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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 2014**

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 2014 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 2014*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	4	<b>403,597</b>	340,971
Cost of revenue		<u>(125,406)</u>	<u>(102,312)</u>
<b>Gross profit</b>		<b>278,191</b>	238,659
Selling and marketing costs		<b>(94,200)</b>	(74,844)
Administrative expenses		<b>(37,774)</b>	(33,643)
Product development expenses		<u>(27,654)</u>	<u>(22,547)</u>
<b>Operating profit</b>		<b>118,563</b>	107,625
Finance income		<b>6,052</b>	6,278
Finance cost		<u>(1,892)</u>	<u>—</u>
Finance income — net	5	<u><b>4,160</b></u>	<u>6,278</u>
<b>Profit before income tax</b>		<b>122,723</b>	113,903
Income tax expense	6	<u>(28,121)</u>	<u>(24,538)</u>
<b>Profit for the period</b>		<u><b>94,602</b></u>	<u>89,365</u>

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Attributable to:</b>		
Equity holders of the Company	<u><u>94,602</u></u>	<u><u>89,365</u></u>
<b>Earnings per share for profit attributable to equity holders of the Company</b>		
— basic ( <i>RMB</i> )	7(a) <u><u>8.59 cents</u></u>	<u><u>8.24 cents</u></u>
— diluted ( <i>RMB</i> )	7(b) <u><u>8.40 cents</u></u>	<u><u>8.07 cents</u></u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
*For the six months ended 30 June 2014*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Profit for the period	<b>94,602</b>	89,365
Other comprehensive income for the period, net of tax	<b>—</b>	—
<b>Total comprehensive income for the period</b>	<b>94,602</b>	89,365
<b>Attributable to:</b>		
Equity holders of the Company	<b>94,602</b>	89,365

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2014

	<i>Note</i>	<b>Unaudited 30 June 2014 RMB'000</b>	<b>Audited 31 December 2013 RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Lease prepayment		17,103	17,316
Property and equipment	9	260,923	202,243
Construction in progress	9	5,665	—
Intangible assets	9	10,914	12,292
Deferred income tax assets	10	9,910	9,739
Prepayments	11	—	43,484
Investment in equity fund	12	31,197	—
Held-to-maturity financial assets	13	5,995	—
		<u>341,707</u>	<u>285,074</u>
<b>Current assets</b>			
Trade and other receivables and prepayments	11	410,739	380,553
Short-term bank deposits with original terms of over three months		115,386	12,500
Cash and cash equivalents		168,442	438,036
		<u>694,567</u>	<u>831,089</u>
<b>Total assets</b>		<u><b>1,036,274</b></u>	<u><b>1,116,163</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	14	10,310	10,161
Reserves		821,119	876,972
<b>Total equity</b>		<u><b>831,429</b></u>	<u><b>887,133</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	10	4,400	—
<b>Current liabilities</b>			
Accruals and other payables	15	142,084	169,826
Prepaid advertising subscriptions from customers and deferred revenue		22,188	17,431
Current income tax liabilities		36,173	41,773
		<u>200,445</u>	<u>229,030</u>
<b>Total liabilities</b>		<u><b>204,845</b></u>	<u><b>229,030</b></u>
<b>Total equity and liabilities</b>		<u><b>1,036,274</b></u>	<u><b>1,116,163</b></u>
<b>Net current assets</b>		<u><b>494,122</b></u>	<u><b>602,059</b></u>
<b>Total assets less current liabilities</b>		<u><b>835,829</b></u>	<u><b>887,133</b></u>

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

		Unaudited										
		Attributable to equity holders of the Company										
								Shares held for				
		Ordinary	Share	Merger	Capital	Share-based	Share	Statutory	Retained	Total		
		shares	premium	reserve	redemption	compensation	Award	reserve	earnings	equity		
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Scheme	funds	RMB'000	RMB'000		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<b>Balance at 1 January 2014</b>	10,161	302,206	4	306	40,184	(5,558)	43,250	496,580	887,133		
	<b>Comprehensive income</b>											
	Profit for the period	—	—	—	—	—	—	—	94,602	94,602		
	Other comprehensive income	—	—	—	—	—	—	—	—	—		
	<b>Total comprehensive income</b>	—	—	—	—	—	—	—	94,602	94,602		
	Cash dividends relating to 2013, paid in 2014	8	—	—	—	—	—	—	(180,303)	(180,303)		
	Share Award Scheme											
	— purchase of shares	—	—	—	—	—	(1,232)	—	—	(1,232)		
	— value of employee services	16(b)	—	—	—	2,726	—	—	—	2,726		
	— vesting of Awarded Shares	—	(1,419)	—	—	—	1,419	—	—	—		
	Share Option Plans											
	— exercise of share options	14(a)	149	28,354	—	—	—	—	—	28,503		
	<b>Balance at 30 June 2014</b>	<b>10,310</b>	<b>329,141</b>	<b>4</b>	<b>306</b>	<b>42,910</b>	<b>(5,371)</b>	<b>43,250</b>	<b>410,879</b>	<b>831,429</b>		
	<b>Balance at 1 January 2013</b>	10,100	293,604	4	306	36,298	(9,819)	43,250	408,804	782,547		
	<b>Comprehensive income</b>											
	Profit for the period	—	—	—	—	—	—	—	89,365	89,365		
	Other comprehensive income	—	—	—	—	—	—	—	—	—		
	<b>Total comprehensive income</b>	—	—	—	—	—	—	—	89,365	89,365		
	Cash dividends relating to 2012, paid in 2013	8	—	—	—	—	—	—	(165,858)	(165,858)		
	Share Award Scheme											
	— value of employee services	16(b)	—	—	—	1,440	—	—	—	1,440		
	— vesting of Awarded Shares	—	(2,310)	—	—	—	2,310	—	—	—		
	Share Option Plans											
	— exercise of share options	14(a)	42	8,208	—	—	—	—	—	8,250		
	— value of employee services	16(a)	—	—	—	472	—	—	—	472		
	<b>Balance at 30 June 2013</b>	<b>10,142</b>	<b>299,502</b>	<b>4</b>	<b>306</b>	<b>38,210</b>	<b>(7,509)</b>	<b>43,250</b>	<b>332,311</b>	<b>716,216</b>		

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Cash generated from operations		77,634	16,440
Income tax paid		<u>(29,492)</u>	<u>(24,359)</u>
Net cash generated/(used) in operating activities		<u>48,142</u>	<u>(7,919)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and construction in progress		(28,369)	(2,739)
Disposals of property and equipment		156	—
Purchase of intangible assets		(619)	(1,170)
Investment in equity fund		(31,197)	—
Purchase of held-to-maturity financial assets		(5,995)	—
Increase in short-term bank deposits with original terms of over three months		(102,886)	(114,903)
Interest received		<u>6,024</u>	<u>3,218</u>
Net cash used in investing activities		<u>(162,886)</u>	<u>(115,594)</u>
<b>Cash flows from financing activities</b>			
Purchase of shares held for Share Award Scheme		(1,232)	—
Cash dividends paid	8	(180,303)	(165,858)
Proceeds from issuance of ordinary shares	14(a)	<u>28,503</u>	<u>8,250</u>
Net cash used in financing activities		<u>(153,032)</u>	<u>(157,608)</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(267,776)</b>	<b>(281,121)</b>
Cash and cash equivalents at beginning of period		438,036	437,316
Exchange (losses)/gains on cash and cash equivalents		<u>(1,818)</u>	<u>870</u>
<b>Cash and cash equivalents at end of period</b>		<b><u>168,442</u></b>	<b><u>157,065</u></b>

## 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 is 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 25 August 2014.

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 2013, 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 2013, 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.

### **Available-for-sale financial assets and held-to-maturity financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group's available-for-sale financial assets comprise 'investment in equity fund' (Note 12) in the balance sheet.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. Interest on held-to-maturity financial assets calculated using the effective interest method is recognised in the income statement as part of other income.

- (a) The following amendments to existing standards and interpretations are effective for the financial year beginning 1 January 2014:

HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for investment entities
HKAS 32 (Amendment)	“Financial instruments: Presentation” on asset and liability offsetting
HKAS 36 (Amendment)	“Impairment of assets” on recoverable amount disclosures
HKAS 39 (Amendment)	“Financial Instruments: Recognition and Measurement” — Novation of derivatives
HK(IFRIC) 21	Levies

The adoption of the above amendments to existing standards and interpretation 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.

- (b) The following new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
HKAS 19 (Amendment)	Regarding defined benefit plans	1 July 2014
Annual improvements 2012	Annual Improvements 2010–2012 cycle	1 July 2014
Annual improvements 2013	Annual Improvements 2011–2013 cycle	1 July 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operation	1 January 2016
HKAS 16 and 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

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 2014 (six months ended 30 June 2013: 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 interim income statement.

	<b>PCauto</b> <i>RMB'000</i> (Unaudited)	<b>PConline</b> <i>RMB'000</i> (Unaudited)	<b>PClady</b> <i>RMB'000</i> (Unaudited)	<b>Others</b> <i>RMB'000</i> (Unaudited)	<b>Group</b> <i>RMB'000</i> (Unaudited)
<b>For the six months ended 30 June 2014</b>					
Revenue	<u>227,520</u>	<u>100,390</u>	<u>37,762</u>	<u>37,925</u>	<u>403,597</u>
<b>For the six months ended 30 June 2013</b>					
Revenue	<u>175,753</u>	<u>110,854</u>	<u>32,990</u>	<u>21,374</u>	<u>340,971</u>

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2014 all revenues of the Group were derived from external customers and they were all generated from the PRC (six months ended 30 June 2013: same).

As at 30 June 2014, 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 2013: same).

For the six months ended 30 June 2014, 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 2013: same).

## 5. FINANCE INCOME — NET

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
— Interest income	6,052	4,942
— Net foreign exchange gains	—	1,336
	<u>6,052</u>	<u>6,278</u>
Finance cost		
— Net foreign exchange losses	(1,892)	—
	<u>4,160</u>	<u>6,278</u>

## 6. INCOME TAX EXPENSE

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	23,892	18,777
Deferred taxation	4,229	5,761
	<u>28,121</u>	<u>24,538</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, 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 2014 (six months ended 30 June 2013: 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 enterprise 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 (“GZP Computer”) and Guangdong Pacific Internet Information Service Co., Ltd. (“GDP Internet”), the principal operating subsidiaries of the Company, were designated as HNTE for the three years ended 31 December 2013 under the CIT Law. As a result, GZP Computer and GDP Internet were subject to CIT at a rate of 15% from 2011 to 2013. For the six months ended 30 June 2014, management has conducted research and confirm the view of the Board that GZP Computer and GDP Internet will obtain their formal HNTE designation in 2014 under the CIT Law upon completion of certain administrative approval procedures. Consequently, GZP Computer and GDP Internet use 15% in the computation of deferred taxes as of 30 June 2014 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 2013: same) in accordance with the CIT Law.

## 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 16(b))).

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<b>94,602</b>	89,365
Weighted average number of ordinary shares for basic earnings per share ( <i>thousand shares</i> )	<b>1,101,638</b>	1,084,040
Basic earnings per share ( <i>RMB</i> )	<b>8.59 cents</b>	8.24 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).

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>94,602</u>	<u>89,365</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousand shares</i> )	<b>1,126,017</b>	1,106,947
— Weighted average number of ordinary shares for basic earnings per share ( <i>thousand shares</i> )	<b>1,101,638</b>	1,084,040
— Adjustment for share options and awarded shares ( <i>thousand shares</i> )	<b>24,379</b>	22,907
Diluted earnings per share ( <i>RMB</i> )	<u><b>8.40 cents</b></u>	<u>8.07 cents</u>

**8. DIVIDENDS**

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

The dividend paid in the six months ended 30 June 2014 included the 2013 final cash dividend of RMB16.25 cents (six months ended 30 June 2013: RMB15.26 cents) per ordinary share out of the retained earnings, totalling RMB180,303,000 (six months ended 30 June 2013: RMB165,858,000), which has already excluded the dividend related to the ordinary shares held for the Share Award Scheme of RMB276,000 (six months ended 30 June 2013: RMB464,000).

**9. PROPERTY AND EQUIPMENT, CONSTRUCTION IN PROGRESS AND INTANGIBLE ASSETS**

	<b>Property and equipment</b>	<b>Construction in progress(a)</b>	<b>Intangible assets</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
<b>Six months ended 30 June 2014</b>			
Net book amount as at 1 January 2014	<b>202,243</b>	—	<b>12,292</b>
Additions	<b>66,188</b>	<b>5,665</b>	<b>619</b>
Disposals	<b>(119)</b>	—	—
Depreciation and amortisation	<b>(7,389)</b>	—	<b>(1,997)</b>
Net book amount as at 30 June 2014	<u><b>260,923</b></u>	<u><b>5,665</b></u>	<u><b>10,914</b></u>
<b>Six months ended 30 June 2013</b>			
Net book amount as at 1 January 2013	209,042	—	14,677
Additions	2,739	—	1,170
Disposals	(181)	—	—
Depreciation and amortisation	<b>(7,287)</b>	—	<b>(1,784)</b>
Net book amount as at 30 June 2013	<u>204,313</u>	—	<u>14,063</u>

(a) Construction in progress represented the expenditure for certain office decoration projects.

## 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 2014 RMB'000	Audited As at 31 December 2013 RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	5,002	4,732
— to be recovered within 12 months	4,908	5,007
	<u>9,910</u>	<u>9,739</u>

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 2014	—	4,732	5,007	9,739
Credited/(Charged) to the income statement	695	270	(794)	171
At 30 June 2014	<u>695</u>	<u>5,002</u>	<u>4,213</u>	<u>9,910</u>
At 1 January 2013	—	3,251	3,823	7,074
Credited/(Charged) to the income statement	422	187	(780)	(171)
At 30 June 2013	<u>422</u>	<u>3,438</u>	<u>3,043</u>	<u>6,903</u>

### Deferred income tax liabilities

	Unaudited As at 30 June 2014 RMB'000	Audited As at 31 December 2013 RMB'000
Deferred income tax liabilities:		
— to be recovered within 12 months	4,400	—

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

	<b>Deferred income tax liabilities- withholding tax</b> <i>RMB'000</i> (Unaudited)
At 1 January 2014	—
Charged to the income statement	<u>4,400</u>
At 30 June 2014	<u><u>4,400</u></u>

As at 30 June 2014, the deferred income tax liabilities represented the withholding tax provided for the earnings anticipated to be remitted abroad from a PRC subsidiary of the Company.

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 a period of six months to a year. As at 30 June 2014, the ageing analysis of the trade receivables (net of impairment provision of RMB21,925,000 (31 December 2013: RMB20,849,000)) was as follows:

	<b>Unaudited</b> As at <b>30 June</b> <b>2014</b> <i>RMB'000</i>	Audited As at 31 December 2013 <i>RMB'000</i>
Current to 6 months	320,267	308,513
6 months to 1 year	51,778	42,429
1 year to 2 years	3,245	7,591
Above 2 years	955	—
	<u>376,245</u>	<u>358,533</u>

(b) Other receivables and prepayments

	Unaudited As at 30 June 2014 <i>RMB'000</i>	Audited As at 31 December 2013 <i>RMB'000</i>
Other receivables	5,107	4,971
Advance to employees	8,365	8,805
Prepayments	21,022	51,728
	<u>34,494</u>	<u>65,504</u>
Less non-current portion: Prepayments	—	(43,484)
Current Portion	<u>34,494</u>	<u>22,020</u>

12. INVESTMENT IN EQUITY FUND

	<i>RMB'000</i> (Unaudited)
At 1 January 2014	—
Additions (a)	<u>31,197</u>
At 30 June 2014	<u>31,197</u>

- (a) In June 2014, a subsidiary of the Company invested as a limited partner in an unlisted equity fund (“the Fund”) established and managed by an independent third party partner. The Group does not have control or significant influence in the Fund. The directors classified the investment as available-for-sale financial assets.

The directors consider that there was no significant change in the fair value up to 30 June 2014 as the Fund is still in pre-operating stage.

13. HELD-TO-MATURITY FINANCIAL ASSETS

All the held-to-maturity financial assets are listed bonds.

The movement in held-to-maturity financial assets during the period was as follows:

	<i>RMB'000</i> (Unaudited)
At 1 January 2014	—
Additions	<u>5,995</u>
At 30 June 2014	<u>5,995</u>

The terms of maturity of the held-to-maturity financial assets are summarised as follow:

	<b>Unaudited As at 30 June 2014 RMB'000</b>
<b>Listed bonds:</b>	
Between 1 and 2 years	1,986
Between 2 and 3 years	1,001
Over 3 years	3,008
	<u>5,995</u>

The coupon rate of the bonds is 3.25% to 4.50% per annum.

All the held-to-maturity financial assets are non-current.

The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

#### 14. ORDINARY SHARES

	<b>Authorised ordinary shares</b>		
	<i>Number of shares ( '000)</i>	<i>HKD'000</i>	<i>RMB'000</i>
At 31 December 2013 and 30 June 2014	<u>100,000,000</u>	<u>1,000,000</u>	<u>969,200</u>
	<b>Issued and fully paid up</b>		
	<i>Number of shares ( '000)</i> (Unaudited)	<i>HKD'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
<b>At 1 January 2014</b>	<b>1,092,554</b>	<b>10,926</b>	<b>10,161</b>
Share Option Plans — issued shares (a)	<u>18,797</u>	<u>188</u>	<u>149</u>
<b>At 30 June 2014</b>	<u><b>1,111,351</b></u>	<u><b>11,114</b></u>	<u><b>10,310</b></u>
<b>At 1 January 2013</b>	1,084,966	10,850	10,100
Share Option Plans — issued shares (a)	<u>5,261</u>	<u>53</u>	<u>42</u>
<b>At 30 June 2013</b>	<u>1,090,227</u>	<u>10,903</u>	<u>10,142</u>

- (a) Share options exercised during the six months ended 30 June 2014 resulted in 18,797,000 shares being issued (six months ended 30 June 2013: 5,261,000 shares) with exercise proceeds of RMB28,503,000 (six months ended 30 June 2013: RMB8,250,000). The nominal value of these shares of RMB149,000 (six months ended 30 June 2013: RMB42,000) and the premium of RMB28,354,000 (six months ended 30 June 2013: RMB8,208,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HKD4.81 per share (six months ended 30 June 2013: HKD3.12).

All the ordinary shares issued during the six months ended 30 June 2014 rank pari passu with the then existing ordinary shares in all respects.

## 15. ACCRUALS AND OTHER PAYABLES

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
Salaries payable	<b>28,621</b>	34,015
Accrued expenses (a)	<b>84,386</b>	90,916
Other payables (b)	<b>29,077</b>	44,895
	<b>142,084</b>	169,826

- (a) Accrued expenses mainly represented accrued sales commission fees payable to advertising agencies and accrued advertising expenses.
- (b) Other payables mainly represented value-added tax payable, other levies payable and deposits due to third parties.

## 16. 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 2014. 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		Total number of options (thousands) (Unaudited)
	Average exercise price (HKD) (Unaudited)	Number of options (thousands) (Unaudited)	Average exercise price (HKD) (Unaudited)	Number of options (thousands) (Unaudited)	
At 1 January 2014	1.71	28,409	1.92	18,461	46,870
Granted	—	—	—	—	—
Exercised	1.82	(376)	1.92	(18,421)	(18,797)
Forfeited	—	—	2.68	(40)	(40)
At 30 June 2014	<u>1.71</u>	<u>28,033</u>	<u>—</u>	<u>—</u>	<u>28,033</u>
Currently exercisable as at 30 June 2014	<u>1.71</u>	<u>28,033</u>	<u>—</u>	<u>—</u>	<u>28,033</u>
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	<u>1.71</u>	<u>28,780</u>	<u>2.02</u>	<u>21,174</u>	<u>49,954</u>
Currently exercisable as at 30 June 2013	<u>1.71</u>	<u>28,780</u>	<u>2.03</u>	<u>20,439</u>	<u>49,219</u>

(iv) *Outstanding share options*

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Expiry date	30 June 2014		31 December 2013	
	Exercise price in HKD per share (Unaudited)	Number of options (thousands) (Unaudited)	Exercise price in HKD per share (Audited)	Number of options (thousands) (Audited)
Pre-IPO Share Option Plan				
— 22 November 2017	1.32	7,017	1.32	7,081
— 22 November 2017	1.71	10,192	1.71	10,237
— 22 November 2017	1.96	10,824	1.96	11,091
Post-IPO Share Option Plan				
— 11 April 2014	2.68	—	2.68	6,404
— 13 April 2014	2.63	—	2.63	872
— 17 May 2014	1.31	—	1.31	9,222
— 17 May 2014	2.65	—	2.65	745
— 5 July 2014	1.56	—	1.56	1,218
		<u>28,033</u>		<u>46,870</u>

(v) *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.

No expenses were 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 2014 (six months ended 30 June 2013: RMB472,000).

(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 2014 were as follows:

	<b>Shares held for the Share Award Scheme</b> <i>(thousands)</i> (Unaudited)	<b>Awarded Shares held by Trustee</b> <i>(thousands)</i> (Unaudited)
At 1 January 2014	727	1,193
Purchased	358	—
Granted to employees	(961)	961
Forfeited	65	(65)
Vested	—	(579)
	<hr/>	<hr/>
At 30 June 2014	<b>189</b>	<b>1,510</b>
	<hr/>	<hr/>
At 1 January 2013	1,908	1,637
Granted to employees	(603)	603
Forfeited	65	(65)
Vested	—	(785)
	<hr/>	<hr/>
At 30 June 2013	<b>1,370</b>	<b>1,390</b>
	<hr/>	<hr/>

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 2014 and their vesting period are as follows:

<b>Date of grant</b>	<b>Total value of shares at grant date (HKD'000)</b>	<b>No. of shares granted (thousands)</b>	<b>Market price at grant date (HKD)</b>	<b>Vesting period</b>
30 January 2014	<u>4,997</u>	<u>961</u>	<u>5.20</u>	<u>1 year</u>

The total expense recognised for employee services received in respect of the Share Award Scheme for the six months ended 30 June 2014 was RMB2,726,000 (six months ended 30 June 2013: RMB1,440,000).

During the six months ended 30 June 2014, the Share Award Scheme Trust received cash dividend amounting to RMB276,000 (six months ended 30 June 2013: RMB464,000) which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

## CHAIRMAN'S STATEMENT

I am pleased to report an 18.4% year-over-year increase in revenues and a rise of 5.9% in net profit during the first half of 2014. Despite the economic uncertainty in China and increasingly intense market competition, we remain optimistic about the future of our business model which continues to generate both viewership and revenue growth. We believe that a greater focus on resource allocation will allow us to meet users' demand and allow us to seize new opportunities in China's vibrant e-commerce industry by leveraging our strength in different consumer verticals.

PCauto continued to generate strong growth with revenue increasing 29.5%. The portal remains our most important revenue contributor accounting for 56.4% of total revenue during the first half of 2014. Growth was mainly driven by increased spending from both our automaker and dealership customers. Advertisements for car accessory products also showed signs of strong growth.

Revenue from our IT-focused PConline portal declined 9.4%. PConline remains one of the leading verticals in the market and continued to see a stable increase in smart phone and tablet advertising spending. Revenue from software brands and e-commerce vendors also increased. The increases were offset however by a broader decline in demand for laptops and desktops in China.

PClady's revenue increased 14.5% thanks to increasing demand for cosmetics and other fashion products, as well as a modest increase in skin-care products. We anticipate stronger growth during the second half of the year once strengthening of the portal's organizational structure and re-focusing on its product mix is complete.

Revenue from other operations including PCgames, PCbaby, and PChouse increased 77.4% during the six months ended 30 June 2014. PCbaby, in particular, continued to attract increased online marketing spending from baby formula producers and diaper brands.

We continue to develop strategic products that will contribute to the sustainable growth of the Group. These include our mobile websites and applications which facilitate traffic growth and closer relationships between our clients and users. Our three downloadable magazines maintained their top positions on Apple's iTunes recommendation list with more than 4 million downloads during the first half of this year. They are beginning to make meaningful revenue contribution to the Group.

We recently made a strategic investment in a Silicon Valley-based venture capital fund which focuses primarily on the consumer and mobile technology sectors. The fund is expected to benefit us by offering opportunities to acquire knowledge of the latest technologies and business models from its portfolio companies.

We remain optimistic in our outlook for the second half of 2014. While we have always taken a cautious approach, we are confident in our ability to maintain growth amidst challenges in the market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue

Revenue increased 18.4% from RMB341.0 million for the six months ended 30 June 2013 to RMB403.6 million for the six months ended 30 June 2014.

Revenue for PCauto, the Group's automobile portal, increased 29.5% from RMB175.8 million for the six months ended 30 June 2013 to RMB227.5 million during the six months ended 30 June 2014. The increase in revenue for PCauto was primarily due to increased advertising spending from automobile producers and dealerships. As a percentage of revenue, PCauto accounted for 51.5% during the six months ended 30 June 2013 and 56.4% during the six months ended 30 June 2014.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 9.4% from RMB110.9 million during the six months ended 30 June 2013 to RMB100.4 million during the six months ended 30 June 2014. Advertising spending from smart phones and tablet manufacturers remained strong, but was offset by a decrease in demand from desktop and laptop computers. As a percentage of revenue, PConline accounted for 32.5% during the six months ended 30 June 2013 and 24.9% during the six months ended 30 June 2014.

Revenue for PClady, the Group's lady and fashion portal, increased 14.5% from RMB33.0 million during the six months ended 30 June 2013 to RMB37.8 million during the six months ended 30 June 2014. The increase reflected the strong demand in the women's segment, especially for cosmetics and fashion goods. As a percentage of revenue, PClady accounted for 9.7% during the six months ended 30 June 2013 and 9.3% during the six months ended 30 June 2014.

Revenue from other operations, including the PCgames, PCbaby and PChouse portals, increased by 77.4% from RMB21.4 million during the six months ended 30 June 2013 to RMB37.9 million during the six months ended 30 June 2014. Revenue from these segments increased as advertisers allocated more of their marketing budgets towards online advertising. As a percentage of revenue, revenue from other operations accounted for 6.3% during the six months ended 30 June 2013 and 9.4% during the six months ended 30 June 2014.

### Cost of Revenue

Cost of revenue increased 22.6% from RMB102.3 million during the six months ended 30 June 2013 to RMB125.4 million during the six months ended 30 June 2014. Gross profit margin was 70.0% during the six months ended 30 June 2013 and 68.9% during the six months ended 30 June 2014.

The increase in cost of revenue was due to a rise in personnel-related expenses in content production, as well as higher costs related to offline marketing activities.

### Selling and Marketing Costs

Selling and marketing costs increased 25.9% from RMB74.8 million during the six months ended 30 June 2013 to RMB94.2 million during the six months ended 30 June 2014. The increase was mainly due to increases in staff costs and marketing expenses related to brand development.

### Administrative Expenses

Administrative expenses increased by 12.3% from RMB33.6 million during the six months ended 30 June 2013 to RMB37.8 million during the six months ended 30 June 2014, due to an increase in headcount in support of the Group's growth during the year.

## **Product Development Expenses**

Product development expenses increased by 22.7% from RMB22.5 million during the period ended 30 June 2013 to RMB27.7 million during the period ended 30 June 2014. The increase was primarily due to increases in the number of staff in the Group's research and development team.

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

Operating profit before share-based compensation expenses (non-GAAP) was RMB121.3 million during the six months ended 30 June 2014, representing a 10.8% increase from RMB109.5 million during the six months ended 30 June 2013.

## **Finance Income and Cost**

Net finance income was RMB6.3 million during the six months ended 30 June 2013 and RMB4.2 million during the six months ended 30 June 2014.

## **Income Tax Expense**

Income tax expenses increased 14.6% from RMB24.5 million during the six months ended 30 June 2013 to RMB28.1 million during the six months ended 30 June 2014.

## **Net Profit**

Net profit increased 5.9% from RMB89.4 million during the six months ended 30 June 2013 to RMB94.6 million during the six months ended 30 June 2014.

## **Liquidity and Financial Resources**

As of 30 June 2014, the Group had short-term deposits and cash totaling RMB283.8 million, compared with RMB450.5 million as of 31 December 2013. The decline in cash was primarily due to the payment of a cash dividend totaling RMB180.3 million during the six months ended 30 June 2014.

The Company had no external debt as of 31 December 2013 and 30 June 2014.

## **Bank Borrowings**

As of 30 June 2014, 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 2013.

## **Material Acquisitions and Disposals**

During the six months ended 30 June 2014, the Group had no material acquisitions and disposals of subsidiaries and associates.

## **Charges on Assets**

As of 30 June 2014, 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 2014, the Group had 1,702 employees (31 December 2013: 1,495), an increase of 13.8% from the first half of 2014. The Group increased headcount to support its expansion. The Group determines staff's remuneration based on factors such as performance and years of experience.

## **Business Outlook**

The Group believes that online advertising spending will continue to account for a higher share of overall marketing budgets in China. PCauto is expected to benefit from the continuous growth of new car retail sales in China. PClady and PCbaby are also expected to perform well. The Group remains well positioned to meet demand from a rapidly changing Chinese internet industry.

## **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 2014.

## **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 2014, 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, 25 August 2014

*As at the date of this announcement, the Board comprises 4 executive directors, namely, Dr. 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.*