,168,486	$ 1,626,270	$ 7,885,315	$ 4,214,329
Dividend on preferred stock	(72,729)	-	(174,707)	-
Net income used in computing basic earnings per share	$ 3,095,757	$ 1,626,270	$ 7,710,608	$ 4,214,329
Basic earnings per share	$ 0.15	$ 0.08	$ 0.37	$ 0.22
Basic weighted average shares outstanding	21,162,737	20,186,957	20,957,601	19,400,000

	For The 3 Months Ended Sept 30,		For The 9 Months Ended Sept 30,	
	2011	2010	2011	2010
DILUTED				
Numerator for diluted earnings per share attributable to the Company's common stockholders:				
Net income	$ 3,095,757	$ 1,626,270	$ 7,710,608	$ 4,214,329
Dividend on preferred stock	72,729	-	174,707	-
Net income used in computing diluted earnings per share	$ 3,168,486	$ 1,626,270	$ 7,885,315	$ 4,214,329
Diluted earnings per share	$ 0.12	$ 0.08	$ 0.33	$ 0.22
Weighted average outstanding shares of common stock	21,162,737	20,186,957	20,957,601	19,000,000
Preferred stock and contingently issuable shares	4,274,703	-	2,588,245	-
Warrants and contingently issuable shares	-	-	-	-
Diluted weighted average shares outstanding	25,437,440	20,186,957	23,545,846	19,000,000

Potential common shares outstanding as of September 30:				
Series A preferred stock	4,274,703	-	4,274,703	-
Warrants	2,498,326	-	2,498,326	-
	6,773,029	-	6,773,029	-

For the three months ended September 30, 2011 and 2010, the number of securities was 2,498,326 and 0, respectively, and was not included in the diluted EPS because the effect would have been anti-dilutive.

For the nine months ended September 30, 2011 and 2010, the number of securities was 2,498,326 and 0, respectively, and was not included in the diluted EPS because the effect would have been anti-dilutive.

17. Segment Information

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

18. Restatement of previously issued unaudited quarterly financial information

The unaudited quarterly financial statements for the nine months ended September 30, 2011 have been restated to correct the errors in the valuation of derivative instruments. The quoted market prices to value the derivative instruments were used to replace an enterprise value approach even though the limited trading of the Company’s stock.

The effect of restatements to correct the errors referred impact on the quarterly consolidated balance sheets as of September 30, 2011, the consolidated statement of income and comprehensive income and the consolidated statement of cash flows for the nine months ended September 30, 2011 are presented below.

The following restatements impact the quarterly financial statements:

- Decreased advisory fees expenses $445,895 and $116,953 for the nine and three months ended September 30, 2011, respectively, and derivative financial instruments – day one loss approximately $1.12 million.
- Increased gain of derivative financial instrument in preferred stock and warrants approximately $0.83 million and $0.40 million, respectively, for the nine months ended September 30, 2011
- Increased gain of derivative financial instrument in preferred stock and warrants approximately $0.45 million and $0.22 million, respectively, for the three months ended September 30, 2011
- Increased net income of approximately $2.8 million and $0.8 million for the six and three months ended June 30, 2011
- Basic and diluted earnings per shares increased $0.13 and $0.13 per share for the nine months ended September 30, 2011
- Basic and diluted earnings per shares increased $0.04 and $0.05 per share for the three months ended September 30, 2011
- Fair market value of financial instruments in preferred stock and warrants decreased approximately $4.63 million and $2.42 million, respectively
- Additional paid in capital increased approximately $0.48 million and retained earnings increased approximately $2.81million

· Preferred stock increased approximately $3.68 million from $-0-

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011 As restated	September 30, 2011 As previously reported	Changes
ASSETS			
Current assets:			
Cash	$ 20,628,454	$ 20,628,454	$-
Rental deposit	96,752	96,752	-
Prepayment	15,653	15,653	-
Inventory	201,724	201,724	-
Deferred advisory fee	56,986	123,091	(66,105)
Deferred tax assets	67,422	67,422	
Total current assets	21,066,991	21,133,096	-
Property, plant and equipment, net	11,123,057	11,123,057	$-
Intangible assets, net	169,569	169,569	-
Rental deposit-long term portion	270,376	270,376	-
Total assets	$ 32,629,993	$ 32,696,098	$(66,105)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short term loan	$ 156,531	$ 156,531	-
Accounts payable	112,139	112,139	-
Deferred revenue	1,958,396	1,958,396	-
Payroll and payroll related liabilities	316,185	316,185	-
Income and other taxes payable	1,541,846	1,541,846	-
Accrued expenses	421,364	421,364	-
Amount due to a shareholder	1,995,338	1,995,338	-
Dividend payable on preferred stock	72,729	72,729	-
Derivative financial instrument - preferred stock	278,039	4,905,728	(4,627,689)
Derivative financial instrument - warrants	201,690	2,619,033	(2,417,343)
Total current liabilities	7,054,257	14,099,289	(7,045,032)
Commitments and contingencies (Note 17)			
Preferred stock ($0.00001 par value, 100,000,000 shares authorized, 4,274,703 shares issued and outstanding; preference in liquidation - $5,770,849 as of September 30, 2011	3,682,473	-	3,682,473
Stockholders' Equity:			
Common stock ($0.00001 par value, 100,000,000 shares authorized, 21,200,507 shares issued and outstanding as of September 30, 2011	212	212	-
Additional paid in capital	1,655,947	1,171,027	484,920
Statutory surplus reserves	718,744	718,744	-
Retained earnings	18,210,062	15,398,528	2,811,534

Accumulated other comprehensive income	1,308,298	1,308,298	-
Total stockholders' equity	21,893,263	18,596,809	3,296,454
Total liabilities and stockholders' equity	$ 32,629,993	$ 32,696,098	$(66,105)

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

UNAUDITED

	For The Nine Months Ended September 30, 2011			For The three Months Ended September 30, 2011		
	As restated	As previously reported	Changes	As restated	As previously reported	Changes
Revenue	$ 23,722,727	$ 23,722,727	$ -	$ 8,608,066	$ 8,608,066	$ -
Cost of revenue	14,180,296	14,180,296	-	5,112,773	5,112,773	-
Gross profit	9,542,431	9,542,431	-	3,495,293	3,495,293	-
Operating Expenses						
General and administrative expenses	1,530,926	1,986,821	(455,895)	538,322	655,275	(116,953)
Total operating expenses	1,530,926	1,986,821	(455,895)	538,322	655,275	(116,953)
Income from operations	8,011,505	7,555,610	455,895	2,956,971	2,840,018	116,953
Non-operating income (expenses)						
Derivative financial instruments - day-one loss	-	(1,120,072)	1,120,072	-	-	-
Change in fair value of derivative financial instrument - preferred stock	1,326,755	492,755	834,000	649,352	203,607	445,745
Change in fair value of derivative financial instrument - warrants	711,096	309,529	401,567	353,284	129,125	224,159
Interest income	12,055	12,055	-	6,953	6,953	-
Interest expenses	(7,826)	(7,826)	-	(2,662)	(2,662)	-
Other expenses	(552)	(552)	-	(80)	(80)	-
Total non-operating income (expenses)	2,041,528	(314,111)	2,355,639	1,006,847	336,943	669,904
Net income before income taxes	10,053,033	7,241,499	2,811,534	3,963,818	3,176,961	786,857
Income taxes	2,167,718	2,167,718	-	795,332	795,332	-
Net income attributable to China Internet Cafe Holdings Group, Inc.	7,885,315	5,073,781	2,811,534	3,168,486	2,381,629	786,857
Dividend on preferred stock	(174,707)	(174,707)	-	(72,729)	(72,729)	-
	$ 7,710,608	$ 4,899,074	$ 2,811,534	$ 3,095,757	$ 2,308,900	$ 786,857

Net income attributable to China Internet Cafe Holdings Group, Inc. common stockholders						
Other comprehensive income						
Net income	$7,885,315	5,073,781	$2,811,534	$3,168,486	$2,381,629	$786,857
Foreign currency translation	696,354	696,354	-	281,243	281,243	
Total comprehensive income	$8,581,669	$5,770,135	$2,811,534	$3,449,729	$2,662,872	$786,857
Earnings per share						
- Basic	$0.37	0.23	$0.13	$0.15	$0.11	$0.04
- Diluted	$0.33	0.23	$0.10	$0.12	$0.10	$0.02
Weighted average common stock outstanding						
- Basic	20,957,601	20,944,826	12,775	21,162,737	21,124,967	37,770
- Diluted	23,545,846	20,944,826	2,601,020	25,437,440	21,124,967	37,770

CHINA INTERNET CAFE HOLDINGS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	For The Nine Months Ended September 30, 2011		
	As restated	As previously reported	Changes
Cash flows from operating activities			
Net income	$7,885,315	$5,073,781	$2,811,534
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Derivative financial instruments - day-one loss	-	1,120,072	(1,120,072)
Change in fair value of derivative financial instrument - preferred stock	(1,326,755)	(492,755)	(834,000)
Change in fair value of derivative financial instrument- warrants	(711,096)	(309,529)	(401,567)
Advisory fee	393,014	848,909	(455,895)
Depreciation	2,111,933	2,111,933	-
Amortization	27,763	27,763	-
Deferred tax assets	(66,384)	(66,384)	-
Changes in operating assets and liabilities:			
Restricted cash	963,258	963,258	-
Prepayment	(15,412)	(15,412)	-
Rental deposit	(65,035)	(65,035)	-
Inventory	(14,602)	(14,602)	-
Accounts payable	41,601	41,601	-
Deferred revenue	1,337,394	1,337,394	-
Payroll and payroll related liabilities	107,974	107,974	-
Income and other taxes payable	512,138	512,138	-
Accrued expenses	312,290	312,290	-
Amount due to a shareholder	1,505,459	1,505,459	-
Net cash provided by operating activities	12,998,854	12,998,854	-
Cash flows from investing activities			
Acquisition of property, plant and equipment	(4,759,757)	(4,759,757)	-
Receipt of loan receivable due to termination of an investment agreement	2,465,939	2,465,939	-
Net cash used in investing activities	(2,293,818)	(2,293,818)	-
Cash flows from financing activities			
Net proceeds from issuance of preferred stock and warrants	5,675,614	5,675,614	-
Net cash flows provided by financing activities:	5,675,614	5,675,614	-
Effect of foreign currency translation on cash	410,979	410,979	-

Net increase in cash	16,791,630	16,791,630	-
Cash - beginning of period	3,836,824	3,836,824	-
Cash - end of period	$20,628,454	$20,628,454	$-
Cash paid during the period for:			
Interest paid	$7,826	$7,826	$-
Income taxes paid	$1,935,931	$1,935,931	$-
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVTIES:			
Transfer of equipment deposits paid in property and equipment	$1,243,723	$1,243,723	$-
Dividend payable on preferred stock	$72,729	$72,729	$-
Advisory fee	$393,014	$848,909	$(455,895)

19. Subsequent Event

As of September 30, 2011, the Company has evaluated subsequent events for potential recognition and disclosure through the date of the financial statement issuance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and result of operations contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of the other reports we file with the Securities and Exchange Commission. Actual results may differ materially from those contained in any forward-looking statements.

Overview

Prior to the consummation of the share exchange transaction described below, we were a shell company with nominal operations and nominal assets. Currently, operating through our wholly owned subsidiary, Junlong Culture Communication Co. Ltd. ("Junlong"), we operate the largest Internet café chain in Shenzhen, Guangdong, China, consisting of 57 locations in high traffic areas. Our focus is on providing modern Internet café facilities that offer a one-stop entertainment and media venue for customers, typically mature students and migrant workers, at prices affordable for those demographics. Although our locations do sell snacks, drinks, and game access cards, more than 95% of our revenue comes directly from selling Internet access time to our computers.

We expect our future growth to be driven by a number of factors, including:

1. Our ability to expand our client base through promotion of our services;
2. Our ability to integrate cafés we acquired in the previous years; and
3. Our ability to identify and integrate JV target companies in the coming year.

For the three months ended September 30, 2011, our revenue was approximately $8.61 million and our net profit was approximately $2.45 million. This represented an increase of 47% and 50%, respectively, from the revenue of approximately $4.58 million and net profit of approximately $1.63 million of three months ended September 30, 2010. As of September 30, 2011, we have 700 employees.

Because our recent operations have been limited to the operations of Junlong, the discussion below of our performance is based upon the financial statements of Junlong for the three months ended September 30, 2011 and 2010.

We believe that the following factors will continue to affect our financial performance:

- **Improved Disposable Income**. As the Shenzhen government increases the minimum wage, migrant workers, who are our major customers, will have more disposable income. We expect the inflow of migrant workers to continue to contribute to our revenue growth.

- Continued Internet Café Use. Our business may be adversely affected by increased home computer and home console ownerships. However, the home computer and console penetration rate is relatively low in China as compared to that of the United States and Europe. In addition, we believe internet cafés appeal to younger demographics because the cafés are a social gathering area for them. We expect the preference will continue and provide sustainable business.

- Customer Loyalty. As we continue to expand our operations, developing and maintaining customer loyalty will be critical to continued revenue growth.

- Expansion into South Western Provinces. The Company currently holds an internet café chain license. In order to meet the basic requirements to acquire a national internet chain license, the Company's primary objective is to establish or acquire at least 20 internet cafés in two provinces other than Guangdong Province. The Company has conducted research in the South Western provinces including Chongqing, Sichuan, Guizhou, Yunnan, Hunan and Hubei and is focusing on these areas for future internet café establishment and acquisition purposes. The Company believes the national license is imperative for the development of a nationwide market.

Recent Developments and Reorganizations

On July 2, 2010, we completed a reverse acquisition transaction ("Reverse Acquisition") through a share exchange with Classic Bond Development Limited, a BVI company, ("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, $0.00001 par value (the "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 stockholders.

Upon the closing of the Reverse Acquisition, Xuezheng Yuan, our sole director and officer, submitted a resignation letter pursuant to which he resigned from all offices that he held with immediate effect and from his position as our sole director effective August 13, 2010. Also upon the closing of the Reverse Acquisition, our Board of Directors increased its size from one to five members and appointed Dishan Guo, Zhenquan Guo, Lei Li, Wenbin An and Lizong Wang to fill the vacancies created by the resignation of Xuezheng Yuan. Mr. Dishan Guo's appointment became effective upon closing of the Reverse Acquisition, while the remaining appointments became effective on August 13, 2010. In addition, upon the closing of the Reverse Acquisition, our executive officers were replaced by the Classic Bond executive officers as discussed below.

For accounting purposes, the share exchange transaction was treated as a reverse acquisition, with Classic Bond as the acquirer and China Internet Café Holdings Group, Inc. as the acquired party.

On January 20, 2011, we filed with the Nevada Secretary of State an amendment to our Amended and Restated Articles of Incorporation to give effect to a name change from “China Unitech Group, Inc.” to “China Internet Café Holdings Group, Inc.” The Amended and Restated Articles of Incorporation were approved by our Board of Directors on July 30, 2010 and were approved by a stockholder holding 59.45% of our outstanding Common Stock by written consent on July 30, 2010.

On February 22, 2011(the “Closing Date”), in connection with a security purchase agreement between the Company and certain investors (the “Investors”), we closed a private placement (the “Offering”) of approximately $6.4 million from offering a total of 474,967 units (the “Units”) at a purchase price of $13.50 per Unit, each consisting of:(i) nine shares of the Company’s Preferred Shares, convertible on a one to one basis into nine shares of the Company’s Common Stock; (ii) one share of Common Stock; (iii) two three-year Series A Warrants, each exercisable for the purchase of one share of Common Stock, at an exercise price of $2.00 per share; and (iv) two three-year Series B Warrants, each exercisable for the purchase of one share of Common Stock at an exercise price of $3.00 per share.

As a condition to the Offering, we agreed to grant certain registration rights to the Investors pursuant to a Registration Rights Agreement dated February 22, 2011. We agreed to register for resale with the Securities and Exchange Commission (i) the shares of Common Stock issuable upon conversion of the Preferred Shares (4,274,703); (ii) the Common Shares (474,967); (iii) the shares of Common Stock issuable upon exercise of the Warrants (2,498,326); and (iv) any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing.

From January through August of this year, we have opened 13 internet cafés. As a result, we currently own 57 internet cafés within the city of Shenzhen in Guangdong Province, PRC.

Results of Operations for the three months ended September 30, 2011

The following tables set forth key components of our results of operations for the periods indicated, in dollars and as a percentage of revenue.

The following sets forth certain information of the Company's income statement for the three months ended September 30, 2011 and 2010.

	For The three Months Ended September 30, 2011		2010		Amount change	% change
		As percentage		As percentage		
Revenue	$8,608,066	100 %	$5,840,453	100 %	2,767,613	47 %
Cost of revenue	5,112,773	59 %	3,130,304	54 %	1,982,469	63 %
Gross profit	3,495,293	41 %	2,710,149	46 %	785,144	29 %
Operating Expenses						
General and administrative expenses	538,322	6 %	75,906	1 %	462,416	609 %
Reorganizational expenses	-		435,086	7 %	(435,086)	-100 %
Total operating expenses	538,322	6 %	510,992	9 %	27,330	5 %
Income from operations	2,956,971	34 %	2,199,157	38 %	757,814	34 %
Non-operating income (expenses)						
Derivative financial instruments - day-one loss	-					
Change in fair value of derivative financial instrument - preferred stock	649,352	8 %	-	-	649,352	100 %
Change in fair value of derivative financial instrument - warrants	353,284	4 %	-	-	353,284	100 %
Interest income	6,953	0 %	1,827	0 %	5,126	281 %
Interest expenses	(2,662)	0 %	(2,402)	0 %	(260)	11 %
Other expenses	(80)	0 %	(10)	0 %	(70)	700 %
Total non-operating income (expenses)	1,006,847	12 %	(585)	0 %	1,007,432	-172211 %
Net income before income taxes	3,963,818	46 %	2,198,572	38 %	1,765,246	80 %
Income taxes	795,332	9 %	572,302	10 %	223,030	39 %
Net income attributable to China Internet Cafe Holdings Group, Inc.	$3,168,486	37 %	$1,626,270	28 %	1,542,216	95 %
Dividend on preferred stock	(72,729)	-1 %	-	-	(72,729)	100 %

Net income attributable to China Internet Cafe Holdings Group, Inc. Common stockholders	3,095,757	36	%	1,626,270	28	%	1,469,487	90	%
Other comprehensive income									
Net income	3,168,486	37	%	1,626,270	28	%	1,542,216	95	%
Foreign currency translation	281,243	3	%	209,872	4	%	71,371	34	%
Net Comprehensive income	$3,449,729	40	%	$1,836,142	31	%	1,613,587	88	%

Comparison of Three Months Ended September 30, 2011 and 2010

Revenue. Our revenue is primarily generated from sales of prepaid IC cards. Sales revenue increased by approximately $2.8 million, or 47%, to $8.6 million for the three months ended September 30, 2011 from $5.8 million for the same period in 2010. The increase was mainly due to the revenue generated by the new cafés opened in 2011. Management expects this trend to continue in the fourth quarter of 2011 as we continue to focus on organic growth within Shenzhen while simultaneously pursuing options for expansion through establishment and acquisition in other provinces.

Cost of Revenue. Our cost of sales is primarily composed of depreciation and amortization, salary, rent, utility business tax and surcharge. Our cost of sales increased approximately $2.0 million, or 63%, to approximately $5.1 million for the period ended September 30, 2011 from approximately $3.1 million during the same period in 2010. The increase was mainly attributable to increased labor cost and taxes in 2011 as compared to the same period in 2010. During 2011, the increased business tax was a direct result of the higher cost generated from the business. We expect this trend to continue in 2011 as we continue to expand our revenue base. In addition, we expect to slightly increase our average employee salary as the Shenzhen Government moves forward with its plan to increase the basic local income level.

Gross Profit. Our gross profit is equal to the difference between our sales revenue and our cost of sales. Our gross profit increased by approximately $0.8 million, or 29%, to approximately $3.5 million for the three months ended September 30, 2011 from approximately $2.7 million for the same period in 2010. Gross profit as a percentage of sales was 41% for the three month ended September 30, 2011, as compared to 46% during the same period in 2010. The slight decrease of our gross profit margin was mainly attributable to the increase in salary, depreciation and other costs as compared to the same period in 2010. Management expects margins to remain relatively unchanged in the fourth quarter of 2011 as other cost drivers increase together with the revenue growth.

Operating Expenses. Our administrative expenses consist of the costs associated with staff and support personnel who manage our business activities. Our administrative expenses increased by approximately $0.46 million, or 609%, to approximately $0.54 million for the three months ended September 30, 2011 from approximately $0.08 million for the same period in 2010. The increase was mainly attributable to the advisory, legal, investor relations and audit fees incurred as a publicly traded company. We expect that our operating expenses will increase because we intend to implement a slight increase in salaries in the fourth quarter of 2011 due to the adjustment of the basic income level by the Shenzhen Government.

Non-operating Income. Our other income increased by approximately $1.01 million from approximately $585 non-operating expense, to $1.01 million non-operating income for the three months ended September 30, 2011 compared to the same period in 2010. In the third quarter of fiscal year 2011, we incurred income from derivative financial instruments of almost $0.332 million stemming from the Offering conducted in February 2011.

Income before Income Taxes. Income before income taxes increased by approximately $1.77 million, or 80%, to $3.96 million for the three months ended September 30, 2011 from approximately $2.20 million for the same period in 2010. The increase of income before income tax was mainly attributable to the business expansion.

Income Taxes. Our income taxes increased by almost $0.22 million during the three months ended September 30, 2011 to approximately $0.80 million from approximately $0.57 million during the same period in 2010. The primary reasons for the increase of income taxes was the higher taxable income generated by the opening of new internet cafés and an increase in tax rate.

Net Income. Our net income increased by approximately $1.54 million, or 95%, to approximately $3.17 million during the three months ended September 30, 2011 from approximately $1.63 million during the same period in 2010 as a result of the factors described above. We expect to generate higher net profit after the expansion of our business in the fourth quarter of 2011.

Results of Operations for the nine months ended September 30, 2011

The following tables set forth key components of our results of operations for the periods indicated, in dollars and as a percentage of revenue.

The following sets forth certain information of the Company's income statement for the nine months ended September 30, 2011 and 2010.

	For The Nine Months Ended September 30, 2011		2010		Amount change	% change
		As percentage		As percentage		
Revenue	$23,722,727	100 %	$14,142,866	100 %	9,579,861	68 %
Cost of revenue	14,180,296	60 %	7,797,869	55 %	6,382,427	82 %
Gross profit	9,542,431	40 %	6,344,997	45 %	3,197,434	50 %
Operating Expenses						
General and administrative expenses	1,530,926	6 %	351,888	2 %	1,179,038	335 %
Reorganizational expenses	-		435,086	3 %	(435,086)	-100 %
Total operating expenses	1,530,926	6 %	786,974	6 %	743,952	95 %
Income from operations	8,011,505	34 %	5,558,023	39 %	2,453,482	44 %
Non-operating income (expenses)						
Derivative financial instruments - day-one loss	0	0 %	-	-	0	100 %
Change in fair value of derivative financial instrument - preferred stock	1,326,755	6 %	-	-	1,326,755	100 %
Change in fair value of derivative financial instrument - warrants	711,096	3 %	-	-	711,096	100 %
Interest income	12,055	0 %	4,287	0 %	7,768	181 %
Interest expenses	(7,826)	0 %	(7,115)	0 %	(711)	10 %
Other expenses	(552)	0 %	(43)	0 %	(509)	1184 %
Total non-operating income (expenses)	2,041,528	9 %	(2,871)	0 %	2,044,399	-71209 %
Net income before income taxes	10,053,033	42 %	5,555,152	39 %	4,497,881	81 %
Income taxes	2,167,718	9 %	1,340,823	9 %	826,895	62 %
Net income attributable to China Internet Cafe Holdings Group, Inc.	7,885,315	33 %	$4,214,329	30 %	3,670,986	87 %
Dividend on preferred stock	(174,707)	-1 %	-	-	(174,707)	100 %

Net income attributable to China Internet Cafe Holdings Group, Inc. Common stockholders	7,710,608	33	%	4,214,329	30	%	3,496,279	83	%
Other comprehensive income									
Net income	$7,885,315	33	%	4,214,329	30	%	3,670,986	87	%
Foreign currency translation	696,354	3	%	229,549	2	%	466,805	203	%
Net Comprehensive income	$8,581,669	36	%	$4,443,878	31	%	4,137,791	93	%

Comparison of Nine months Ended September 30, 2011 and 2010

Revenue. Our revenue is primarily generated from sales of prepaid IC cards. Sales revenue increased by approximately $9.6 million, or 68%, to $23.7 million for the nine months ended September 30, 2011 from $14.1 million for the same period in 2010. The increase was mainly due to the revenue generated by the new cafés opened in the year of 2011. Management expects this trend to continue in the fourth quarter of 2011 as we continue to focus on organic growth within Shenzhen while simultaneously pursuing options for expansion through establishment and acquisition in other provinces.

Cost of Revenue. Our cost of sales is primarily composed of depreciation and amortization, salary, rent, utility business tax and surcharge. Our cost of sales increased approximately $6.4 million, or 82%, to approximately $14.2 million for the period ended September 30, 2011 from approximately $7.80 million during the same period in 2010. The increase was mainly attributable to increased labor cost and taxes in 2011 as compared to the same period in 2010. During 2011, the increased business tax was a direct cause of the higher costs generated by the business. We expect this trend to continue in 2011 as we continue to expand our revenue base. In addition, we expect that our operating expenses will increase because we intend to implement a slight increase in salaries in the fourth quarter of 2011 due to the adjustment of the basic income level by the Shenzhen Government.

Gross Profit. Our gross profit is equal to the difference between our sales revenue and our cost of sales. Our gross profit increased by approximately $3.2 million, or 50%, to approximately $9.5 million for the nine months ended September 30, 2011 from approximately $6.3 million for the same period in 2010. Gross profit as a percentage of sales was 40% for the nine months ended September 30, 2011, as compared to 45% during the same period in 2010. The slight decrease of our gross profit margin was mainly attributable to the increase in salary, depreciation, and other costs as compared to the same period in 2010. Management expects margins to remain relatively unchanged in the fourth quarter of 2011 as other cost drivers increase together with the revenue growth.

Operating Expenses. Our administrative expenses consist of the costs associated with staff and support personnel who manage our business activities. Our administrative expenses increased by approximately $1.18 million, or 335%, to approximately $1.53 million for the nine months ended September 30, 2011 from approximately $0.35 million for the same period in 2010. The increase was mainly attributable to the Offering, which included an advisory fee in the form of Common Stock expensed to an affiliate of the placement agent retained to assist the Company with its strategic development and to assist the company conduct the Offering, legal fees to Sichenzia Ross Friedman Ference LLP, and related expenses generally incurred as a publicly traded company. We expect that our operating expenses will increase because we intend to implement a slight increase in salaries in 2011 due to the adjustment of the basic income level by the Shenzhen Government.

Non-operating income (expenses). Our other expenses increased by approximately $2.04 million, to $2.04 for the nine months ended September 30, 2011 from expenses approximately $2,871 for the same period in 2010. In the first three

quarters of 2011, we incurred expenses in the derivative financial instruments of almost $0.318 million from the Offering conducted in February 2011.

Income before Income Taxes. Income before income taxes increased by approximately $4.50 million, or 81%, to $10.05 million for the nine months ended September 30, 2011 from approximately $5.56 million for the same period in 2010. The increase of income before income tax was mainly attributable to the expansion of our business during the first three quarters of 2011.

Income Taxes. Our income taxes increased by almost $0.83 million during the nine months ended September 30, 2011 to approximately $2.17 million from approximately $1.34 million during the same period in 2010. The primary reasons for the increase of income taxes was the higher taxable income generated by the opening of new internet cafés and an increase in tax rate.

Net Income. Our net income increased by approximately $3.67 million to approximately $7.89 million during the nine months ended September 30, 2011 from approximately $4.21 million during the same period in 2010 as a result of the factors described above. We expect to generate higher net profit after the expansion of our business in the fourth quarter of 2011.

Liquidity and Capital Resources

As of September 30, 2011, we had cash and cash equivalents of approximately $16.42 million and restricted cash of approximately $0.97 million. The following table provides detailed information about our net cash flow for each financial statement period presented in this report.

Cash Flow

	Nine months Ended	
	September 30,	
	2011	2010
Net cash provided by operating activities	$12,998,854	$6,008,299
Net cash provided by investing activities	(2,293,818)	(3,332,067)
Net cash provided by financing activities	5,675,614	553,054
Effect of Foreign currency translation on cash and cash equivalents	410,979	117,906
Net cash flows	16,791,630	3,347,192

Operating Activities

Net cash provided by operating activities was approximately $13.0 million for the nine months ended September 30, 2011, as compared to $6.0 million of net cash provided by operating activities for the same period in 2010. The change was mainly attributable to the change in fair value of derivative financial instruments, deferred revenue, and an amount due to a director. The Company has relied on advances from a director to pay certain public company expenses. Going forward, management intends to pay these expenses using our proceeds from the Offering.

Investing Activities

Net cash used in investing activities was $2.3 million for the nine months ended September 30, 2011, as compared to $3.3 million net cash used in investing activities for the same period in 2010. The change was mainly attributable to the acquisition of property, plant and equipment, as well as the return of a prepayment made to Yunnan Province due to the cancellation of the Company’s plans to establish a subsidiary in Kunming City.

Financing Activities

Net cash provided by financing activities was approximately $5.68 million for the nine months ended September 30, 2011, as compared to $0.55 million for the same period in 2010. The increase in net cash provided by financing activities was mainly due to the Offering conducted in February 2010.

Obligations under Material Contracts

We are party to a loan agreement with the China Construction Bank Shenzhen Branch entered into in October 2010 for a loan of RMB 1 million (approximately $154,727).

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operations. Critical accounting policies are those that are most important to the portrayal of our financial conditions and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.

Revenue recognition

Internet café members purchase prepaid IC cards, which include stored value that will be deducted based on time usage of computers at the internet café. Revenues derived from the prepaid IC cards at the internet café are recognized when services are provided. This is based upon usage of computer time at the internet café. 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 amounting to 20% of the value of the on-line gaming cards, snacks and drinks is recognized at the time the items are sold to customers.

Cost of goods sold

Cost of goods sold consists primarily of depreciation of each internet café's computer equipment and hardware and overhead associated with the internet cafés including rental payments, utilities, business taxes and surcharges. Our internet surfing business tax is 20% on gross revenue generated from our internet cafés. Our other surcharges are an education surcharge of 3%, city development surcharge of 1%, a culture development surcharge of 3%, and a snacks and drinks business tax of 5%. All surcharges are calculated on the basis of business tax amount.

Property, plant and equipment

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

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

Leasehold improvements mainly result from decoration expenses. All of our lease contracts state lease terms of 5 years and leasehold improvements are amortized over 5 years, which represents the shorter of useful life and lease term.

Deferred Revenue

Deferred revenue represents unused balances of the prepaid amounts from the IC cards that are unused balance. The Outstanding customer balances are $1,964,584 and $579,822 as at September 30, 2011 and December 31, 2010, respectively, and are included in deferred revenue on the balance sheets. Management has evaluated the deferred revenue balance and has determined any potential revenue from the unused balance to be immaterial as of the quarter ended September 30, 2011.

Comprehensive income

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

Income taxes

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

Foreign currency translation

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

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

	2011	2010
Year end RMB : USD exchange rate	6.4630	6.8060
Nine months average RMB : USD exchange rate	6.4884	6.8164

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

Recently issued accounting pronouncements

Accounting Standards Codification

In June 2009, the FASB issued a standard that established the FASB Accounting Standards Codification (the "ASC"), which effectively amended the hierarchy of U.S. generally accepted accounting principles ("GAAP") and established only two levels of GAAP, authoritative and non-authoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the ASC became non-authoritative. The ASC was intended to provide access to the authoritative guidance related to a particular topic in one place. New guidance issued subsequent to June 30, 2009 will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We adopted and applied the provisions of the ASC for the Company's fiscal year ended December 31, 2009, and have eliminated references to pre-ASC accounting standards throughout the financial statements. The adoption of the ASC did not have a material impact on the Company's financial statements.

In January 2010, the FASB expanded the disclosure requirements for fair value measurements relating to the transfers in and out of Level 2 measurements and amended the disclosure for the Level 3 activity reconciliation to be presented on a gross basis. In addition, valuation techniques and inputs should be disclosed for both Levels 2 and 3 recurring and nonrecurring measurements. The new requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the Level 3 activity reconciliation which are effective for fiscal years beginning after December 15, 2010. The Company adopted the new disclosure requirements on January 1, 2010 except for the disclosure related to the Level 3 reconciliation, which will be adopted on January 1, 2011. The adoption will not have an impact on its consolidated financial condition, results of operations or cash flows

In July 2010, the FASB issued Accounting Standard Update ("ASU") 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This ASU amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Except for the expanded disclosure requirements, the adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company’s management, including Dishan Guo, the Company’s Chief Executive Officer, and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) for the nine months ended June 30, 2011. Based upon that evaluation, our management concluded that the Company’s disclosure controls and procedures were not effective for the nine months ended September 30, 2011 as a result of the material weaknesses identified in our internal control over financial reporting.

Specifically, our management identified certain matters involving internal control and our operations that considered to be material weaknesses. As defined in the Exchange Act, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified by our management for the nine months ended September 30, 2011, is described below:

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

As a result of the material weakness identified above, our internal control over financial reporting was not effective for the nine months ended September 30, 2011.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during our first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

Item 1A. Risk Factors.

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	Title of Document
31.1	Certification of the Principal Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document**
101.SCH	XBRL Schema Document**
101.CAL	XBRL Calculation Linkbase Document**
101.LAB	XBRL Label Linkbase Document **
101.PRE	XBRL Presentation Linkbase Document**
101.DEF	XBRL Definition Linkbase Document**

* The Exhibits attached to this Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

** Attached as Exhibit 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text. The XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

SIGNATURES

In accordance with the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHINA INTERNET CAFE HOLDINGS

GROUP, INC.

Date: June 14, 2012

/s/ Dishan Guo
Dishan Guo
Chief Executive Officer, President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer)

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