



## ChinaNet Online Holdings Reports Record Second Quarter 2010; Net Income Grew 223% to \$4.2 Million with Diluted EPS of \$0.20

Results underscore significant progress in ChinaNet becoming a leading B2B Internet advertising solutions provider

-- Revenues increased 28% in the second quarter, driven by an 87% increase in Internet Advertising

-- Net income grew 223% YOY to \$4.2 million, with EPS of \$0.20 vs. \$0.09 for 2Q09

-- Gross margins surged 1050 bps year-over-year to 50.7%

-- Operating margins improved 1390 bps to 34.9%

-- Cash increased to \$17.8 million on June 30, 2010, as cash flows from operating activities increased to \$6.2 million for 1H10

-- Reaffirms 2010 guidance; Revenues of \$45 million and net income of \$14.1 million

BEIJING, Aug. 17 /PRNewswire-Asia-FirstCall/ -- ChinaNet Online Holdings, Inc. ("ChinaNet", NYSE Amex: CNET), a leading full-service media development, and internet technology company for small and medium-sized enterprises (SMEs) in the People's Republic of China ("China"), today announced its second quarter 2010 financial results.

### Summary Financials

Second Quarter 2010 Results (USD) (unaudited) (three months ended June 30,)

	Q2 2010	Q2 2009	CHANGE
Sales	\$12.0 million	\$9.4 million	+28.3%
Gross Profit	\$6.1 million	\$3.8 million	+61.9%
Gross Margin	50.7%	40.2%	+26.1%
Net Income	\$4.2 million	\$1.3 million	+222.8%
Fully diluted EPS	\$0.20	\$0.09	+122.2%

### Second Quarter 2010 Financial Results

Revenues for the second quarter of 2010 increased 28.3% to \$12.0 million compared to \$9.4 million for the second quarter of 2009. In concert with management's plan and focus for 2010, Internet advertising increased 87.0% year-over-year to \$7.8 million, and comprised 65.0% of total revenue. Growth was driven by increased business from existing customers and continued success in acquiring new customers through branding and marketing investments made over the past year. Revenues generated by TV advertising during the second quarter of 2010 declined 15.2% year-over-year to approximately \$4.0 million or 33.4% of total revenues. In the second quarter of 2010, 150 new customers (including 15 branded clients) were added to 28.com, the Company's franchise gateway business. During the second quarter of 2010, the weighted average of active Internet advertising customers was approximately 700, which included 30 branded clients. Branded clients pay a premium for additional services, such as brand management, search engine marketing, search engine optimization, internet information management and others.

Second Quarter 2010 Revenue Breakdown By Business Unit (USD in thousands) (unaudited)(three months ended June 30,)

	2010	2009	CHANGE
Internet Advertisement	\$7,831	\$4,187	+87.0%
% of Sales	65.0%	44.6%	
TV Advertisement	\$4,021	\$4,744	-15.2%
% of Sales	33.4%	50.6%	
Bank Kiosk	\$132	\$19	--
% of Sales	1.1%		

"We delivered an exceptionally strong second quarter, led by increased market share and an increased brand image in our flagship franchise gateway business, 28.com, which enabled us to achieve record earnings," stated Mr. Handong Cheng, Chairman and CEO of the Company. "We are building positive momentum in all facets of our business and have allocated the necessary resources to enhance our position as the leading Internet advertising resource for small and medium sized businesses, especially franchise businesses. During the quarter, we added notable franchise customers, including Yiwu XinGuang Holdings Inc., Shanghai Meili Hua Ltd. and Shenzhen Excellent Energy Light Technology Ltd., which are engaged in accessory, stationery and energy saving lights industries, respectively. Our clients have embraced the new value-added services we have added to our product portfolio, including brand management and search engine marketing. These unique

solutions provide significant value to franchisors by allowing them to target a larger universe of potential franchisees in a very cost-effective manner, while enabling us to monetize our customer base with high margin revenues. In addition to our normal market channels, we will continue to work with local and federal government agencies, communities and universities to promote entrepreneurship and job creation in China to ensure that we continue to be a dominant player servicing the franchise market."

Cost of sales for the three months ended June 30, 2010 was approximately \$5.9 million, up 5.8% to \$5.6 million from the three months ended June 30, 2009. The costs associated with the Company's advertising services include costs for purchasing Internet advertising resources from other well-known portal websites in China and purchasing television advertisement time from TV networks and local stations.

Gross profit for the second quarter of 2010 was \$6.1 million, representing gross margin of 50.7%, compared to \$3.8 million in gross profit and a gross margin of 40.2% in the second quarter of 2009. The healthy year-over-year increase in gross margins was due largely to the Company's deliberate strategy to focus predominantly in its core franchise gateway business, 28.com. Internet advertising generated by 28.com achieved gross profit margins of 73.0% and 70.0% in the second quarter of 2010 and 2009, respectively, while the Company's TV advertisement segment generated a gross profit margin of 7% and 17.0% in each respective quarter.

Operating expenses for the three months ended June 30, 2010 were approximately \$1.9 million, and were essentially flat compared to the same period in 2009. Selling expenses for the period were \$0.9 million, down 22% from \$1.2 million from the second quarter of 2009. The decrease was due to lower spending on TV advertising. General and administrative expenses were \$0.8 million and \$0.6 million in the second quarter 2010 and 2009, respectively. More than half of the increase was due to public company expenses and non-cash equity compensation for services.

Operating income for the second quarter of 2010 totaled \$4.2 million, a 124.1% increase from the \$1.9 million reported for the second quarter of 2009. Operating margins were 34.9% and 20.0% for the second quarter of 2010 and 2009, respectively.

GAAP net income for the second quarter was \$4.2 million, an increase of 222.8% compared to \$1.3 million reported in the same period of the prior year, with corresponding fully diluted net income per share of \$0.20 in the second quarter of 2010 compared to fully diluted net income per share of \$0.09 in the same period in 2009, based on 20.7 million and 13.9 million outstanding shares, respectively.

### First Half 2010 Financial Results

First Half 2010 Results (USD) (unaudited)(six months ended June 30,)

	2010	2009	CHANGE
Sales	\$22.3 million	\$19.2 million	+16.1%
Gross Profit	\$9.6 million	\$7.3 million	+31.8%
Gross Margin	43.1%	38.0%	+13.4%
Net Income	\$8.0 million	\$2.6 million	+209.9%
Adjusted Net Income (1)	\$6.1 million	\$2.6 million	+137.9%
Fully diluted EPS	\$0.38	\$0.19	+100.0%
Adjusted EPS (1)	\$0.29	\$0.19	+52.6%

(1) GAAP net income and GAAP EPS (Diluted) for Q1 2010 include a \$1.9 million non-cash gain related to changes in fair value of warrants.

Revenues for the first half of 2010 increased 16.1% to \$22.3 million compared to \$19.2 million for the first half of 2009. Internet advertising increased 57.2% year-over-year to \$12.4 million from \$7.9 million in the same period last year, representing 55.6% of total revenue. TV advertising revenues decreased by 10.0% during the first half of 2010 to \$9.4 million or 42.3% of total revenues.

First Half 2010 Revenue Breakdown By Business Unit (USD in thousands) (unaudited)(six months ended June 30,)

	2010	2009	CHANGE
Internet Advertisement	\$12,375	\$7,871	+57.2%
% of Sales	55.6%	41.0%	
TV Advertisement	\$9,424	\$10,486	-10.1%
% of Sales	42.3%	54.7%	
Bank Kiosk	\$263	\$19	--
% of Sales	1.2%		

Cost of sales for the six months ended June 30, 2010 was approximately \$12.6 million, up 6.5% to \$11.9 million from the six months ended June 30, 2009.

Gross profit for the first half of 2010 was \$9.6 million, an increase of 31.8% versus the same period last year. Gross margins were 43.1% in the first six months of 2010, compared to 38.0% in the first six months of 2009. ChinaNet's Internet advertising business generated gross profit margin of 74.0% and 73.0% in the first half of 2010 and 2009, respectively, while the Company's TV advertisement segment generated a gross profit margin of 2% and 14.0% in each respective quarter.

Operating expenses for the six months ended June 30, 2010 were approximately \$3.3 million, a decrease of 13.2% from \$3.8 million for the same period of 2009. Selling expenses for the period were \$1.3 million, down 49% from \$2.6 million from the first half of 2009, as a result of lower spending on TV advertising, which was partially offset by public company expenses and non-cash equity compensation charges that led to the increase in general and administration expenses for the six months ended June 30, 2010 to \$1.6 million, up 74% from \$0.92 million from the first half of 2009.

Operating income for the first half of 2010 totaled approximately \$6.3 million, up 79.7% from the \$3.5 million reported for the first half of 2009. Operating margins were 28.5% and 18.4% for the first half of 2010 and 2009, respectively.

GAAP net income for the first half of 2010 was \$8.0 million, an increase of 209.9% compared to \$2.6 million reported in the same period of the prior year, with corresponding fully diluted net income per share of \$0.38 in the first half of 2010 compared to fully diluted net income per share of \$0.19 in the same period in 2009, based on 20.9 million and 13.8 million outstanding shares, respectively. During the first quarter of 2010 the Company realized a non-cash gain of \$1.9 million for changes in fair value of warrants. Adjusted for the non-cash gain, net income was \$6.1 million and EPS was \$0.29 for the first six months of 2010.

### **Balance Sheet and Cash Flow**

The Company had \$17.8 million in cash and equivalents on June 30, 2010, compared to \$13.9 million on December 31, 2009, working capital of \$25.5 million, compared to \$19.4 million, and a current ratio of 5.3 to 1 compared 4.9 to 1 on December 31, 2009. The Company generated \$6.2 million cash inflow from operating activities in the first six months of 2010, an increase of 128.1% compared to \$2.7 million in the same period last year. Accounts receivable were \$4.8 million on June 30, 2010, up from \$3.2 million on December 31, 2009, with DSO's of 39 days compared to 30 days.

### **Guidance for 2010**

Management reaffirmed 2010 revenue guidance of \$45 million and net income guidance of \$14.1 million, which represents 19% and 67.9% year-over-year growth, respectively.

### **Business Outlook**

ChinaNet is focused on strategically expanding its rapidly growing franchise gateway business, 28.com, which boasts gross margins of 70%-80%, compared to 15% for its TV Advertising business segment. Two components of the Company's strategy uniquely positions ChinaNet to succeed: 1) an exclusive focus on the burgeoning Small and Medium Enterprises (SMEs) market, particularly franchise enterprise and 2) leveraging multiple initiatives to sell additional value added services to existing and new customers thus monetizing the customer base. The SME market, already a vibrant sector with over 3,000 franchise enterprises generating over \$30 billion in sales in 2007, will continue to grow faster than the Chinese economy overall as a result of the central government's concerted efforts to add millions of new jobs every year. ChinaNet was one of the two major co-sponsors of the "Entrepreneurship Fund for Chinese College Students", a program launched in partnership with six major central government agencies and other private corporations to help young Chinese students start their own business. These types of partnerships will further strengthen ChinaNet's brand, drive more new franchisors and franchisees to 28.com, and increase the number of branded clients.

During the late second half of 2009, the Company started preparing to offer value added services to existing clients, including brand management, search engine marketing, search engine optimization and so forth. Because most small business owners lack the expertise and resources to create and manage their advertising and marketing campaigns, ChinaNet is providing a valuable service that many clients need. The Company has already seen benefits of this strategic initiative through an increase in the number of branded clients, who pay a weighted average of approximately \$28,000 per month, in comparison with an average of \$4,000 per month for non branded clients.

Internet Advertising -- During the second quarter of 2010, the Company's <http://www.28.com> web portal (or so-called online franchise gateway) exchange successfully maintained its estimated market share of 35% due to effective branding and marketing, which was supported by increased productivity from the Company's sales team. The Company plans to continue to add new software modules to its 28.com network including: Software V3.0 of Internet Users Monitoring and Comprehensive Analysis Appraisal System, Software V2.0 of Internet Information Comprehensive Management Platform, etc. and the Company is evaluating acquisitions which would bring unique services which can be offered through a dashboard strategy. ChinaNet continues to help SMEs increase the profile and value of their businesses through multi-media branding campaigns by integrating Internet advertising with TV advertising. Its Internet Information Management (IIM) division was created in August

2009 to offer clients an intelligent software product based on its proprietary search engine optimization technology. The enhanced search engine optimization function, which provides clients with more advanced tools that increase the effectiveness of their internet advertising campaigns, has seen solid traction and is generating incremental, high margin revenue.

ChinaNet TV -- The Company produces web-based video ads and TV infomercials for start-ups and entrepreneurs. Shows are distributed over airtime purchased from the largest provincial satellite TV stations. Customers pay ChinaNet TV for proprietary editorial coverage and advertising spots. During the first half of 2010 the Company sold about 12,000 minutes of advertising time that it purchased from seven provincial TV stations compared with approximately 14,000 minutes in the same period of 2009, a 14.3% decrease. While the Company will continue to use TV advertising as a component of an integrated marketing strategy for clients, it will continue to shift resources away from TV to more cost-effective and targeted media such as sponsored search. Management expects this strategic shift to increase both margins and returns.

Bank Kiosks -- ChinaNet's advertising business provides online access for bank customers while displaying advertising for both PRC and global based companies through an exclusive arrangement with the China Construction Bank (CCB). This advertising medium generated \$0.1 million and \$0.3 million in revenues for the three and six month period ended June 30, 2010, respectively, and provides another component to the Company's multi-platform advertising solution. As of June 30, 2010, the Company has deployed 200 kiosks in China Construction Bank Henan Branch and plans to deploy 1,300 more kiosks in the aggregate by the end of 2010, including offices in Henan, Shanghai and eventually Beijing. Guangdong and Sichuan are other potential geographic destinations the Company will pursue. Management estimates a payback of one and half years for all equipment deployed, with higher margins and recurring advertising revenue.

### **Conference Call**

The conference call will take place at 10:00 a.m. ET on Tuesday, August 17, 2010. Interested participants should call 1-877-941-8601 when calling within the United States or 1-480-629-9810 when calling internationally.

Please download the PowerPoint that we will reference on the call through the following link: [http://www.chinanet-online.com/tzzgx\\_en.html](http://www.chinanet-online.com/tzzgx_en.html) . Please allow approximately 10 minutes to download a copy of the company's earnings results presentation.

A playback will be available through August 24, 2010. To listen, please call 1-877-870-5176 within the United States or 1-858-384-5517 when calling internationally. Utilize the pass code 4348158 for the replay.

This call is being webcast by ViaVid Broadcasting and can be accessed by clicking on this link <http://viaid.net/dce.aspx?sid=00007991> , or visiting ViaVid's website at <http://www.viaid.net> , where the webcast can be accessed through August 24, 2010.

### **About Non-GAAP Financial Measures**

To supplement our consolidated financial statements, which statements are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: adjusted net income and adjusted EPS (basic and diluted). The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our "recurring core business operating results." We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

### **About ChinaNet Online Holdings, Inc.**

ChinaNet Online Holdings Inc. (hereafter ChinaNet, NASDAQ: CNET), a leading B2B full-service media development and internet technology company connecting entrepreneurs in China with global business opportunity. ChinaNet focuses on small- and medium-sized enterprises (SMEs), especially franchise business, providing online advertising, content and brand management solutions, and offering online management tools on a multichannel communication platform. The headquarters is located in Beijing with other branches in Shanghai, Guangzhou, Shenzhen and Wuhan. As a technology and strategy-driven investment holding company, serving for Chinese medium and small companies and entrepreneurs is currently our fundamental purpose; relevant diversification is our principle of investment, initially to form the Internet advertising and product services, television advertising, program production and delivery, interbank media, marketing and brand planning and their core businesses. Under the leadership of Mr. Handong Cheng, who is the Chairman and CEO of ChinaNet, the company has been growing continuously since its establishment in 2003 with all aspects of operations to be the leading company in the Chinese online merchant join industry. ChinaNet Online taking the meaning "online network for Chinese people," it indicates that through innovative products and services for medium and small enterprises and entrepreneurs to create an ideal entrepreneurial home.

## 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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For further information, contact:  
HC International, Inc.  
Ted Haberfield, Executive VP  
Tel: +1-760-755-2716  
Email: [thaberfield@hcinternational.ne](mailto:thaberfield@hcinternational.ne)