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PACIFIC ONLINE LIMITED

太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board of directors (the “Board”) of Pacific Online Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period of last year, as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2020

| | | Unaudited | |
|---|-------------|---------------------------------|------------------|
| | | Six months ended 30 June | |
| | | 2020 | 2019 |
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 4 | 391,910 | 500,937 |
| Cost of revenue | | <u>(146,514)</u> | <u>(209,890)</u> |
| Gross profit | | 245,396 | 291,047 |
| Selling and marketing costs | | (90,077) | (122,605) |
| Administrative expenses | | (46,565) | (35,457) |
| Net impairment losses on financial assets | 12(a) | (40,554) | (8,940) |
| Product development expenses | | (32,673) | (37,882) |
| Other income | 5 | <u>7,730</u> | <u>4,873</u> |
| Operating profit | | 43,257 | 91,036 |
| Finance income | | 4,514 | 3,972 |
| Finance cost | | <u>(511)</u> | <u>(848)</u> |
| Finance income — net | 6 | <u>4,003</u> | <u>3,124</u> |

| | | Unaudited | |
|---|-------------|---------------------------------|--------------------------|
| | | Six months ended 30 June | |
| | | 2020 | 2019 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| Share of net losses of an associate accounted for using the equity method | | <u>—</u> | <u>(356)</u> |
| Profit before income tax | | 47,260 | 93,804 |
| Income tax expense | 7 | <u>(8,901)</u> | <u>(17,117)</u> |
| Profit for the period | | <u>38,359</u> | <u>76,687</u> |
| Attributable to: | | | |
| — Equity holders of the Company | | 37,296 | 76,024 |
| — Non-controlling interests | | <u>1,063</u> | <u>663</u> |
| | | <u>38,359</u> | <u>76,687</u> |
| Earnings per share for profit attributable to equity holders of the Company for the period | | | |
| — Basic (<i>RMB</i>) | 8 | <u>3.31 cents</u> | <u>6.76 cents</u> |
| — Diluted (<i>RMB</i>) | | <u>3.31 cents</u> | <u>6.76 cents</u> |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Unaudited | |
|--|---------------------------------|-----------------------------|
| | Six months ended 30 June | |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the period | <u>38,359</u> | <u>76,687</u> |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Changes in value of investment in equity fund | <u>(2,988)</u> | <u>19,869</u> |
| Other comprehensive income for the period, net of tax | <u>(2,988)</u> | <u>19,869</u> |
| Total comprehensive income for the period | <u><u>35,371</u></u> | <u><u>96,556</u></u> |
| Attributable to: | | |
| — Equity holders of the Company | 34,308 | 95,893 |
| — Non-controlling interests | <u>1,063</u> | <u>663</u> |
| | <u><u>35,371</u></u> | <u><u>96,556</u></u> |

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2020

| | | Unaudited 30 June 2020 RMB'000 | Audited 31 December 2019 RMB'000 |
|---|-------------|---|---|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Right-of-use assets | 10 | 15,548 | 15,774 |
| Property and equipment | 10 | 201,675 | 173,383 |
| Investment property | 10 | 48,650 | 43,282 |
| Intangible assets | 10 | 9,262 | 9,477 |
| Deferred income tax assets | 11 | 52,181 | 50,489 |
| Other receivables | 12 | 2,924 | — |
| Investment in equity fund | 13 | 49,888 | 52,876 |
| | | <u>380,128</u> | <u>345,281</u> |
| Current assets | | | |
| Trade and other receivables, notes receivable and prepayments | 12 | 565,398 | 644,472 |
| Short-term bank deposits with original terms of over three months | | — | 2,100 |
| Cash and cash equivalents | | 331,503 | 425,942 |
| | | <u>896,901</u> | <u>1,072,514</u> |
| Total assets | | <u><u>1,277,029</u></u> | <u><u>1,417,795</u></u> |

| | | Unaudited | Audited |
|---|-------------|------------------|----------------|
| | | 30 June | 31 December |
| | | 2020 | 2019 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Ordinary shares | 14 | 10,491 | 10,491 |
| Reserves | | 912,167 | 991,931 |
| | | 922,658 | 1,002,422 |
| Non-controlling interests | | 4,685 | 3,622 |
| | | 927,343 | 1,006,044 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Lease liabilities | | 45 | 14 |
| Deferred income tax liabilities | 11 | 2,500 | — |
| | | 2,545 | 14 |
| Current liabilities | | | |
| Accruals and other payables | 15 | 256,255 | 316,384 |
| Contract liabilities | | 49,000 | 45,956 |
| Current income tax liabilities | | 41,593 | 49,004 |
| Lease liabilities | | 293 | 393 |
| | | 347,141 | 411,737 |
| Total liabilities | | 349,686 | 411,751 |
| Total equity and liabilities | | 1,277,029 | 1,417,795 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

| Unaudited | | | | | | | | | | | |
|---|----------------------------|--------------------------|---------------------------|---------------------------------------|---|------------------------------------|--------------------------------------|------------------------------|---------------------|--------------------------------------|------------------|
| Attributable to equity holders of the Company | | | | | | | | | | | |
| Note | Ordinary shares RMB'000 | Share premium RMB'000 | Merger reserve RMB'000 | Capital redemption reserve RMB'000 | Shares held for Share Award Scheme RMB'000 | Statutory reserve funds RMB'000 | Investment in equity fund RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| | | | | | | | | | | | |
| Six months ended 30 June 2020 | | | | | | | | | | | |
| | 10,491 | 399,201 | 4 | 306 | (10,229) | 43,418 | 21,679 | 537,552 | 1,002,422 | 3,622 | 1,006,044 |
| Balance at 1 January 2020 | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | |
| | — | — | — | — | — | — | — | 37,296 | 37,296 | 1,063 | 38,359 |
| Profit for the period | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | |
| | — | — | — | — | — | — | (2,988) | — | (2,988) | — | (2,988) |
| 13 | | | | | | | | | | | |
| — change in value of investment in equity fund | | | | | | | | | | | |
| | — | — | — | — | — | — | (2,988) | — | (2,988) | — | (2,988) |
| | — | — | — | — | — | — | (2,988) | 37,296 | 34,308 | 1,063 | 35,371 |
| Total comprehensive income | | | | | | | | | | | |
| Transactions with equity holders | | | | | | | | | | | |
| Share Award Scheme | | | | | | | | | | | |
| | — | — | — | — | 8,090 | — | — | — | 8,090 | — | 8,090 |
| | — | — | — | — | — | — | — | (122,162) | (122,162) | — | (122,162) |
| 9 | | | | | | | | | | | |
| — value of employee services | | | | | | | | | | | |
| Cash dividends relating to 2019 | | | | | | | | | | | |
| | 10,491 | 399,201 | 4 | 306 | (2,139) | 43,418 | 18,691 | 452,686 | 922,658 | 4,685 | 927,343 |

| Unaudited | | | | | | | | | | | |
|---|----------------------------|--------------------------|---------------------------|---------------------------------------|---|------------------------------------|--------------------------------------|------------------------------|---------------------|--------------------------------------|------------------|
| Attributable to equity holders of the Company | | | | | | | | | | | |
| Note | Ordinary shares RMB'000 | Share premium RMB'000 | Merger reserve RMB'000 | Capital redemption reserve RMB'000 | Shares held for Share Award Scheme RMB'000 | Statutory reserve funds RMB'000 | Investment in equity fund RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| | | | | | | | | | | | |
| Six months ended 30 June 2019 | | | | | | | | | | | |
| | 10,491 | 399,201 | 4 | 306 | (10,749) | 43,418 | 14,435 | 537,561 | 994,667 | 2,066 | 996,733 |
| Balance at 1 January 2019 | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | |
| | — | — | — | — | — | — | — | 76,024 | 76,024 | 663 | 76,687 |
| Profit for the period | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | |
| | — | — | — | — | — | — | 19,869 | — | 19,869 | — | 19,869 |
| 13 | | | | | | | | | | | |
| — change in value of investment in equity fund | | | | | | | | | | | |
| | — | — | — | — | — | — | 19,869 | — | 19,869 | — | 19,869 |
| | — | — | — | — | — | — | 19,869 | 76,024 | 95,893 | 663 | 96,556 |
| Total comprehensive income | | | | | | | | | | | |
| Transactions with equity holders | | | | | | | | | | | |
| Share Award Scheme | | | | | | | | | | | |
| | — | — | — | — | 520 | — | — | — | 520 | — | 520 |
| | — | — | — | — | — | — | — | (153,133) | (153,133) | — | (153,133) |
| 9 | | | | | | | | | | | |
| — value of employee services | | | | | | | | | | | |
| Cash dividends relating to 2018 | | | | | | | | | | | |
| | 10,491 | 399,201 | 4 | 306 | (10,229) | 43,418 | 34,304 | 460,452 | 937,947 | 2,729 | 940,676 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

| | | Unaudited | |
|--|---|---------------------------------|-----------------------|
| | | Six months ended 30 June | |
| | | 2020 | 2019 |
| <i>Note</i> | | <i>RMB'000</i> | <i>RMB'000</i> |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 79,856 | 24,297 |
| Income tax paid | | <u>(15,504)</u> | <u>(30,498)</u> |
| Net cash generated from/(used in) operating activities | | <u>64,352</u> | <u>(6,201)</u> |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (41,474) | (2,149) |
| Disposals of property and equipment | | 196 | 85 |
| Placement of short-term bank deposits with original terms of over three months | | — | (2,250) |
| Receipt from maturity of short-term bank deposits with original terms of over three months | | 2,100 | 50,750 |
| Interest received | | <u>3,286</u> | <u>3,972</u> |
| Net cash (used in)/generated from investing activities | | <u>(35,892)</u> | <u>50,408</u> |
| Cash flows from financing activities | | | |
| Cash dividends paid to the Company's shareholders | 9 | (122,162) | (153,133) |
| Repayment of lease liabilities | | <u>(235)</u> | <u>(208)</u> |
| Net cash used in financing activities | | <u>(122,397)</u> | <u>(153,341)</u> |
| Net decrease in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of period | | 425,942 | 408,191 |
| Exchange losses on cash and cash equivalents | | <u>(502)</u> | <u>(848)</u> |
| Cash and cash equivalents at end of period | | <u><u>331,503</u></u> | <u><u>298,209</u></u> |

1. GENERAL INFORMATION

Pacific Online Limited (the “Company”) was incorporated on 27 August 2007 as an exempted company with limited liability under the Company Law, Cap.22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of internet advertising services in the People’s Republic of China (the “PRC”).

The Company has its shares listed on The Stock Exchange of Hong Kong Limited since 18 December 2007.

This condensed consolidated interim financial information (the “Interim Financial Information”) is presented in Renminbi (“RMB”), unless otherwise stated. The Interim Financial Information has been approved by the board of directors (the “Board”) of the Company on 27 August 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period.

3. ACCOUNTING POLICIES

This accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRS effective for the financial year ending 31 December 2020.

Amendments to HKFRS effective for the financial year beginning on 1 January 2020 do not have a material impact on the Group’s financial statements.

4. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors who make strategic decisions.

The Group is principally engaged in the provision of internet advertising services for different commodities. The chief operating decision-makers review the Group’s internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these internal reports.

The chief operating decision-makers consider the advertising business from the perspective of the different internet portals which it operates. As all revenues of the Group are generated from customers in the PRC, they are not further evaluated on a geographic basis.

The chief operating decision-makers assess the performance of the operating segments based on revenues generated. The reportable operating segments are grouped into PCauto, PConline and others. The Company currently does not allocate cost of revenue, operating costs or assets to its segments, as its chief operating decision-makers do not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Company does not report a measure of profit or total assets for each reportable segment.

Revenues of other segments relate to those generated from other portals, including lady and fashion, baby and home products and other services.

There were no inter-segment sales for the six months ended 30 June 2020 (six months ended 30 June 2019: same). The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the condensed consolidated interim income statement. For the six months ended 30 June 2020, the Group's revenue of all segments declined as compared to the same period last year as a result of the impact of the Coronavirus 2019 outbreak.

| | PCauto <i>RMB'000</i> (Unaudited) | PConline <i>RMB'000</i> (Unaudited) | Others <i>RMB'000</i> (Unaudited) | Group <i>RMB'000</i> (Unaudited) |
|---------------------------------|--|--|--|---|
| For the six months ended | | | | |
| 30 June 2020 | | | | |
| Timing of revenue recognition | | | | |
| — Over time | 313,487 | 43,950 | 13,607 | 371,044 |
| — At a point in time | 16,639 | 2,608 | 1,619 | 20,866 |
| | <u>330,126</u> | <u>46,558</u> | <u>15,226</u> | <u>391,910</u> |
| Revenue | <u>330,126</u> | <u>46,558</u> | <u>15,226</u> | <u>391,910</u> |
| For the six months ended | | | | |
| 30 June 2019 | | | | |
| Timing of revenue recognition | | | | |
| — Over time | 361,998 | 65,719 | 43,519 | 471,236 |
| — At a point in time | 25,670 | 1,964 | 2,067 | 29,701 |
| | <u>387,668</u> | <u>67,683</u> | <u>45,586</u> | <u>500,937</u> |
| Revenue | <u>387,668</u> | <u>67,683</u> | <u>45,586</u> | <u>500,937</u> |

The Company is domiciled in the Cayman Islands. For the six months ended 30 June 2020, all revenues of the Group were derived from external customers in the PRC (six months ended 30 June 2019: same).

As at 30 June 2020, other than club membership included in the intangible assets and investment in equity fund, majority of the other non-current assets of the Group were located in the PRC (31 December 2019: same).

For the six months ended 30 June 2020, there was no revenue derived from a single external customer accounting for 10% or more of the Group's revenue (six months ended 30 June 2019: except for one customer accounted for 11% of the Group's revenue, no other customers individually accounted for more than 10% of the Group's revenue).

5. OTHER INCOME

| | Unaudited | |
|-------------------|--------------------------|----------------|
| | Six months ended 30 June | |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Government grants | 6,163 | 3,550 |
| Rental income | 1,567 | 1,323 |
| | <u>7,730</u> | <u>4,873</u> |

6. FINANCE INCOME — NET

| | Unaudited | |
|---|--------------------------|----------------|
| | Six months ended 30 June | |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Finance income | | |
| — Interest income | 4,514 | 3,972 |
| Finance cost | | |
| — Interest expense on lease liabilities | (9) | — |
| — Net foreign exchange losses | (502) | (848) |
| | <u>4,003</u> | <u>3,124</u> |

7. INCOME TAX EXPENSE

| | Unaudited | |
|-------------------|--------------------------|----------------|
| | Six months ended 30 June | |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| PRC current tax | 8,093 | 18,636 |
| Deferred taxation | 808 | (1,519) |
| | <u>8,901</u> | <u>17,117</u> |

Income tax expense is recognised based on management's best estimate of the projected full year annual effective income tax rate.

The Company, which is a Cayman Islands corporation, was not subject to any profits tax. The subsidiaries of the Group incorporated in Hong Kong were not subject to Hong Kong profits tax as they had no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2020 (six months ended 30 June 2019: same).

Current taxation primarily represented the provision for the PRC Corporate Income Tax (“CIT”) for subsidiaries operating in the PRC. These subsidiaries are subject to CIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Corporate Income Tax Law (“CIT Law”), the CIT rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the CIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises (“HNTE”). Guangzhou Yurui Information Technology Co., Ltd., a PRC operating subsidiary of the Company, was formally designated as HNTE in 2019 and the applicable income tax rate is 15% for the three years from 2019 to 2021. Guangzhou Pacific Computer Information Consulting Co., Ltd. and Guangdong Pacific Internet Information Service Co., Ltd., the principal operating subsidiaries of the Company, successfully renewed the certificate of HNTE in 2017. The valid period of the certificate were three years from 2017 to 2019. The Group was in the process of application for renewal of the certificate. Assuming that there is no change to the relevant laws and regulations, the directors consider that these subsidiaries will be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering current income tax for the period and the deferred income tax.

All the other PRC entities of the Group are subject to CIT at a rate of 25% in accordance with the CIT Law.

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period (excluding the ordinary shares purchased by the Group and held for a restricted share award scheme (the “Share Award Scheme”)).

| | Unaudited | |
|---|---------------------------------|------------|
| | Six months ended 30 June | |
| | 2020 | 2019 |
| Profit attributable to equity holders of the Company (RMB'000) | 37,296 | 76,024 |
| Weighted average number of ordinary shares for basic earnings per share (<i>thousand shares</i>) | 1,127,685 | 1,124,136 |
| Basic earnings per share (RMB) | 3.31 cents | 6.76 cents |

(b) Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Diluted earnings per share equals to basic earnings per share as there were no potential diluted shares outstanding for the six months ended 30 June 2020 (six months ended 30 June 2019: same).

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2019 of RMB10.80 cents per ordinary share (final dividend in respect of the year ended 31 December 2018: RMB13.62 cents per ordinary share) was approved by the shareholders at the annual general meeting in May 2020. Such final dividend for 2019 totalling RMB122,162,000 was paid in 2020, which has already excluded the dividend related to the ordinary shares held for the Share Award Scheme of RMB316,000 (final dividend for 2018 of RMB153,133,000 excluding the dividend related to the ordinary shares held for the Share Award Scheme of RMB1,325,000).

The directors did not recommend any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: same).

10. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

| | Right-of-use Assets — land use rights and properties RMB'000 (Unaudited) | Property and equipment RMB'000 (Unaudited) | Investment property RMB'000 (Unaudited) | Intangible assets RMB'000 (Unaudited) |
|--------------------------------------|---|---|--|--|
| Six months ended 30 June 2020 | | | | |
| Net book amount as at | | | | |
| 1 January 2020 | 15,774 | 173,383 | 43,282 | 9,477 |
| Additions (a) | 157 | 41,474 | — | — |
| Disposals | — | (196) | — | — |
| Transfers | — | (5,984) | 5,984 | — |
| Depreciation and amortisation | (383) | (7,002) | (616) | (215) |
| Net book amount as at | | | | |
| 30 June 2020 | <u>15,548</u> | <u>201,675</u> | <u>48,650</u> | <u>9,262</u> |
| Six months ended 30 June 2019 | | | | |
| Net book amount as at | | | | |
| 1 January 2019 | 15,920 | 180,976 | 44,471 | 8,893 |
| Additions | 762 | 2,149 | — | — |
| Disposals | — | (85) | — | — |
| Depreciation and amortisation | (439) | (7,150) | (556) | (28) |
| Net book amount as at | | | | |
| 30 June 2019 | <u>16,243</u> | <u>175,890</u> | <u>43,915</u> | <u>8,865</u> |

(a) For the six months ended 30 June 2020, additions to property and equipment mainly resulted from the acquisition of offices located in Beijing.

11. DEFERRED INCOME TAX

Deferred income tax assets

| | Unaudited | Audited |
|---|------------------|----------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Deferred income tax assets: | | |
| — to be recovered within 12 months | 9,240 | 9,477 |
| — to be recovered after more than 12 months | 42,941 | 41,012 |
| | 52,181 | 50,489 |

The movement of deferred income tax assets during the period is as follows:

| | Advertising expenses in excess of allowance | Provision for impairment of trade receivables | Accrued advertising and other expenses | Tax losses | Total |
|--|--|--|---|-------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| At 1 January 2020 | 12,730 | 24,244 | 6,931 | 6,584 | 50,489 |
| (Charge)/Credited to the condensed consolidated interim income statement | (1,575) | 9,542 | 309 | (6,584) | 1,692 |
| At 30 June 2020 | 11,155 | 33,786 | 7,240 | — | 52,181 |
| At 1 January 2019 | 18,844 | 18,493 | 6,920 | 8,765 | 53,022 |
| Credited to the condensed consolidated interim income statement | 385 | 2,003 | 1,877 | 2,204 | 6,469 |
| At 30 June 2019 | 19,229 | 20,496 | 8,797 | 10,969 | 59,491 |

The expiry date of tax losses carried forward in respect of which deferred tax assets have not been accounted for is as follows:

| | Unaudited | Audited |
|----------------|-----------------------|-----------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Expire in 2020 | 9,505 | 9,505 |
| Expire in 2021 | 5,655 | 5,655 |
| Expire in 2022 | 8,697 | 8,697 |
| Expire in 2023 | 9,835 | 9,835 |
| Expire in 2024 | 8,612 | 8,612 |
| Expire in 2025 | 13,879 | — |
| Expire in 2027 | 16,704 | 16,704 |
| Expire in 2028 | 8,202 | 8,202 |
| Expire in 2030 | 5,998 | — |
| | <u>87,087</u> | <u>67,210</u> |

Deferred income tax liabilities

| | Unaudited | Audited |
|------------------------------------|-----------------------|-----------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Deferred income tax liabilities: | | |
| — to be recovered within 12 months | <u>2,500</u> | <u>—</u> |

The movement of deferred income tax liabilities during the period is as follows:

| | Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'000 (Unaudited) |
|--|---|
| At 1 January 2020 | — |
| Charged to the condensed consolidated interim income statement | <u>2,500</u> |
| At 30 June 2020 | <u><u>2,500</u></u> |
| At 1 January 2019 | — |
| Charged to the condensed consolidated interim income statement | <u>4,950</u> |
| At 30 June 2019 | <u><u>4,950</u></u> |

According to CIT Law, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong. Hence, the Group used 5% as its withholding tax rate for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

12. TRADE AND OTHER RECEIVABLES, NOTES RECEIVABLE AND PREPAYMENTS

| | Unaudited As at 30 June 2020 RMB'000 | Audited As at 31 December 2019 RMB'000 |
|--|---|---|
| Trade receivables, net of impairment provision (a) | 503,834 | 622,965 |
| Other receivables (b) | 29,972 | 19,308 |
| Notes receivable | 21,314 | 469 |
| Prepayments | <u>13,202</u> | <u>1,730</u> |
| | <u><u>568,322</u></u> | <u><u>644,472</u></u> |
| Less: non-current portion | | |
| Other receivables | <u>2,924</u> | — |
| | <u><u>565,398</u></u> | <u><u>644,472</u></u> |

As at 30 June 2020, trade and other receivables, notes receivable and prepayments were all denominated in RMB (31 December 2019: same).

(a) **Trade receivables, net of impairment provision**

Credit terms granted by the Group are generally within a period of three months to one year. The ageing analysis of the trade receivables (net of impairment provision of RMB145,982,000 (31 December 2019: RMB108,427,000)) is as follows:

| | Unaudited As at 30 June 2020 <i>RMB'000</i> | Audited As at 31 December 2019 <i>RMB'000</i> |
|---------------------|--|---|
| Current to 6 months | 323,808 | 347,183 |
| 6 months to 1 year | 86,673 | 203,797 |
| 1 year to 2 years | 82,353 | 60,985 |
| above 2 years | 11,000 | 11,000 |
| | <u>503,834</u> | <u>622,965</u> |

The ending loss allowances for trade receivables reconcile to the opening loss allowances as follows:

| | Unaudited As at 30 June 2020 <i>RMB'000</i> | Audited As at 31 December 2019 <i>RMB'000</i> |
|----------------------------------|--|---|
| At beginning of the period/year | 108,427 | 78,763 |
| Impairment charge of receivables | 40,554 | 32,457 |
| Receivables write off | <u>(2,999)</u> | <u>(2,793)</u> |
| At end of the period/year | <u>145,982</u> | <u>108,427</u> |

Management has assessed the expected credit losses of trade receivables and impairment provision of RMB40,554,000 was made for the period accordingly.

(b) **Other receivables**

| | Unaudited As at 30 June 2020 <i>RMB'000</i> | Audited As at 31 December 2019 <i>RMB'000</i> |
|----------------------------------|--|---|
| Input value added tax deductible | 14,145 | 8,998 |
| Advance to employees | 7,895 | 4,424 |
| Rental receivable | 1,236 | 1,190 |
| Others | 6,696 | 4,696 |
| | <u>29,972</u> | <u>19,308</u> |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

13. INVESTMENT IN EQUITY FUND

| | Unaudited As at 30 June 2020 RMB'000 | Audited As at 31 December 2019 RMB'000 |
|---------------------------|---|---|
| Investment in equity fund | <u>49,888</u> | <u>52,876</u> |

Movement in investment in equity fund during the period is as follows:

| | Unaudited Six months ended 30 June 2020 RMB'000 | 2019 RMB'000 |
|----------------------------|--|-------------------------------|
| At beginning of the period | 52,876 | 45,632 |
| Changes in fair value | <u>(2,988)</u> | <u>19,869</u> |
| At end of the period | <u>49,888</u> | <u>65,501</u> |

14. ORDINARY SHARES

| | Authorised ordinary shares | | |
|--------------------------------------|--|--------------------------------------|--------------------------------------|
| | <i>Number of</i> <i>shares ('000)</i> | <i>HKD'000</i> | <i>RMB'000</i> |
| At 31 December 2019 and 30 June 2020 | <u>100,000,000</u> | <u>1,000,000</u> | <u>969,200</u> |
| | Issued and fully paid up | | |
| | <i>Number of</i> <i>shares ('000)</i> <i>(Unaudited)</i> | <i>HKD'000</i> <i>(Unaudited)</i> | <i>RMB'000</i> <i>(Unaudited)</i> |
| At 31 December 2019 and 30 June 2020 | <u>1,134,055</u> | <u>11,341</u> | <u>10,491</u> |

As at 30 June 2020, the total number of issued ordinary shares of the Company was 1,134,055,000 shares (31 December 2019: same) which included 2,933,000 shares (31 December 2019: 9,733,000 shares) held under the Share Award Scheme.

15. ACCRUALS AND OTHER PAYABLES

| | Unaudited | Audited |
|----------------------|----------------------------|---------------------|
| | As at | As at |
| | 30 June | 31 December |
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Accrued expenses (a) | 199,250 | 252,733 |
| Salaries payable | 37,872 | 44,746 |
| Other tax payables | 3,904 | 5,518 |
| Other payables (b) | 15,229 | 13,387 |
| | <hr/> 256,255 <hr/> | <hr/> 316,384 <hr/> |

(a) Accrued expenses mainly represented accrued service commission fees payable to advertising agencies and accrued advertising expenses.

(b) Other payables mainly represented deposits due to third parties.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to present the interim results of the Company for the six months ended 30 June 2020 to our shareholders.

The total revenue for the first half of the year came out to about RMB391.9 million, a decrease of 21.8% from the year before. During the reporting period, the global business environment and China's economy have been heavily affected by both the COVID-19 global pandemic and the ongoing Sino-US trade dispute and most of the related industries in China have experienced stagnant or negative growth. However, despite the challenging environment, through continued cost optimization, the Company has been able to minimize the impact to cash flows and continue to maintain normal operations. The performance in the first half was further dampened by provisions made on impairments of financial assets due to a longer account receivables outstanding.

PCauto's revenue has decreased by 14.8% compared to the year before and accounted for 84.2% of the total revenue of the Company in the first half of 2020. China's automobile industry experienced a massive slump in demand in the first three months of 2020 as automobile dealerships remained closed due to COVID-19 before experiencing a sharp rebound in the second quarter of 2020, eclipsing 2019's same period sales. Despite the impact, PCauto's revenue was only affected minimally compared to the previous year and was able to maintain normal operations and consistent cash flow. During this time, PCauto has continued to develop new platforms and media standards with OEMs (Original Equipment Manufacturer) and industry bodies such as promoting cloud-based auto shows and brand promotion events. PCauto's "Cool Car Project" has continued to add collaborative partners in developing new marketing products and developing the aftersales market.

Other portals including PConline, PClady, PCbaby and PChouse have also experienced a decrease in revenue when compared to the same period last year. In the first half of 2020, market demand and conditions in those portals have been significantly affected. Demand in the PChouse market had effectively grounded to a halt at various times due to the pandemic. While demand in the PConline and PCbaby has slowed, markets have been heavily affected by disruptions to supply chains and logistics, slowed cross-border trade, a slow resumption to work and repeated virus outbreaks. As a result, many companies have reduced their active marketing activities to a minimum. Similarly, the Company was also forced to cancel a number of offline content and marketing initiatives including "prenatal coaching class" with PCbaby and "Paris Fashion Week" with PClady due to strict travel restrictions that were imposed.

Looking forward, the Company will continue to adapt to these changing conditions with continued cost optimization and a focus on new product technologies. In the second half of 2020, we will continue to monitor the global political and public health developments and its associated impact on our industries, but we remain cautiously optimistic regarding the Company's prospects.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue decreased by 21.8% from RMB500.9 million for the six months ended 30 June 2019 to RMB391.9 million for the six months ended 30 June 2020.

Revenue for PCauto, the Group's automobile portal, decreased by 14.8% from RMB387.7 million for the six months ended 30 June 2019 to RMB330.1 million during the six months ended 30 June 2020. The decrease in revenue for PCauto was mainly due to reduced advertising spending from automobile manufacturers. As a percentage of revenue, PCauto accounted for 77.4% during the six months ended 30 June 2019 and 84.2% during the six months ended 30 June 2020.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased by 31.2% from RMB67.7 million during the six months ended 30 June 2019 to RMB46.6 million during the six months ended 30 June 2020. The decrease was due to decline in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 13.5% during the six months ended 30 June 2019 and 11.9% during the six months ended 30 June 2020.

Revenue from other operations, including the PClady, PCbaby and PChouse portals, decreased by 66.6% from RMB45.6 million during the six months ended 30 June 2019 to RMB15.2 million during the six months ended 30 June 2020. The decrease was mainly due to decline in demand from major brands. As a percentage of revenue, revenue from other operations accounted for 9.1% during the six months ended 30 June 2019 and 3.9% during the six months ended 30 June 2020.

Cost of Revenue

Cost of revenue decreased by 30.2% from RMB209.9 million during the six months ended 30 June 2019 to RMB146.5 million during the six months ended 30 June 2020. Gross profit margin was 58.1% during the six months ended 30 June 2019 and 62.6% during the six months ended 30 June 2020.

The decrease in cost of revenue was mainly due to decrease in outsourcing production cost, commission to advertising agencies, technology service fees and taxes and surcharges during the period.

Selling and Marketing Costs

Selling and marketing costs decreased by 26.5% from RMB122.6 million during the six months ended 30 June 2019 to RMB90.1 million during the six months ended 30 June 2020. The decrease was mainly due to less advertising expenses and staff costs during the period.

Administrative Expenses

Administrative expenses increased by 31.3% from RMB35.5 million during the six months ended 30 June 2019 to RMB46.6 million during the six months ended 30 June 2020, mainly due to a compensation payment of RMB12 million for a commercial settlement during the period.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets was RMB8.9 million during the six months ended 30 June 2019 and was RMB40.6 million during the six months ended 30 June 2020. The increase was mainly due to a longer account receivables outstanding during the period.

Product Development Expenses

Product development expenses decreased by 13.8% from RMB37.9 million during the period ended 30 June 2019 to RMB32.7 million during the period ended 30 June 2020. The decrease was primarily due to decrease in personnel-related expenses in the Group's research and development team.

Other Income

Other income was RMB4.9 million during the six months ended 30 June 2019 and was RMB7.7 million during the six months ended 30 June 2020. The increase was due to an increase of non-recurring government grants received during the period.

Finance Income

Net finance income was RMB3.1 million during the six months ended 30 June 2019 and was RMB4.0 million during the six months ended 30 June 2020. The increase was due to less net foreign exchange losses and more interest income during the six months ended 30 June 2020.

Income Tax Expense

Income tax expenses decreased by 48.0% from RMB17.1 million during the six months ended 30 June 2019 to RMB8.9 million during the six months ended 30 June 2020.

Net Profit Attributable to Equity Holders

Net profit attributable to equity holders decreased by 50.9% from RMB76.0 million during the six months ended 30 June 2019 to RMB37.3 million during the six months ended 30 June 2020.

Liquidity and Financial Resources

As of 30 June 2020, the Group had short-term deposits and cash totaling RMB331.5 million, compared with RMB428.0 million as of 31 December 2019. The decline in cash was primarily due to the payment of a cash dividend totaling RMB122.2 million during the six months ended 30 June 2020.

The Company had no external debt as of 31 December 2019 and 30 June 2020.

Bank Borrowings

As of 30 June 2020, The Group did not have any bank borrowings and therefore, its gearing ratio, representing the ratio of total bank borrowings to shareholders' equity, was nil. The Group also did not have any bank borrowings as of 31 December 2019.

Purchase of Property and Equipment

During the six months ended 30 June 2020, the Group purchased a property for its own use in Beijing for RMB40.3 million.

Material Acquisitions and Disposal

During the six months ended 30 June 2020, the Group had no material acquisitions and disposals of subsidiaries and associates.

Charges on Assets

As of 30 June 2020, the Group had no bank deposits or other assets pledge to secure its banking facilities.

Foreign Exchange Risk

The Group's operating activities were principally carried out in Mainland China, with most of its transactions denominated and settled in Renminbi. Therefore, the overall foreign currency risk was not considered to be significant.

Employees and Remuneration Information

As of 30 June 2020, the Group had 1,139 employees (31 December 2019: 1,212), a decrease of 6.0% from the first half of 2020. This is the result of the Group's internal re-structuring and streamlining its support operations. The Group determines staff's remuneration based on factors such as performance and years of experience.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Audit Committee of the Company, which comprises all the three independent non-executive directors of the Company, namely, Mr. Tsui Yiu Wa, Alec (Chairman of the Audit Committee), Mr. Thaddeus Thomas Beczak and Mr. Lam Wai Hon, Ambrose, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control and financial reporting matters, including the review of these interim results.

CORPORATE GOVERNANCE

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 June 2020, except that there is no separation of the role of chairman and chief executive as stipulated in the code provision A.2.1. Dr. Lam Wai Yan currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. As Dr. Lam is a co-founder of the Group and has extensive experience in the internet industry, the Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

APPRECIATION

I would like to take this opportunity to express my gratitude, on behalf of the Board, to all our employees for their contribution and to all our shareholders for their continuous support of our Group.

On behalf of the Board
Pacific Online Limited
Lam Wai Yan
Chairman

Hong Kong, 27 August 2020

As at the date of this announcement, the Board comprises 3 executive directors, namely, Dr. Lam Wai Yan, Mr. Ho Kam Wah and Mr. Wang Ta-Hsing; and 3 independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Lam Wai Hon, Ambrose.