ChinaNet Online Holdings, Inc. Reports Record Fourth Quarter and Year-end 2009 Financial Results

BEIJING, March 31 /PRNewswire-Asia-FirstCall/ -- ChinaNet Online Holdings, Inc. ("ChinaNet", NYSE Amex: CNET), a leading full-service media development, advertising and communications company for small and medium-sized enterprises (SMEs) in the People's Republic of China ("China"), today announced its fourth quarter and year-end 2009 financial results, and reaffirmed net income guidance for 2010.

- Revenues increased 26.3% to $10.4 million in the fourth quarter 2009
- Fourth quarter 2009 adjusted net income increased 426.3% to $3.9 million, with adjusted earnings per share of $0.18
- Full-year 2009 revenues increased 75.4% to $37.7 million
- Full-year 2009 adjusted net income increased 201.6% to $8.4 million
- Full-year 2009 adjusted earnings per share increased to $0.50
- Company reaffirmed 2010 net income guidance of $14.1 million, representing an increase of 67.9% compared to 2009 adjusted net income
- Management to host earnings conference call March 31 at 10:30 a.m. ET

SUMMARY FINANCIALS

Fourth Quarter 2009 Results(USD) (unaudited) (three months ended December 31)

	Q4 2009	Q4 2008	CHANGE
Sales	$10.4 million	$8.3 million	+26.3 %
Gross Profit	$5.1 million	$3.1 million	+65.0 %
Adjusted Net Income	$3.9 million	$0.7 million	+426.3 %
GAAP Net Income	$0.79 million(1)	$0.75 million	+5.9 %
Adjusted EPS (Diluted)	$0.18	$0.05	+260.0 %
GAAP EPS (Diluted)	$0.02(1)	$0.05	(60.0)%

(1) GAAP net income included a $3.1 million non-cash charge related to the changes in the value of warrants;

Full-year 2009 Results (USD) (years ended December 31)

	2009	2008	CHANGE
Sales	$37.7 million	$21.5 million	+75.4 %
Gross Profit	$16.5 million	$ 7.7 million	+113.6 %
Adjusted Net Income	$ 8.4 million	$ 2.8 million	+201.6 %
GAAP Net Income	$ 4.0 million(2)	$ 2.8 million	+43.5 %
Adjusted EPS (Diluted)	$0.50	$0.20	+150.0 %
GAAP EPS (Diluted)	($0.15)(3)	$0.20	--

(2) GAAP net income includes a $4.4 million non-cash charge related to changes in fair value of warrants;

(3) GAAP EPS (Diluted) per share for 2009 includes the $4.4 million non-cash charge and a $5.9 million non-cash charge related to the beneficial conversion feature of Series A preferred stock.

Fourth Quarter 2009 Financial Results

Revenues for the fourth quarter of 2009 increased 26.3% to $10.4 million compared to $8.3 million for the fourth quarter of

2008. The increase resulted from a significant increase in Internet advertising and TV advertising. For the fourth quarter of 2009 Internet advertising comprised approximately 49% of total revenues, an increase of 28% year-over-year to $5.1 million. The growth in Internet advertising and TV advertising resulted from the Company's successful brand building effort for http://www.28.com in 2007 through 2009 both on TV and in other well-known portal websites in China. Revenues generated by TV advertising during the fourth quarter of 2009 increased 59% year-over-year to approximately $5.0 million or 48% of total revenues. As of December 31, 2009, the number of active customers for the Company's Internet advertising business was 600 and the number of customers being serviced by its TV advertising business was 300. Approximately 26% of customers were being serviced by both platforms. Cost of sales for the three months ended December 31, 2009 was approximately $5.3 million or 51.0% of revenues as compared to $5.2 million or 62.5% of revenues for the three months ended December 31, 2008. The costs associated with the Company's advertising services include costs for purchasing resources from other well-known portal websites in China for Internet advertising and purchasing TV advertisement time from approximately 10 different provincial TV stations.

For the fourth quarter of 2009 gross profit was $5.1 million, representing gross margins of 49.0%, compared to the fourth quarter of 2008 with $3.1 million in gross profit and a gross margin of 37.5%. Gross profit grew by 64.9% on a year-over-year basis. The increase in gross profit was a result of increased revenues and leverage in the business model. The rise in gross margins was primarily due to an increase in Internet advertising sales as a percentage of total sales and enhancements to the Company's TV infomercial production capabilities, which enabled delivery of higher margin services.

Operating expenses for the three months ended December 31, 2009 were approximately $2.0 million, down 11.0% from $2.2 million in the same period of 2008. Selling expenses for the period decreased to approximately $0.9 million from $1.6 million in the fourth quarter of 2008. General and administrative expenses were $0.9 million and $0.5 million in the fourth quarter 2009 and 2008, respectively, with the increase primarily due to non-recurring expenses associated with the US public company listing and non-cash equity compensation for services.

Operating income for the fourth quarter of 2009 totaled approximately $3.2 million, a 248.5% increase from the $0.9 million reported for the fourth quarter of 2008. Operating margins were 30.3% and 11.0% for the fourth quarter of 2009 and 2008, respectively.

GAAP net income for the fourth quarter was $0.79 million, an increase of 5.9% compared to $0.75 million reported in the same period the prior year, with corresponding fully diluted net income per share of $0.02 in the fourth quarter of 2009 compared to fully diluted net income per share of $0.05 in the same period in 2008, based on 21.4 million and 13.8 million outstanding shares, respectively. During the fourth quarter of 2009 the Company incurred a non-cash charge of $3.1 million for changes in fair value of warrants recorded as a deduction of operating profit. Adjusting for the non-cash charge, net income for the fourth quarter of 2009 was $3.9 million, an increase of 426.3% over the fourth quarter of 2008, with $0.18 in earnings per diluted share. Included in the fourth quarter of 2009 was an adjustment of $1.1 million for a reduction in the Company's full-year tax rate from 25% to 7.5%, accounted for in previous quarters at the higher tax rate.

"We are very pleased with our financial results for the fourth quarter of 2009 as we continued to see robust growth in both our Internet and TV advertising businesses, driven by both existing and new customers," stated Mr. Handong Cheng, Chairman and CEO of the Company. "With over 20% annual growth projected for the Chinese Internet advertising market through 2010 fueled by a sharp trajectory in franchise and chain store enterprises, we believe ChinaNet's 'one-stop shop' advertising platform is well positioned to capitalize on this large secular growth opportunity and further increase market share."

Full Year 2009 Financial Results

For the year ended December 31, 2009, revenues increased 75.4% to $37.7 million compared to $21.5 million for the year ended December 31, 2008. Internet advertising totaled $17.7 million in 2009, or approximately 47.0% of total revenues, an increase of 56.9% compared to $11.3 million in 2008. During 2009, revenues generated by TV advertising increased 165.4% year-over-year to approximately $18.6 million or 49.3% of total revenues.

Gross profit was $16.5 million for 2009, representing an increase of 113.6% from $7.7 million in 2008. Gross margins were 43.7% for full-year 2009 compared to 35.9% for 2008.

Operating expenses for 2009 were approximately $7.1 million, or 19.0% of revenues, compared to $3.9 million or 19.0% of revenues in 2008. Selling expenses for 2009 increased to approximately $4.2 million from $2.7 million in 2008, primarily as a result of brand development expenses for http://www.28.com and expanding sales force to meet demand. General and administrative expenses were $2.4 million and $1.0 million in 2009 and 2008, respectively.

Income from operations was $9.4 million for 2009, representing an increase of 149.3% over operating income of $3.8 million for 2008. Operating margins were 24.9% for 2009 compared to 17.5% for 2008.

GAAP net income for 2009 was $4.0 million, an increase of approximately 43.5% over $2.8 million in 2008, with a corresponding loss per share of $0.15 in 2009 compared to net income per share of $0.20 in 2008, based on 14.8 million and

13.8 million shares, respectively. During 2009 the Company incurred a non-cash charge of $4.4 million for changes in fair value of warrants recorded as a deduction of operating profit, and a $5.9 million non-cash charge related to the beneficial conversion feature of Series A preferred stock which was recorded as deemed dividend, a deduction of retained earnings and a deduction of net income attributable to common shareholders, with no associated charge in 2008. Adjusting for non-cash charges, net income for 2009 was $8.4 million, an increase of 201.6% over 2008, with $0.50 in earnings per diluted share.

Balance Sheet and Cash Flow

The Company had $13.9 million in cash and equivalents on December 31, 2009, which includes $9.2 million in net proceeds from the Company's August 2009 financing, compared to $2.7 million on December 31, 2008. The Company had working capital of $19.4 million, compared to $2.8 million on December 31, 2008, and a current ratio of 4.9 to 1 on December 31, 2009 compared to a current ratio of 1.5 to 1 on December 31, 2008. Accounts receivable were $3.2 million on December 31, 2009, up from to $1.0 million on December 31, 2008 due to a more aggressive credit policy to capture market share and increase revenue. For 2009, the Company generated $4.6 million in cash from operations versus $0.8 million for 2008, with the variance principally coming from the increase in net income and prudent asset management.

Financial Outlook for 2010

The Company plans to extend its strategy of focusing on its rapidly growing Internet advertising sales business, which boasts gross margins of 75%, compared to 15% for its TV Advertising business segment. Management will focus resources and allocate capital to Internet advertising, which yield more predictable and recurring revenue. Consequently, management revised 2010 revenue guidance from $72.3 million to $45 million and reaffirmed net income guidance of $14.1 million, which represents 19% and 67.9% year-over-year growth, respectively.

Business Outlook

The Company believes that there are several fundamental factors that will continue to drive future revenue and earnings growth, including increased consumer demand for goods and services and strong government support for developing small and medium companies. The Chinese Small and Medium Enterprises (SMEs) marketplace is forecasted to grow to almost $43 billion next year, representing a two-year compounded average growth rate of over 21% by 2010. There were approximately 3,000 franchise enterprises and 260,000 chain stores in China at the end of 2007, which are projected to total 4,000 and 320,000 respectively during 2010.

Internet Advertising -- In 2010, the Company's http://www.28.com high traffic web portal further increased its market share from 30% to 35% due to successful branding and marketing efforts in positioning the portal as a turn-key advertising solution for SMEs. To further build its brand and optimize marketing costs, the Company entered into a co-operation agreement with China's Social Welfare & Education Foundation to fund public service programs in support of the government's social goal of raising employment rates among college graduates in China. ChinaNet anticipates this agreement could yield an additional 100 to 150 clients annually who would utilize the portal to advertise their products, services and business opportunities to this targeted demographic of college students. ChinaNet estimates that each new client would contribute approximately $30,000 in annual revenues.

New "Revenue Share" Pricing Model -- In its efforts to drive incremental top line growth and market share gains, the Company has implemented a new pricing option for its Internet advertising customers. Launched in October 2009 with a 6-month trial period, each customer has the flexibility to utilize either the "Traditional" or "Revenue Share" pricing model. Through the Traditional model, a customer pays $4,000 to $7,000 per month depending on the level of service. Currently, 60% of customers pay $4,000 per month with 50% paying month-to-month, 30% paying quarterly or bi-annual, and 20% paying annually. Through the new "Revenue Share" model, a customer does not pay upfront fees, but agrees to pay ChinaNet 30% of the initial fees collected by a new customer acquired through 28.com. For example, if the customer (i.e. franchise owner) of 28.com collects $40,000 in initial fees from a new franchisee, the customer pays ChinaNet $12,000, or 30% of the initial fees collected. Currently, 10% of the 600 http://www.28.com active customers have opted to use the Revenue Share model. The Company expects that approximately 150 of its 900 total customers will utilize this model by the end of 2010. This option will provide an impetus for those customers who want to pay for performance and will help augment growth in 2010.

ChinaNet TV -- The Company continues to be a leading producer and distributor of web-based video ads and TV infomercials for start-ups and entrepreneurs. In its effort to manage risk and expand margins the Company will be committing less capital to this business segment, reducing estimated total show time minutes from 100,000 to 35,000 minutes in 2010. Shows are distributed over airtime purchased from the largest national satellite TV stations. Customers pay ChinaNet TV for proprietary editorial coverage and advertising spots. Currently 300 customers utilize this service in addition to 28.com.

Bank Kiosks -- Meanwhile, the Company has been focused on the roll-out of its bank kiosk advertising platform, which provides online access for customers while displaying advertising for both PRC and global based companies, through an exclusive arrangement with the China Construction Bank (CCB). Recently, the Company has engaged a similar arrangement with Shanghai Commercial Bank (SCB) with the goal of deploying 1500 kiosks in aggregate by the end of 2010 throughout

Guandong, Hu Bei, Shanghi, Beijing and Si Chuan provinces. Management estimates a payback of approximately 18 months for all equipment deployed with higher margins and recurring advertising revenue. ChinaNet expects that its multi-platform advertising network will drive further growth during 2010.

Conference Call

The conference call will take place at 10:30 a.m. ET on Wednesday, March 31, 2010. Interested participants should call 1-888-549-7735 when calling within the United States or +1-480-629-9858 when calling internationally.

A playback will be available through April 7, 2010. To listen, please call 1-800-406-7325 within the United States or +1-303-590-3030 when calling internationally. Utilize the pass code 4275138 for the replay.

This call is being webcast by ViaVid Broadcasting and can be accessed by clicking on this link http://viavid.net/dce.aspx?sid=000072B4, or visiting ViaVid's website at http://www.viavid.net , where the webcast can be accessed through April 7, 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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