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 2013

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 2013 together with the comparative figures for the corresponding period of last year, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2013

		Unaudited Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Revenue	4	**340,971**	298,174
Cost of revenue		**(102,312)**	(97,663)
Gross profit		**238,659**	200,511
Selling and marketing costs		**(74,844)**	(45,088)
Administrative expenses		**(33,643)**	(35,317)
Product development expenses		**(22,547)**	(17,200)
Other income		**—**	1,925
Operating profit		**107,625**	104,831
Finance income		**6,278**	3,070
Finance costs		**—**	(358)
Finance income — net	5	**6,278**	2,712
Profit before income tax		**113,903**	107,543
Income tax expense	6(a)	**(24,538)**	(22,514)
Profit for the period		**89,365**	85,029

		Unaudited	
		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity holders of the Company		**89,365**	85,029
Earnings per share for profit attributable to equity holders of the Company			
— basic *(RMB)*	7(a)	**8.24 cents**	7.83 cents
— diluted *(RMB)*	7(b)	**8.07 cents**	7.63 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit for the period	**89,365**	85,029
Other comprehensive income for the period, net of tax	**—**	—
Total comprehensive income for the period	**89,365**	85,029
Attributable to:		
Equity holders of the Company	**89,365**	85,029

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2013

	Note	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		**17,427**	17,640
Property and equipment	9	**204,313**	209,042
Intangible assets	9	**14,063**	14,677
Deferred income tax assets	10	**6,903**	7,074
		242,706	248,433
Current assets			
Trade and other receivables and prepayments	11	**361,855**	260,434
Short-term bank deposits with original terms of over three months		**117,486**	2,583
Cash and cash equivalents		**157,065**	437,316
		636,406	700,333
Total assets		**879,112**	948,766
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	12	**10,142**	10,100
Reserves		**706,074**	772,447
Total equity		**716,216**	782,547
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10	**5,590**	—
Current liabilities			
Accruals and other payables	13	**113,720**	115,668
Prepaid advertising subscriptions from customers		**16,878**	18,261
Current income tax liabilities		**26,708**	32,290
		157,306	166,219
Total liabilities		**162,896**	166,219
Total equity and liabilities		**879,112**	948,766
Net current assets		**479,100**	534,114
Total assets less current liabilities		**721,806**	782,547

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

		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	Share-based compensation reserve RMB'000	Shares held for Share Award Scheme RMB'000	Statutory reserve funds RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2012		10,093	299,843	4	249	30,083	(8,605)	43,250	332,962	707,879
Comprehensive income										
Profit for the period		—	—	—	—	—	—	—	85,029	85,029
Other comprehensive income		—	—	—	—	—	—	—	—	—
Total comprehensive income		—	—	—	—	—	—	—	85,029	85,029
Cash dividends relating to 2011, paid in 2012	8	—	—	—	—	—	—	—	(160,572)	(160,572)
Repurchase of shares of the Company		(35)	(9,291)	—	35	—	—	—	(35)	(9,326)
Share Award Scheme										
— purchase of shares		—	—	—	—	—	(3,839)	—	—	(3,839)
— value of employee services	14(b)	—	—	—	—	2,219	—	—	—	2,219
— vesting of Awarded Shares		—	(944)	—	—	—	944	—	—	—
Employees share option schemes:										
— exercise of share options	12(a)	57	9,719	—	—	—	—	—	—	9,776
— value of employee services	14(a)	—	—	—	—	1,115	—	—	—	1,115
Balance at 30 June 2012		10,115	299,327	4	284	33,417	(11,500)	43,250	257,384	632,281
Balance at 1 January 2013		10,100	293,604	4	306	36,298	(9,819)	43,250	408,804	782,547
Comprehensive income										
Profit for the period		—	—	—	—	—	—	—	89,365	89,365
Other comprehensive income		—	—	—	—	—	—	—	—	—
Total comprehensive income		—	—	—	—	—	—	—	89,365	89,365
Cash dividends relating to 2012, paid in 2013	8	—	—	—	—	—	—	—	(165,858)	(165,858)
Share Award Scheme										
— value of employee services	14(b)	—	—	—	—	1,440	—	—	—	1,440
— vesting of Awarded Shares		—	(2,310)	—	—	—	2,310	—	—	—
Employees share option schemes:										
— exercise of share options	12(a)	42	8,208	—	—	—	—	—	—	8,250
— value of employee services	14(a)	—	—	—	—	472	—	—	—	472
Balance at 30 June 2013		10,142	299,502	4	306	38,210	(7,509)	43,250	332,311	716,216

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

		Unaudited	
		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**16,440**	10,316
Income tax paid		**(24,359)**	(24,673)
Net cash used in operating activities		**(7,919)**	(14,357)
Cash flows from investing activities			
Purchase of property and equipment		**(2,739)**	(12,378)
Purchase of intangible assets		**(1,170)**	(91)
Increase in short-term bank deposits with original terms of over three months		**(114,903)**	(41)
Interest received		**3,218**	2,307
Net cash used in investing activities		**(115,594)**	(10,203)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme		**—**	(3,839)
Cash dividends paid	8	**(165,858)**	(160,572)
Proceeds from issuance of ordinary shares	12(a)	**8,250**	9,776
Repurchase of shares of the Company		**—**	(9,326)
Net cash used in financing activities		**(157,608)**	(163,961)
Net decrease in cash and cash equivalents		**(281,121)**	(188,521)
Cash and cash equivalents at beginning of period		**437,316**	429,658
Exchange gains/(losses) on cash and cash equivalents		**870**	(228)
Cash and cash equivalents at end of period		**157,065**	240,909

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Group are principally engaged in the provision of internet advertising services in the People's Republic of China ("PRC").

The Company has its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 on 27 August 2013.

The Interim Financial Information has been reviewed, but not audited.

2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting'. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements of the Group for the year ended 31 December 2012, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

(a) The following new standards, amendments to standards and interpretations are effective for the financial year beginning 1 January 2013:

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 19 (Amendment)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Associates and joint ventures
HKFRS 1 (Amendment)	Government loans
HKFRS 7 (Amendment)	Disclosures — Offsetting financial assets and financial liabilities
HKFRSs (Amendments)	Fourth improvements to HKFRSs
HK(IFRIC) — Int 20	Stripping costs in the production phase of a surface mine

The adoption of the above amended standards did not have any material impact on the Interim Financial Information of the Group except for disclosure and has not led to any changes in the accounting policies except disclosed elsewhere.

(b) The following new standards, amendments to existing standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
HKFRS 10, HKFRS 12 (Amendment) and HKFRS 27 (revised 2011)	Investment entities	1 January 2014
HK(IFRIC) — Int 21	Levies	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015

Management of the Group is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

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 business from the performance of the internet advertising generated from different internet portals the Group 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 revenue derived from its different internet portals. The reportable operating segments derive their revenue primarily from the three major portals, namely PCauto, PConline and PClady. 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 for each reportable segment and total assets.

Revenue of other segment relates to those generated from other portals, including on-line game, baby and home products, and other services.

There were no inter-segment sales for the six months ended 30 June 2013 (six months ended 30 June 2012: nil). The revenue from external parties reported to the chief operating decision makers is measured in a manner consistent with that in the condensed consolidated income statement.

	PCauto *RMB'000* (Unaudited)	**PConline** *RMB'000* (Unaudited)	**PClady** *RMB'000* (Unaudited)	**Others** *RMB'000* (Unaudited)	**Group** *RMB'000* (Unaudited)
For the six months ended 30 June 2013					
Revenue	175,753	110,854	32,990	21,374	340,971
For the six months ended 30 June 2012					
Revenue	145,463	112,914	24,342	15,455	298,174

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2013 all revenues of the Group were derived from external customers and they were all generated from the PRC (six months ended 30 June 2012: same).

As at 30 June 2013, majority of non-current assets of the Group other than the club membership included in the intangible assets were located in the PRC (31 December 2012: same).

For the six months ended 30 June 2013, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (six months ended 30 June 2012: same).

5. FINANCE INCOME — NET

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Finance income		
— Interest income	**4,942**	3,070
— Net foreign exchange gains	**1,336**	—
	6,278	3,070
Finance costs		
— Net foreign exchange losses	**—**	(358)
Finance income — net	**6,278**	2,712

6. TAX EXPENSE

(a) Income tax expense

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
PRC current tax	**18,777**	16,936
Deferred taxation	**5,761**	5,578
	24,538	22,514

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, 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 six months ended 30 June 2013 (six months ended 30 June 2012: 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 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 Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司, "GZP Computer") and Guangdong Pacific Internet Information Service Co., Ltd. (廣東太平

洋互聯網信息服務有限公司, "GDP Internet"), the principal operating subsidiaries of the Company, were designated as HNTE for the three years ending 31 December 2013 under the CIT Law. As a result, GZP Computer and GDP Internet are subject to CIT at a rate of 15% from 2011 to 2013. Consequently, GZP Computer and GDP Internet used 15% in the computation of deferred taxes as of 30 June 2013 and the current income tax charge for the six months then ended.

All other PRC entities of the Group are subject to CIT at a rate of 25% (six months ended 30 June 2012: same) in accordance with the CIT Law.

(b) Value-added tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	**Tax rate**	**Basis of levy**
Value-added tax ("VAT")	6%	Advertising income, offsetting by VAT on purchases
City construction tax	7%	Net VAT and Business Tax ("BT") payable amount
Educational surcharge	5%	Net VAT and BT payable amount

Pursuant to the pilot program for the transition from BT to VAT launched in the year of 2012, the advertising income of the Group in Shanghai, Beijing and Guangzhou is subject to VAT instead of BT for the six months ended 30 June 2013 (six months ended 30 June 2012: the advertising income in Shanghai is subject to VAT since 1 January 2012, all the other income of the Group in the PRC was subject to BT).

7. 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 the Share Award Scheme (Note 14(b)).

	Unaudited Six months ended 30 June	
	2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**89,365**	85,029
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,084,040**	1,086,321
Basic earnings per share *(RMB)*	**8.24 cents**	7.83 cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

	Unaudited Six months ended 30 June 2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**89,365**	85,029
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,106,947**	1,114,425
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,084,040**	1,086,321
— Adjustment for share options and awarded shares *(thousand shares)*	**22,907**	28,104
Diluted earnings per share *(RMB)*	**8.07 cents**	7.63 cents

8. DIVIDENDS

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

The dividend paid in the six months ended 30 June 2013 included the 2012 final cash dividend of RMB15.26 cents (six months ended 30 June 2012: RMB14.78 cents) per ordinary share out of the retained earnings, totalling RMB165,858,000 (six months ended 30 June 2012: RMB160,572,000), which has already excluded the dividend related to the ordinary shares held under the Share Award Scheme of RMB464,000 (six months ended 30 June 2012: RMB486,000).

9. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and equipment *RMB'000* (Unaudited)	**Intangible assets** *RMB'000* (Unaudited)
Six months ended 30 June 2012		
Net book amount as at 1 January 2012	207,299	9,034
Additions	3,070	91
Disposals	(30)	—
Depreciation and amortisation	(6,511)	(169)
Net book amount as at 30 June 2012	203,828	8,956
Six months ended 30 June 2013		
Net book amount as at 1 January 2013	**209,042**	**14,677**
Additions	**2,739**	**1,170**
Disposals	**(181)**	**—**
Depreciation and amortisation	**(7,287)**	**(1,784)**
Net book amount as at 30 June 2013	**204,313**	**14,063**

10. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates, which are enacted or substantively enacted and expected to apply to the period when the assets are realised.

Deferred income tax assets

	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000*
Deferred income tax assets:		
— to be recovered after more than 12 months	**3,438**	3,251
— to be recovered within 12 months	**3,465**	3,823
	6,903	7,074

The movement in deferred income tax assets during the period was as follows:

	Advertising expenses in excess of allowance *RMB'000* (Unaudited)	**Provision for impairment of trade receivables** *RMB'000* (Unaudited)	**Accrued salary expense** *RMB'000* (Unaudited)	**Total** *RMB'000* (Unaudited)
At 1 January 2012	—	3,213	4,247	7,460
Credited/(Charged) to the income statement	—	1,206	(1,784)	(578)
At 30 June 2012	—	4,419	2,463	6,882
At 1 January 2013	**—**	**3,251**	**3,823**	**7,074**
Credited/(Charged) to the income statement	**422**	**187**	**(780)**	**(171)**
At 30 June 2013	**422**	**3,438**	**3,043**	**6,903**

Deferred income tax liabilities

	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000*
Deferred income tax liabilities:		
— to be recovered within 12 months	**5,590**	—

The movement in deferred income tax liabilities during the period was as follows:

	Deferred income tax liabilities-withholding tax *RMB'000* (Unaudited)
At 1 January 2012	—
Charged to the income statement	5,000
At 30 June 2012	5,000
At 1 January 2013	**—**
Charged to the income statement	**5,590**
At 30 June 2013	**5,590**

As at 30 June 2013, the deferred income tax liabilities represented the withholding tax provided for the earnings anticipated to be remitted abroad from a PRC subsidiary of the Group.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables, net of impairment provision

Credit terms granted to customers by the Group are generally within six months. As at 30 June 2013, the ageing analysis the trade receivables (net of impairment provision of RMB13,752,000 (31 December 2012: RMB13,003,000)) was as follows:

	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000*
Current to 6 months	**294,665**	213,276
6 months to 1 year	**46,916**	33,394
1 year to 2 years	**2,818**	4,024
Above 2 years	**19**	88
	344,418	250,782

(b) Other receivables and prepayments

	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000*
Other receivables	**12,047**	5,904
Advance to employees	**4,108**	3,590
Prepayments	**1,282**	158
	17,437	9,652

12. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares ('000)	*HKD'000*	*RMB'000*
At 31 December 2012 and 30 June 2013	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares ('000) (Unaudited)	*HKD'000* (Unaudited)	*RMB'000* (Unaudited)
At 1 January 2012	1,084,019	10,840	10,093
Employees share option schemes — issued shares (a)	6,504	65	57
Repurchase of shares of the Company	(3,672)	(37)	(35)
At 30 June 2012	1,086,851	10,868	10,115
At 1 January 2013	**1,084,966**	**10,850**	**10,100**
Employees share option schemes — issued shares (a)	**5,261**	**53**	**42**
At 30 June 2013	**1,090,227**	**10,903**	**10,142**

(a) Share options exercised during the six months ended 30 June 2013 resulted in 5,261,000 shares being issued (six months ended 30 June 2012: 6,504,000 shares) with exercise proceeds of RMB8,250,000 (six months ended 30 June 2012: RMB9,776,000). The nominal value of these shares of RMB42,000 (six months ended 30 June 2012: RMB57,000) and the premium of RMB8,208,000 (six months ended 30 June 2012: RMB9,719,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HKD3.12 per share (six months ended 30 June 2012: HKD3.41).

All the ordinary shares issued during the six months ended 30 June 2013 rank pari passu with the then existing ordinary shares in all respects.

13. ACCRUALS AND OTHER PAYABLES

	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000*
Salaries payable	**21,117**	25,955
Accrued expenses (a)	**67,262**	51,890
Other payables (b)	**25,341**	37,823
	113,720	115,668

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

(b) Other payables mainly represented VAT payable, other levies payable and deposit.

14. SHARE-BASED COMPENSATION COSTS

(a) Share Option Plan

Options were granted to directors and selected employees according to their contribution to the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(i) Pre-IPO Share Option Plan

On 23 November 2007, the Company granted share options to directors and selected employees under a Pre-IPO Share Option Plan, under which the option holders are entitled to acquire an aggregate of 49,929,000 shares of the Company. All options under the Pre-IPO Share Option Plan had been granted.

(ii) Post-IPO Share Option Plan

On 23 November 2007, the Company also adopted a Post-IPO Share Option Plan pursuant to which a total of 95,000,000 unissued shares of the Company were reserved and made available for grant of share options. In 2011, the Company refreshed the limit of the Post-IPO Share Option Plan to 98,130,880 ordinary shares. These shares, reserved for future grant of share options, represented 9% of the issued share capital of the Company as of 30 June 2013. The number of shares issued and to be issued in respect of these options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval obtained from the Company's shareholders. Options granted to independent non-executive directors and substantial shareholders of the Company in excess of 0.1% of the Company's share capital and with a value in excess of HKD5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up by the option holders within 28 days of the date of offer, upon payment of HKD1 per grant. Options may be exercised at any time during the option period, which should not be more than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

(iii) Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	Pre-IPO Share Option Plan		Post-IPO Share Option Plan		
	Average exercise price *(HKD)* (Unaudited)	**Number of options** *(thousands)* (Unaudited)	**Average exercise price** *(HKD)* (Unaudited)	**Number of options** *(thousands)* (Unaudited)	**Total number of options** *(thousands)* (Unaudited)
At 1 January 2012	1.73	33,812	2.01	29,233	63,045
Granted	—	—	—	—	—
Exercised	1.76	(2,893)	1.92	(3,611)	(6,504)
Forfeited	—	—	—	—	—
At 30 June 2012	1.72	30,919	1.92	25,622	56,541
Currently exercisable as at 30 June 2012	1.72	30,919	2.04	14,001	44,920
At 1 January 2013	**1.72**	**30,523**	**2.03**	**25,466**	**55,989**
Granted	**—**	**—**	**—**	**—**	**—**
Exercised	**1.92**	**(1,743)**	**1.97**	**(3,518)**	**(5,261)**
Forfeited	**—**	**—**	**2.00**	**(774)**	**(774)**
At 30 June 2013	**1.71**	**28,780**	**2.02**	**21,174**	**49,954**
Currently exercisable as at 30 June 2013	**1.71**	**28,780**	**2.03**	**20,439**	**49,219**

(iv) Fair values of options

The fair value of options granted on 23 November 2007 under Pre-IPO Share Option Plan determined using the Binomial valuation model was approximately RMB19.8 million.

The fair values of options granted under Post-IPO Share Option Plan determined using the Trinomial valuation model was approximately RMB16.6 million.

The total expenses recognised for employee services received in respect of the Pre-IPO Share Option Plan and Post-IPO Share Option Plan for the six months ended 30 June 2013 was RMB472,000 (six months ended 30 June 2012: RMB1,115,000).

(b) Share Award Scheme

On 10 January 2011 (the "Adoption Date"), the Board approved and adopted a restricted share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme and holding shares awarded to the employees (the "Awarded Shares") before they vest. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date.

The Board will implement the scheme in accordance with the terms of the scheme rules including providing necessary funds to the trustee for the purchase of shares up to 2.5% of the issued share capital of the Company as of the Adoption Date.

Employees are not entitled to dividends on any Awarded Shares that are not yet transferred to them.

Movements in the number of shares held for the Share Award Scheme for the six months ended 30 June 2013 were as follows:

	Shares held for the Share Award Scheme *(thousands)* (Unaudited)	Awarded Shares held by Trustee *(thousands)* (Unaudited)
At 1 January 2012	2,098	752
Purchased	1,500	—
Granted to employees	(907)	907
Forfeited	5	(5)
Vested	—	(313)
At 30 June 2012	2,696	1,341
At 1 January 2013	**1,908**	**1,637**
Granted to employees	**(603)**	**603**
Forfeited	**65**	**(65)**
Vested	**—**	**(785)**
At 30 June 2013	**1,370**	**1,390**

For the Awarded Shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the Awarded Shares is recognised as an expense and credited to equity over the period in which the vesting conditions are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Awarded Shares granted.

The fair value of the Awarded Shares was calculated based on market prices of the Company's shares as at the respective grant dates. The expected dividends during the vesting periods have been taken into account when assessing the fair value of the Awarded Shares.

The fair value of the Awarded Shares granted during the six months ended 30 June 2013 and their vesting period are as follows:

Date of grant	**Total value of shares at grant date** *(HKD)*	**No. of shares granted** *(thousands)*	**Market price at grant date** *(HKD)*	**Vesting period**
31 January 2013	1,857,240	603	3.08	1 year

The total expense recognised for employee services received in respect of the Share Award Scheme for the six months ended 30 June 2013 was RMB1,440,000 (six months ended 30 June 2012: RMB2,219,000).

During the six months ended 30 June 2013, the Share Award Scheme Trust received cash dividend amounting to RMB464,000 (six months ended 30 June 2012: RMB486,000) which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 14.4% from RMB298.2 million for the six months ended 30 June 2012 to RMB341.0 million for the six months ended 30 June 2013. In 2012, the Ministry of Finance in China launched a pilot program to gradually transition the taxation system from a business tax to a value-added tax. For the purpose of comparison, our reported revenue growth for the six months ended 30 June 2013 would have been 19.0% had the business tax remained applicable to our business during the six months ended 30 June 2013.

Revenue for PCauto increased by 20.8% from RMB145.5 million for the six months ended 30 June 2012 to RMB175.8 million for the six months ended 30 June 2013. The rise was primarily because demand for new cars in China remains robust and automobile manufacturers, dealers and other auto-related players continued to allocate more of their marketing budgets to digital media.

Revenue for PConline decreased by 1.8% from RMB112.9 million for the six months ended 30 June 2012 to RMB110.9 million for the six months ended 30 June 2013. The slight decline was primarily due to ongoing changes in the IT industry in China. While the Company saw a strong increase in demand for advertisements among smartphone and tablet manufacturers, laptop and desktop computer manufactures reduced their advertising budgets due to declining production and sales.

Revenue for PClady increased by 35.5% from RMB24.3 million for the six months ended 30 June 2012 to RMB33.0 million for the six months ended 30 June 2013. The rise was primarily due to the Company's success at attracting more advertisers, especially in the up-market and luxury segments, following improvements to the site's design and interface, and the addition of new content and subcategories, which attracted new users, especially from more mature audiences.

Revenue for the Company's other operations, PCgames, PCbaby, and PChouse increased by 38.3% from RMB15.5 million for the six months ended 30 June 2012 to RMB21.4 million for the six months ended 30 June 2013. The Company saw strong demand from advertisers for baby formula and diapers in the PCbaby portal, and it worked to upgrade the content and platforms of all of its up-and-coming portals.

As a percentage of total revenue, for the six month period ended 30 June 2012 compared with the six month period ended 30 June 2013, PCauto accounted for 48.8% versus 51.5%, respectively; PConline accounted for 37.8% versus 32.5% respectively; PClady accounted for 8.2% versus 9.7% respectively; and other operations accounted for 5.2% versus 6.3% respectively. The Group continued to diversify its revenue base across different industry segments.

Cost of Revenue

Cost of revenue increased 4.8% from RMB97.7 million during the six months ended 30 June 2012 to RMB102.3 million during the same period in 2013. Gross profit margin increased from 67.2% during the six months ended 30 June 2012 to 70.0% during the same period in 2013. The increase in cost of revenue was due to an increase in staff costs and sales related expenses. This was partially offset by lower business tax following the implementation of the business tax/value-added tax reform policy.

Operating Expenses

Selling and Marketing Costs

Selling and marketing costs increased by 66.0% from RMB45.1 million for the six months ended 30 June 2012 to RMB74.8 million for the six months ended 30 June 2013. The increase was primarily due to increases in staff costs, as well as marketing expenses for brand development.

Administrative Expenses

Administrative expenses decreased by 4.7% from RMB35.3 million for the six months ended 30 June 2012 to RMB33.6 million for the six months ended 30 June 2013. The decrease was mainly due to a lower provision for impairment of receivables.

Product Development Expenses

Product development expenses increased by 31.1% from RMB17.2 million for the six months ended 30 June 2012 to RMB22.5 million for the six months ended 30 June 2013. The increase was primarily due to an increase in staff costs as the Group expanded its research and development team.

Operating Profit before Share-based Compensation Expenses (non-GAAP)

Operating profit before share-based compensation expenses (non-GAAP) was RMB109.5 million in the first half of 2013, representing a 1.3% increase from RMB108.2 million over the same period in 2012.

Finance Income and Costs

Net finance income was RMB6.3 million for the six months ended 30 June 2013, compared with RMB2.7 million for the six months ended 30 June 2012. Net finance income was mainly the result of interest income on short-term bank deposits.

Income Tax Expense

Income tax expense increased by 9.0% from RMB22.5 million for the six months ended 30 June 2012 to RMB24.5 million for the six months ended 30 June 2013.

Net Profit

Net profit increased by 5.1% from RMB85.0 million for the six months ended 30 June 2012, to RMB89.4 million for the six months ended 30 June 2013.

Liquidity, Financial Resources and Dividend

As of 30 June 2013, the Company had short-term bank deposits and cash totaling RMB274.6 million, compared with RMB439.9 million as of 31 December 2012. The decline in cash was primarily due to the payment of a cash dividend totaling RMB165.9 million during the six months ended 30 June 2013.

The Company had no external debt as of 31 December 2012 and 30 June 2013.

Bank Borrowings

As of 30 June 2013, 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 2012.

Acquisition of Property

The Group is currently leasing office premises in Shanghai. The Board believed that it is in the Group's long term interest to acquire its own office space. In June 2013, GZP Computer acquired a property located at 10th Floor, Block 2 of Huaxin Center, No. 711 Yishan Road, Xuhui District, Shanghai City, the PRC for a total consideration of RMB60,853,200. Further details about the acquisition were disclosed in the Company's announcement dated 24 June 2013.

Material Acquisitions and Disposals

During the period ended 30 June 2013, the Group had no material acquisitions and disposals of subsidiaries and associates.

Charges on Assets

As of 30 June 2013, 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 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 2013, the Group had 1,399 employees (31 December 2012: 1,268), an increase of 10.3% from the first half of 2013. The Group increased headcount to support its expansion in 2013. The Group determines staff's remuneration based on factors such as performance and years of experience.

BUSINESS OUTLOOK

Looking ahead, while it is expected that consumer spending in China will continue to grow and online advertising will keep becoming an ever more important outlet for brand promotion, the Group will continue adjust to intensifying competition in order to stay relevant and useful to online consumers in China. The Group will continue to add both content and functionality to its portals to ensure that consumers find the information they need while keeping them engaged for longer. The Group will also continue to invest in the development of mobile technology in order to capture the rapid growth of mobile users in China. However, with rising labour costs and increased promotional expenses that are needed to draw users to Group's portals, margins are expected to compress in the near term. None-the-less, with a debt-free balance sheet and strong ability to both grow revenues and generate cash, the Group will continue to enhance value for its shareholders over time.

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 2013.

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. Chan Chi Mong, Hopkins, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, 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 2013, except that there is no separation of the role of chairman and chief executive as stipulated in the code provision A.2.1. Mr. Lam Wai Yan currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. As Mr. 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 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 2013

As at the date of this announcement, the Board comprises 4 executive directors, namely, Mr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Ta-Hsing and Ms. Zhang Cong Min; and 3 independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins.