



ChinaNet Online Holdings Reports Third Quarter and First Nine Months 2019 Unaudited Financial Results

November 14, 2019

BEIJING, Nov. 15, 2019 (GLOBE NEWSWIRE) -- ChinaNet Online Holdings, Inc. (Nasdaq:CNET) ("ChinaNet" or the "Company"), a pioneering data-analysis platform in China harnessing blockchain as well as digital advertising and marketing technologies to serve SMEs and the franchise chain industry, today announced its unaudited financial results for the third quarter and first nine months of 2019.

Recent Developments

On September 25, 2019, the Company closed the first half of a private placement with a select group of investors (the "Investors") in accordance with the Securities Purchase Agreement, originally entered into by the Company and Investors on August 7, 2019. In connection with the closing, the Company issued 1,608,430 shares of common stock (the "Shares") in consideration for approximately \$2.4 million, representing half of the total \$4.8 million worth of Shares to be disbursed under the aforementioned Securities Purchase Agreement. The Company sold each Share to Investors at \$1.4927 per Share and conducted the private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Regulation S promulgated thereunder.

On October 14, 2019, the Company announced the appointment of Centurion ZD CPA & Co. ("CZD") on October 7, 2019, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019. CZD replaced the Company's previous independent registered public accounting firm Marcum Bernstein & Pinchuk LLP ("MarcumBP"), which the Company dismissed on October 7, 2019. The change of the Company's independent registered public accounting firm was approved by the Audit Committee of ChinaNet's Board of Directors.

On October 28, 2019, the Company closed the second half of a private placement with a select group of investors (the "Investors") in accordance with the Securities Purchase Agreement, originally entered into by the Company and Investors on August 7, 2019. In connection with the closing, the Company issued 1,608,430 shares of common stock (the "Shares") in consideration for approximately \$2.4 million, representing half of the total \$4.8 million worth of Shares to be disbursed under the aforementioned Securities Purchase Agreement. Pursuant to the Securities Purchase Agreement, the Company totally issued 3,216,860 shares of its common stock in consideration for approximately \$4.8 million. The Company sold each Share to Investors at \$1.4927 per Share and conducted the private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Regulation S promulgated thereunder.

"Despite the challenging macro headwinds and evolving industry landscape, we continued to stay the course and maintain alignment with our long-term growth strategies," commented Mr. Handong Cheng, Chairman, President, and Chief Executive Officer of ChinaNet. "During the quarter, we actively adjusted our search engine marketing business by refining our customer payment requirements, bolstering our management process for accounts receivables, and actively engaging with our key partners in dialogues, we made significant headway towards improving our access to search engine resources. We also stepped up investments to enhance the effectiveness of our sales lead generation capabilities. Notably, these investments enabled us to improve both the accuracy of ads on the Company's ad portals and boost customer satisfaction. Going forward, we will continue to prudently manage and refine our search engine marketing services business and advertising business, both of which we believe will continue to serve as meaningful growth drivers going forward.

In addition, the successful execution of the private placement from strategic investors has provided ChinaNet with the necessary components to execute its growth strategies and fully capitalize on the coming opportunities for expansion. The combination of our strategic investors' commercial and technological resources will further enable us to penetrate both domestic and international markets while cultivating synergies across business lines. In addition, this capital injection will also shore up our position against the current macro challenges and bolster our investment capabilities in turn, further enabling us to develop new revenue streams through prudent investment. Looking ahead, we are confident that our ability to integrate our industry leadership with strategic partner resources will supercharge our ability to capture the emerging growth opportunities in both domestic and international markets."

Third Quarter 2019 Financial Results

TOTAL REVENUES

Total revenues for the third quarter of 2019 were \$15.5 million compared to \$17.0 million in the corresponding period of 2018. This decrease was primarily caused by reduced revenues generated from the distribution of search engine marketing services for key search engines in the third quarter of 2019.

Revenues generated from the distribution of rights to use search engine marketing services provided by key search engines decreased to \$11.6 million in the third quarter of 2019 from \$14.5 million in the corresponding period of 2018. Since the second quarter of 2019, the Company's key suppliers have tightened their credit policies, thus increasing the amount of working capital required to maintain the same volume of search engine resources as in the corresponding period of 2018. However, in response to this credit policy change, the Company has started to require its customers to pay more in advance, strengthened its management process for account receivables, and actively engaged in negotiations with its key suppliers for more favorable credit policies to improve the situation.

Internet advertising revenues for the third quarter of 2019 increased by 57.5% to \$3.9 million from \$2.5 million in the corresponding period of 2018. Such growth was attributable to additional investments made towards increasing the effectiveness of the Company's sales lead generation capabilities. Notably, such investments helped to both improve the effectiveness of ads on the Company's ad portals while also increasing customer satisfaction in turn.

COST OF REVENUES AND GROSS PROFIT

Cost of revenues decreased to \$14.6 million in the third quarter of 2019 from \$16.6 million in the corresponding period of 2018. This decrease was primarily due to the decrease in costs associated with the distribution of search engine marketing services from key search engines, which was in line

with the decrease in the related revenues during the quarter.

Gross profit in the third quarter of 2019 was \$0.89 million, compared to \$0.39 million in the corresponding period of 2018. Gross margin improved to 5.8% in the third quarter of 2019 from 2.3% in the corresponding period of 2018.

OPERATING LOSS

Operating expenses decreased to \$1.2 million in the third quarter of 2019 from \$3.7 million in the corresponding period of 2018. As a percentage of total revenues, operating expenses reduced to 7.5% in the third quarter of 2019 from 22.0% in the corresponding period of 2018.

Sales and marketing expenses in the third quarter of 2019 decreased to \$0.11 million from \$0.24 million in the corresponding period of 2018. This decrease was primarily attributable to the Company's successful execution of cost control initiatives and the subsequent decrease in staff salary and benefit expenses as well as other general departmental expenses.

General and administrative expenses in the third quarter of 2019 decreased to \$0.82 million from \$1.74 million in the corresponding period of 2018. The reduction in general and administrative expenses was primarily due to decrease in allowance for doubtful accounts provided and the Company's optimization of its cost structures as well as decreases to professional service expenses, salary and benefit expenses, and other general office expenses.

Research and development expenses in the third quarter of 2019 decreased to \$0.24 million from \$0.26 million in the corresponding period of 2018.

In the third quarter of 2018, the Company incurred a \$1.5 million impairment loss in intangible assets. No such impairment loss was recognized by the Company in the third fiscal quarter of 2019.

As a result, operating loss in the third quarter of 2019 narrowed significantly to \$0.28 million from \$3.4 million in the corresponding period of 2018.

NET LOSS

Net loss attributable to ChinaNet Online Holdings, Inc. was \$0.39 million in the third quarter of 2019, compared to \$3.0 million in the corresponding period of 2018.

BALANCE SHEET

As of September 30, 2019, the Company had cash and cash equivalents of \$0.81 million, compared to \$3.7 million as of December 31, 2018. Advances from customers grew to \$5.1 million as of September 30, 2019, increasing significantly from \$1.1 million as of December 31, 2018.

First Nine Months 2019 Financial Results

For the first nine months of 2019, total revenues were \$39.5 million, compared to \$47.8 million in the same period of 2018. Internet advertising revenues for the first half of 2019 increased by 27.8% to \$9.4 million from \$7.3 million in the corresponding period of 2018. The growth of revenues generated through internet advertising services was attributable to the same reasons that led to a quarterly increase.

Gross profit for the first nine months of 2019 was \$1.7 million, compared to \$2.0 million in the same period of 2018. Gross margin for the first nine months of 2019 improved to 4.3% from 4.1% in the same period of 2018.

Operating expenses for the first nine months of 2019 decreased to \$3.9 million from \$15.1 million in the same period of 2018. As a percentage of total revenues, operating expenses for the first nine months of 2019 reduced significantly to 10.0% from 31.5% in the same period of 2018.

Sales and marketing expenses for the first nine months of 2019 decreased to \$0.46 million from \$1.1 million in the same period of 2018. General and administrative expenses for the first nine months of 2019 decreased to \$2.9 million from \$4.6 million in the same period of 2018. Research and development expenses for the first nine months of 2019 decreased to \$0.60 million from \$0.72 million in the same period of 2018.

Net loss attributable to ChinaNet Online Holdings, Inc. for the first nine months of 2019 narrowed to \$1.9 million from \$12.9 million in the same period of 2018 as a result of significantly reduced operating expenses.

About ChinaNet Online Holdings, Inc.

ChinaNet Online Holdings, Inc., a parent company of ChinaNet Online Media Group Ltd., incorporated in the BVI (ChinaNet), is an integrated online advertising, precision marketing and data-analysis and management services platform. ChinaNet provides prescriptive analysis for its clients to improve business outcomes and to create more efficient enterprises. The Company leverages an optimization framework, provided by its comprehensive data-analysis infrastructure, to blend data, mathematical, and computational sciences into an outcome management platform for which it monetizes on a per client basis. ChinaNet uniquely optimizes and prescribes its clients decision making processes based on its proprietary ecosystem. For more information, visit www.chinanet-online.com.

Safe Harbor Statement

This release contains certain "forward-looking statements" relating to the business of ChinaNet Online Holdings, Inc., which can be identified by the use of forward-looking terminology such as "believes," "expects," "anticipates," "estimates" or similar expressions. Such forward-looking statements involve known and unknown risks and uncertainties, including business uncertainties relating to government regulation of our industry, market demand, reliance on key personnel, future capital requirements, competition in general and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. Certain of these risks and uncertainties are or will be described in greater detail in our filings with the Securities and Exchange Commission. These forward-looking statements are based on ChinaNet's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting ChinaNet will be those anticipated by ChinaNet. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond the control of the Company) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by such forward-looking statements. ChinaNet undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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CHINANET ONLINE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except for number of shares and per share data)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2019 (US \$) (Unaudited)	2018 (US \$) (Unaudited)	2019 (US \$) (Unaudited)	2018 (US \$) (Unaudited)
Revenues				
From unrelated parties	\$ 39,025	\$ 47,822	\$ 15,113	\$ 17,042
From a related party	503	-	395	-
Total revenues	39,528	47,822	15,508	17,042
Cost of revenues	37,828	45,860	14,616	16,649
Gross profit	1,700	1,962	892	393
Operating expenses				
Sales and marketing expenses	461	1,083	111	239
General and administrative expenses	2,875	4,580	817	1,738
Research and development expenses	599	722	239	264
Impairment on intangible assets	-	3,380	-	1,502
Impairment on goodwill	-	5,289	-	-
Total operating expenses	3,935	15,054	1,167	3,743
Loss from operations	(2,235)	(13,092)	(275)	(3,350)
Other income (expenses)				
Impairment on long-term investments	-	(460)	-	-
Interest expense, net	(33)	(25)	(10)	(6)
Other expenses	(6)	(30)	(2)	(2)
Change in fair value of warrant liabilities	351	1,449	(120)	501
Total other income/(expenses)	312	934	(132)	493
Loss before income tax benefit/(expense) and noncontrolling interests	(1,923)	(12,158)	(407)	(2,857)
Income tax benefit/(expenses)	10	(805)	16	(116)
Net loss	(1,913)	(12,963)	(391)	(2,973)
Net loss attributable to noncontrolling interests	8	75	3	20
Net loss attributable to ChinaNet Online Holdings, Inc.	\$ (1,905)	\$ (12,888)	\$ (388)	\$ (2,953)
Net loss	\$ (1,913)	\$ (12,963)	\$ (391)	\$ (2,973)
Foreign currency translation gain/(loss)	97	24	73	(36)
Comprehensive loss	\$ (1,816)	\$ (12,939)	\$ (318)	\$ (3,009)
Comprehensive loss attributable to noncontrolling interests	6	69	1	20
Comprehensive loss attributable to ChinaNet Online Holdings, Inc.	\$ (1,810)	\$ (12,870)	\$ (317)	\$ (2,989)
Loss per share				
Loss per common share				
Basic and diluted	\$ (0.12)	\$ (0.82)	\$ (0.02)	\$ (0.19)
Weighted average number of common shares outstanding:				
Basic and diluted	16,447,233	15,756,876	16,517,440	15,915,501

CHINANET ONLINE HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for number of shares and per share data)

	September 30,	December 31,
	2019	2018
	(US \$)	(US \$)
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 812	\$ 3,717
Term deposit, restricted	25	25
Accounts receivable, net of allowance for doubtful accounts of \$1,324 and \$3,393, respectively	6,020	6,359
Prepayment and deposit to suppliers, net	6,906	2,154
Due from related parties, net	-	226
Other current assets, net	7	19
Total current assets	13,770	12,500
Long-term investments	35	-
Property and equipment, net	87	142
Intangible assets, net	31	45
Operating lease right-of-use assets	14	-
Blockchain application platform development costs	3,714	3,725
Prepayment for software system development	760	
Deferred tax assets, net	549	556
Total Assets	\$ 18,960	\$ 16,968
Liabilities and Equity		
Current liabilities:		
Short-term bank loan *	\$ 424	\$ 874
Accounts payable *	899	2,869
Advance from customers *	5,052	1,061
Advance from a customer, related *	9	-
Accrued payroll and other accruals *	275	521
Taxes payable *	3,027	2,997
Lease payment liability related to short-term leases *	174	-
Other current liabilities *	310	118
Warrant liabilities	255	606
Total current liabilities	10,425	9,046
Long-term liabilities:		
Long-term borrowing from a director	124	128
Total Liabilities	10,549	9,174
Commitments and contingencies		
Equity:		
ChinaNet Online Holdings, Inc.'s stockholders' equity		
Common stock (US\$0.001 par value; authorized 50,000,000 shares; issued and outstanding 18,020,973 shares and 16,382,543 shares at September 30, 2019 and December 31, 2018, respectively)	18	16
Additional paid-in capital	40,706	38,275
Statutory reserves	2,607	2,607
Accumulated deficit	(36,417)	(34,512)
Accumulated other comprehensive income	1,552	1,457
Total ChinaNet Online Holdings, Inc.'s stockholders' equity	8,466	7,843
Noncontrolling interests	(55)	(49)
Total equity	8,411	7,794
Total Liabilities and Equity	\$ 18,960	\$ 16,968

CHINANET ONLINE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2019	2018
	(US \$)	(US \$)
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss	\$ (1,913	) \$ (12,963
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	66	508
Amortization of operating lease right-of-use assets	88	-
Share-based compensation expenses	307	215
Provision for allowances for doubtful accounts	445	1,521
Impairment on intangible assets	-	3,380
Impairment on goodwill	-	5,289
Impairment on long-term investments	-	460
Deferred taxes	(10	) 805
Change in fair value of warrant liabilities	(351	) (1,449
Changes in operating assets and liabilities		
Accounts receivable	(289	) (1,465
Prepayment and deposit to suppliers	(5,191	) 1,016
Due from related parties	226	22
Other current assets	11	(205
Accounts payable	(1,946	) 1,095
Advance from customers	4,151	(1,423
Advance from a customer, related	9	-
Accrued payroll and other accruals	(242	) (150
Lease payment liability related to short-term leases	180	-
Other current liabilities	291	(292
Taxes payable	123	(57
Prepaid lease payment	(10) -
Net cash used in operating activities	(4,055	) (3,693
Cash flows from investing activities		
Payment for purchase of office equipment	-	(11
(Investment to)/withdraw investment from an investee	(36	) 460
Short-term loan to unrelated parties	-	(2,108
Collection of short-term loan from unrelated parties	-	4,716
Payment for acquisition of noncontrolling interest	-	(1,687
Payment for blockchain application platform development costs	-	(3,743
Prepayment for software system development	(760) -
Purchase of software technology	-	(437
Net cash used in investing activities	(796	) (2,810
Cash flows from financing activities		
Proceeds from issuance of common stock and warrant (net of cash offering cost of US\$8 and US\$809, respectively)	2,393	10,263
Repayment to investors related to terminated security purchase agreements	-	(933
Proceeds from short-term bank loan	438	920
Repayment of short-term bank loan	(875	) (460
Net cash provided by financing activities	1,956	9,790
Effect of exchange rate fluctuation on cash, cash equivalents and restricted cash	(10	) (320
Net (decrease)/increase in cash, cash equivalents, and restricted cash	(2,905	) 2,967
Cash, cash equivalents, and restricted cash at beginning of the period	3,742	2,952

Cash, cash equivalents, and restricted cash at end of the period

\$ 837

\$ 5,919

Source: ChinaNet Online Holdings, Inc.