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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The board of directors (the “Board”) of Pacific Online Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	3	967,470	990,823
Cost of revenue	4	<u>(407,014)</u>	<u>(383,546)</u>
Gross profit		560,456	607,277
Selling and marketing costs	4	(190,140)	(257,662)
Administrative expenses	4	(80,946)	(67,663)
Product development expenses	4	(67,006)	(77,768)
Net impairment losses on financial assets		(57,018)	(32,457)
Other income	5	<u>20,211</u>	<u>9,694</u>
Operating profit		<u>185,557</u>	<u>181,421</u>
Finance income		7,605	7,164
Finance cost		<u>(1,875)</u>	<u>(461)</u>
Finance income — net	6	<u>5,730</u>	<u>6,703</u>
Share of net losses of an associate accounted for using the equity method		<u>—</u>	<u>(356)</u>
Profit before income tax		191,287	187,768
Income tax expense	7	<u>(27,713)</u>	<u>(33,088)</u>
Profit for the year		<u>163,574</u>	<u>154,680</u>
Attributable to:			
— Equity holders of the Company		161,887	153,124
— Non-controlling interests		<u>1,687</u>	<u>1,556</u>
		<u>163,574</u>	<u>154,680</u>
Earnings per share for profit attributable to equity holders of the Company for the year			
— Basic and diluted (RMB)	8	<u>14.33 cents</u>	<u>13.62 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit for the year	163,574	154,680
<i>Items that will not be reclassified to profit or loss</i>		
Changes in value of financial assets at fair value through other comprehensive income	<u>9,909</u>	<u>7,244</u>
Other comprehensive income for the year, net of tax	<u>9,909</u>	<u>7,244</u>
Total comprehensive income for the year	<u>173,483</u>	<u>161,924</u>
Attributable to:		
— Equity holders of the Company	171,796	160,368
— Non-controlling interests	<u>1,687</u>	<u>1,556</u>
	<u>173,483</u>	<u>161,924</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		15,425	15,774
Property and equipment		196,687	173,383
Investment property		47,913	43,282
Intangible assets		9,079	9,477
Deferred income tax assets		55,281	50,489
Financial assets at fair value through other comprehensive income	11	62,785	52,876
		<u>387,170</u>	<u>345,281</u>
Current assets			
Trade and note receivables, other receivables and prepayments	10	652,443	644,472
Short-term bank deposits with original terms of over three months		117,249	2,100
Restricted cash		30	—
Cash and cash equivalents		356,807	425,942
		<u>1,126,529</u>	<u>1,072,514</u>
Total assets		<u><u>1,513,699</u></u>	<u><u>1,417,795</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary shares		10,491	10,491
Reserves		1,049,655	991,931
		<u>1,060,146</u>	<u>1,002,422</u>
Non-controlling interests		<u>5,309</u>	<u>3,622</u>
Total equity		<u><u>1,065,455</u></u>	<u><u>1,006,044</u></u>

		As at 31 December	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>74</u>	<u>14</u>
Current liabilities			
Accruals and other payables	12	348,350	316,384
Contract liabilities		48,118	45,956
Current income tax liabilities		51,394	49,004
Lease liabilities		<u>308</u>	<u>393</u>
		<u>448,170</u>	<u>411,737</u>
Total liabilities		<u>448,244</u>	<u>411,751</u>
Total equity and liabilities		<u>1,513,699</u>	<u>1,417,795</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Note</i>	Attributable to equity holders of the Company			Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
		Ordinary shares <i>RMB'000</i>	Reserves <i>RMB'000</i>	Subtotal <i>RMB'000</i>		
Balance at 1 January 2019		10,491	984,176	994,667	2,066	996,733
Comprehensive income						
Profit for the year		—	153,124	153,124	1,556	154,680
Other comprehensive income		—	7,244	7,244	—	7,244
Total comprehensive income		—	160,368	160,368	1,556	161,924
Transactions with shareholders						
Cash dividends relating to 2018 Share Award Scheme	9	—	(153,133)	(153,133)	—	(153,133)
— value of employee services		—	520	520	—	520
Balance at 31 December 2019		<u>10,491</u>	<u>991,931</u>	<u>1,002,422</u>	<u>3,622</u>	<u>1,006,044</u>
Comprehensive income						
Profit for the year		—	161,887	161,887	1,687	163,574
Other comprehensive income		—	9,909	9,909	—	9,909
Total comprehensive income		—	171,796	171,796	1,687	173,483
Transactions with shareholders						
Cash dividends relating to 2019 Share Award Scheme	9	—	(122,162)	(122,162)	—	(122,162)
— value of employee services		—	8,090	8,090	—	8,090
Balance at 31 December 2020		<u>10,491</u>	<u>1,049,655</u>	<u>1,060,146</u>	<u>5,309</u>	<u>1,065,455</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		236,374	165,111
Income tax paid		(30,115)	(42,578)
Net cash generated from operating activities		<u>206,259</u>	<u>122,533</u>
Cash flows from investing activities			
Placement of short-term bank deposits with original terms of over three months		(117,249)	(4,350)
Receipt from maturity of short-term bank deposits with original terms of over three months		2,100	53,000
Interest received		7,605	7,164
Purchase of property and equipment		(46,408)	(7,158)
Disposals of property and equipment		2,225	545
Purchase of intangible assets		(14)	(738)
Disposal of a subsidiary		445	—
Dividends received		525	729
Net cash (used in)/generated from investing activities		<u>(150,771)</u>	<u>49,192</u>
Cash flows from financing activities			
Cash dividends paid	9	(122,162)	(153,133)
Lease payments		(622)	(407)
Net cash used in financing activities		<u>(122,784)</u>	<u>(153,540)</u>
Net (decrease)/increase in cash and cash equivalents		(67,296)	18,185
Cash and cash equivalents at beginning of year		425,942	408,191
Exchange losses on cash and cash equivalents		(1,839)	(434)
Cash and cash equivalents at end of year		<u>356,807</u>	<u>425,942</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 Group is 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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors (the "Board") of the Company on 29 March 2021.

2. BASIS OF PREPARATION

(i) Compliance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, which is measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Amendments to HKAS 1 and HKAS 8 "Definition of Material";
- Amendments to HKFRS 3 "Definition of a Business";
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform";
- Amendments to HKFRS 16 "Covid-19-related Rent Concessions";
- Conceptual Framework for Financial Reporting 2018 "Revised Conceptual Framework for Financial Reporting".

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards, amendments to standards and interpretations not yet adopted

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	Improvements to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3. 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 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 baby and home products and other services.

There were no inter-segment sales for the year ended 31 December 2020 (2019: same). The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated income statement.

	PCauto <i>RMB'000</i>	POnline <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2020				
Timing of revenue recognition				
— Over time	729,121	96,223	30,472	855,816
— At a point in time	<u>99,391</u>	<u>6,895</u>	<u>5,368</u>	<u>111,654</u>
Revenue	<u><u>828,512</u></u>	<u><u>103,118</u></u>	<u><u>35,840</u></u>	<u><u>967,470</u></u>
For the year ended 31 December 2019				
Timing of revenue recognition				
— Over time	727,401	127,852	76,566	931,819
— At a point in time	<u>48,882</u>	<u>4,915</u>	<u>5,207</u>	<u>59,004</u>
Revenue	<u><u>776,283</u></u>	<u><u>132,767</u></u>	<u><u>81,773</u></u>	<u><u>990,823</u></u>

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2020, all revenues of the Group were derived from external customers and they were all generated from the PRC (2019: same).

As at 31 December 2020, other than club membership included in the intangible assets and financial assets at fair value through other comprehensive income, majority of other non-current assets of the Group were located in the PRC (31 December 2019: same).

For the year ended 31 December 2020, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (2019: same).

The Group does not disclose information about remaining unsatisfied performance obligations as permitted under the practical expedient in accordance with HKFRS 15 as their original expected duration is less than one year.

4. EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing costs, administrative expenses and product development expenses are analysed as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Employee benefit expenses	247,725	284,014
Service commission to advertising agencies	158,164	152,704
Outsourcing production cost	138,742	86,205
Advertising expenses	88,017	134,487
Technology service fees	26,279	25,990
Bandwidth and server custody fees	17,407	17,889
Depreciation and amortisation expenses		
— Depreciation of property and equipment	13,913	14,206
— Amortisation of intangible assets	412	154
— Amortisation of right-of-use assets	910	709
Lawsuit compensation (i)	12,000	—
Travelling and entertainment expenses	7,606	14,304
Other taxes and surcharge (ii)	7,075	29,529
Conference and office expenses	5,278	5,827
Auditors' remuneration		
— Audit services	3,670	3,670
— Non-audit services	419	515
Professional fees	2,932	1,453
Expenses related to short term leases	2,029	3,623
Impairment charge of investment in an associate	—	1,031
Other expenses	12,528	10,329
	<u>745,106</u>	<u>786,639</u>
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	<u>745,106</u>	<u>786,639</u>

Product development expenses are mainly included in employee benefit expenses and depreciation of property and equipment and amortisation of intangible assets. No product development expenses were capitalised for the year ended 31 December 2020 (2019: same).

- (i) It represents a payment to a third party for the settlement of a lawsuit.
- (ii) Certain subsidiaries operating in the PRC enjoyed a tax relief in cultural construction fees which formed major part of other taxes and surcharge.

5. OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants (i)	6,977	5,399
Additional deduction of input value-added tax	6,072	752
Rental income	4,951	2,814
Gain on disposal of a subsidiary (ii)	1,686	—
Dividend income on financial assets at fair value through other comprehensive income	525	729
	<u>20,211</u>	<u>9,694</u>

(i) There are no unfulfilled conditions or other contingencies relating to these grants.

(ii) During the year ended 31 December 2020, the Company disposed of an immaterial subsidiary of the Group to third parties.

6. FINANCE INCOME — NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income		
— Interest income	<u>7,605</u>	<u>7,164</u>
Finance cost		
— Interest expense on lease liabilities	(36)	(27)
— Net foreign exchange losses	<u>(1,839)</u>	<u>(434)</u>
	<u>(1,875)</u>	<u>(461)</u>
Finance income — net	<u>5,730</u>	<u>6,703</u>

7. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
PRC current tax	32,505	30,555
Deferred taxation	<u>(4,792)</u>	<u>2,533</u>
	<u>27,713</u>	<u>33,088</u>

The Company, which is a Cayman Islands corporation, is 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 year ended 31 December 2020 (2019: same).

Current taxation primarily represented the provision for 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”). GZP Computer and GDP Internet, the principal operating subsidiaries of the Company, successfully renewed the certificate of HNTE in 2020. Therefore, the applicable income tax rate is 15% for the three years from 2020 to 2022. Guangzhou Kuche Information Technology Co., Ltd. (廣州酷車信息科技有限公司, “GZ Kuche”), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2020 and the applicable income tax rate is 15% for the three years from 2020 to 2022. Guangzhou Yurui Information Technology Co., Ltd. (廣州裕睿信息科技有限公司, “GZ Yurui”), 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. Assuming that there is no change to the relevant laws and regulations, the directors consider that these four subsidiaries will be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax. All the other PRC entities of the Group are subject to CIT at a rate of 25% in accordance with CIT Law.

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.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of all the consolidated PRC entities as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax expense	<u>191,287</u>	<u>187,768</u>
Tax calculated at the statutory tax rate of 25% (2019: 25%)	47,822	46,942
Tax effects of		
— Tax concessions available to certain PRC subsidiaries (a)	(23,231)	(23,857)
— Income not subject to tax	(503)	(908)
— Expenses not deductible for tax purposes (b)	4,156	4,730
— Utilisation of previously unrecognised tax losses	(4,608)	—
— Unrecognised tax losses	3,754	6,447
— Additional deduction on product development expenses	(8,927)	(9,266)
Withholding tax on the earnings to be remitted by PRC subsidiaries	<u>9,250</u>	<u>9,000</u>
Income tax expense	<u>27,713</u>	<u>33,088</u>

- (a) It represented the preferential tax treatments relating to HNTE enjoyed by certain PRC subsidiaries of the Group.
- (b) Expenses not deductible for tax purposes mainly included expenses incurred by the Company and subsidiaries incorporated in Hong Kong.

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 year (excluding the ordinary shares purchased by the Group and held for the Share Award Scheme).

	2020	2019
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>161,887</u>	<u>153,124</u>
Weighted average number of ordinary shares for basic earnings per share (<i>thousand shares</i>)	<u>1,129,413</u>	<u>1,124,230</u>
Basic earnings per share (<i>RMB</i>)	<u>14.33 cents</u>	<u>13.62 cents</u>

(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 year ended 31 December 2020 (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 recommended the payment of a final dividend of RMB13.00 cents per ordinary share in cash for the year ended 31 December 2020, totalling RMB147,427,000 based on the ordinary shares in issue as of 31 December 2020. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held in May 2021. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND NOTE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	At 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, net of impairment provision (a)	610,629	622,965
Other receivables (b)	27,707	19,308
Prepayments	7,622	1,730
Notes receivable	6,485	469
	<u>652,443</u>	<u>644,472</u>

As of 31 December 2020, trade and note receivables, other receivables 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 RMB147,132,000 (31 December 2019: RMB108,427,000)) based on recognition date is as follows:

	At 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 6 months	410,063	347,183
6 months to 1 year	98,937	203,797
1 year to 2 years	90,629	60,985
Above 2 years	11,000	11,000
	<u>610,629</u>	<u>622,965</u>

(b) Other receivables

	At 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Input value-added tax deductible	9,925	8,998
Advance to employees	6,404	4,424
Advance to a third party	4,792	—
Rental receivables	1,051	1,190
Others	5,535	4,696
	<u>27,707</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.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of the year	52,876	45,632
Changes in fair value	<u>9,909</u>	<u>7,244</u>
At end of the year	<u><u>62,785</u></u>	<u><u>52,876</u></u>

In June 2014, the Group made an equity investment with an amount of USD5,000,000 in an entity who invested in shares of companies principally engaged in Internet business, in which the Group does not have control or significant influence. The directors classified the investment as financial assets at fair value through other comprehensive income. As at 31 December 2020, the Group held around 43% (31 December 2019: 44%) interests of the entity.

The fair value of investment is based on the fair value of underlying investments held by the entity, which are mainly influenced by the market price and recent trading price of the shares invested.

12. ACCRUALS AND OTHER PAYABLES

	At 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Accrued expenses (a)	280,621	252,733
Salaries payable	47,874	44,746
Other tax payable	7,654	5,518
Other payables (b)	<u>12,201</u>	<u>13,387</u>
	<u><u>348,350</u></u>	<u><u>316,384</u></u>

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the whole of 2020, the Company's revenue was RMB967.5 million, a decrease of 2.4% from last year. The profit attributable to equity holders was RMB161.9 million, a year-on-year increase of 5.7%. The Company's restructuring in the past few years has yielded improvements in gross profit margin but was still exposed to an increase in longer receivables. Moving forward, we are focused on developing the Company's human capital as the key to drive our innovation strategy, product development and strengthening the Company's core competencies.

The Company has faced a number of challenges in the past year owing to both the impacts of the COVID-19 global pandemic and the Sino-US trade relationship.

As a result of nationwide pandemic restrictions in the first half of 2020, the industry was subject to material disruptions in operations before significantly rebounding in the latter half of the year. However, when compared to 2019, overall car sales in China still decreased by 6.8%. In spite of this, PCauto was able to increase revenues by 6.7% and maintain consistent cash flows throughout 2020. PCauto's "Cool Car Project" collaboration with the Alipay platform has continued to successfully develop new marketing products and expand the Company's footprint in the aftersales market. While changes in consumer behavior has led to development in live broadcasting and VR entertainment offerings, opening the door to new collaborative opportunities and partners.

The developments of the Sino-US trade relationship had an adverse impact on China's private businesses, with electronic technology firms being amongst the hardest hit, subsequently affecting many of our partners' domestic business. These developments, in addition to market changes in advertising, have affected almost all consumers in the PConline, PClady, PChouse, and PCbaby categories. Faced with these challenges, PConline has responded by identifying new marketing channel strategies, refining our understanding of customer needs, and further developing our content offerings. PCbaby, PClady and PChouse took this opportunity to further implement restructuring to reposition the platform with a greater focus on new mobile product development and consumer experience in the future.

Looking ahead towards 2021, the Company remains cautiously optimistic of the impact from the global pandemic and ongoing trade tensions. The Company has been proactive in ensuring that both the Company and employees remain minimally affected by these events and we will continue to closely monitor the impact that global developments will have on our related industries. We are confident that the Company's focus on enabling product innovation and developing our human capital in the coming year will continue to drive the Company forward.

Revenue

Revenue decreased 2.4% from RMB990.8 million for the year ended 31 December 2019 to RMB967.5 million for the year ended 31 December 2020.

Revenue for PCauto, the Group's automobile portal, increased 6.7% from RMB776.3 million for the year ended 31 December 2019 to RMB828.5 million during the year ended 31 December 2020. The increase in revenue for PCauto was primarily due to increased spending from both auto manufacturers and dealership customers in the second half of the year. As a percentage of revenue, PCauto accounted for 78.3% during the year ended 31 December 2019 and 85.6% during the year ended 31 December 2020.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 22.3% from RMB132.8 million during the year ended 31 December 2019 to RMB103.1 million during the year ended 31 December 2020. The decrease was due to decline in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 13.4% during the year ended 31 December 2019 and 10.7% during the year ended 31 December 2020.

Revenue from other operations, including PClady, PCbaby and PChouse portals, decreased by 56.2% from RMB81.8 million during the year ended 31 December 2019 to RMB35.8 million during the year ended 31 December 2020. The decrease was mainly due to the slowdown in advertising demand from these general consumer markets. As a percentage of revenue, revenue from other operations accounted for 8.3% during the year ended 31 December 2019 and 3.7% during the year ended 31 December 2020.

Cost of Revenue

Cost of revenue increased 6.1% from RMB383.5 million during the year ended 31 December 2019 to RMB407.0 million during the year ended 31 December 2020. Gross profit margin was 61.3% during the year ended 31 December 2019 and 57.9% during the year ended 31 December 2020.

The increase in cost of revenue was mainly due to an increase in outsourcing production costs offsetting decrease in other taxes and surcharges.

Selling and Marketing Costs

Selling and marketing costs decreased 26.2% from RMB257.7 million during the year ended 31 December 2019 to RMB190.1 million during the year ended 31 December 2020. The decrease in selling and marketing expenses was mainly due to the decrease in advertising expenses and less employee benefit expenses.

Administrative Expenses

Administrative expenses increased by 19.6% from RMB67.7 million during the year ended 31 December 2019 to RMB80.9 million during the year ended 31 December 2020, mainly due to a compensation payment of RMB12.0 million for a commercial settlement during the year.

Net Impairment Losses on Financial Assets

Net impairment losses on financial assets increased by 75.7% from RMB32.5 million during the year ended 31 December 2019 to RMB57.0 million during the year ended 31 December 2020. The increase was mainly due to longer receivables outstanding during the year.

Product Development Expenses

Product development expenses decreased by 13.8% from RMB77.8 million during the year ended 31 December 2019 to RMB67.0 million during the year ended 31 December 2020. The decrease was due to decrease in personnel-related expenses in the Group's research and development team.

Other Income

Other income was RMB20.2 million during the year ended 31 December 2020 and RMB9.7 million during the year ended 31 December 2019. The increase was mainly due to increase in government grants and additional deduction of input value-added taxes.

Finance Income and Cost

Net finance income decreased 14.5% from RMB6.7 million during the year ended 31 December 2019 to RMB5.7 million during the year ended 31 December 2020. The decrease was mainly due to increase in net foreign exchange losses during the year.

Income Tax Expense

Income tax expenses decreased 16.2% from RMB33.1 million during the year ended 31 December 2019 to RMB27.7 million during the year ended 31 December 2020.

Net Profit Attributable to Equity Holders

Net profit attributable to equity holders increased 5.7% from RMB153.1 million during the year ended 31 December 2019 to RMB161.9 million during the year ended 31 December 2020.

Liquidity and Financial Resources

As of 31 December 2020, the Group had short-term deposits and cash totaling RMB474.1 million, compared with RMB428.0 million as of 31 December 2019.

In 2020, net cash generated from operating activities was RMB206.3 million, net cash used in investing activities was RMB150.8 million, net cash used in financing activities was RMB122.8 million, with a net decrease in cash and cash equivalents of RMB67.3 million for year 2020.

In 2019, net cash generated from operating activities was RMB122.5 million, net cash generated from investing activities was RMB49.2 million, net cash used in financing activities was RMB153.5 million, with a net increase in cash and cash equivalents of RMB18.2 million for year 2019.

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

Bank Borrowings

As of both 31 December 2020 and 31 December 2019, 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 for both years.

Material Acquisitions and Disposals

During the year ended 31 December 2020, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2020, the Group had no bank deposits or other assets pledged to secure its banking facilities.

Foreign Exchange Risk

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

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2020, the Group had 1,106 employees (2019: 1,212). The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

Proposed Final Dividend

The Board has recommended the payment of a final cash dividend of RMB13.00 cents per ordinary share for the year ended 31 December 2020 (the “Proposed Final Dividend”), which compares with RMB10.80 cents for 2019. The final dividend is subject to the shareholders’ approval at the Company’s forthcoming annual general meeting to be held on Monday, 17 May 2021 (the “2021 AGM”). The Proposed Final Dividend will be paid in cash on Monday, 7 June 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 26 May 2021.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Wednesday, 12 May 2021 to Monday, 17 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2021 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 11 May 2021.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Tuesday, 25 May 2021 to Wednesday, 26 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at the above address, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2020.

Audit Committee

The Audit Committee of the Company, which comprises 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 the annual financial results of the Group for the year ended 31 December 2020.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

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 to the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 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 experiences 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 sincerest gratitude on behalf of the Board to all of my employees and shareholders for their continuous effort and support.

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

Hong Kong, 29 March 2021

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.