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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 2015**

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 2015 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 2015

		Unaudited	
		Six months ended 30 June	
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	491,245	403,597
Cost of revenue		<u>(170,202)</u>	<u>(125,406)</u>
Gross profit		321,043	278,191
Selling and marketing costs		(135,118)	(94,200)
Administrative expenses		(48,131)	(37,774)
Product development expenses		(36,278)	(27,654)
Other income	6	<u>1,415</u>	<u>—</u>
Operating profit		102,931	118,563
Finance income		2,464	6,052
Finance cost		<u>(2,581)</u>	<u>(1,892)</u>
Finance (cost)/income — net	7	<u>(117)</u>	<u>4,160</u>
Profit before income tax		102,814	122,723
Income tax expense	8	<u>(22,236)</u>	<u>(28,121)</u>
Profit for the period		<u>80,578</u>	<u>94,602</u>

		Unaudited	
		Six months ended 30 June	
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:			
Equity holders of the Company		<u>80,578</u>	<u>94,602</u>
Earnings per share for profit attributable to equity holders of the Company			
— basic (<i>RMB</i>)	9(a)	<u>7.23 cents</u>	<u>8.59 cents</u>
— diluted (<i>RMB</i>)	9(b)	<u>7.15 cents</u>	<u>8.40 cents</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2015

	Unaudited	
	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	80,578	94,602
<i>Items that may be reclassified to profit or loss</i>		
Change in value of investment in equity fund	<u>3,696</u>	<u>—</u>
Other comprehensive income for the period, net of tax	<u>3,696</u>	<u>—</u>
Total comprehensive income for the period	<u>84,274</u>	<u>94,602</u>
Attributable to:		
Equity holders of the Company	<u>84,274</u>	<u>94,602</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET*As at 30 June 2015*

		Unaudited	Audited
		30 June	31 December
		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Lease prepayment		16,779	16,992
Property and equipment	11	264,925	264,736
Intangible assets	11	11,738	9,689
Goodwill	11	4,622	—
Deferred income tax assets	12	18,318	15,493
Investment in equity fund	14	32,650	28,954
Held-to-maturity financial assets	15	30,287	49,553
		<u>379,319</u>	<u>385,417</u>
Current assets			
Inventories		1,468	—
Trade and other receivables and prepayments	13	568,343	505,140
Held-to-maturity financial assets	15	19,224	—
Short-term bank deposits with original terms of over three months		2,578	2,539
Cash and cash equivalents		229,602	392,295
		<u>821,215</u>	<u>899,974</u>
Total assets		<u>1,200,534</u>	<u>1,285,391</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	10,460	10,312
Reserves		903,887	948,278
Total equity		<u>914,347</u>	<u>958,590</u>

		Unaudited	Audited
		30 June	31 December
		2015	2014
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	12	<u>4,755</u>	<u>—</u>
Current liabilities			
Trade and other payables and accruals	17	204,736	251,501
Prepaid advertising subscriptions from customers and deferred revenue		24,891	10,945
Current income tax liabilities		51,805	64,355
		<u>281,432</u>	<u>326,801</u>
Total liabilities		<u>286,187</u>	<u>326,801</u>
Total equity and liabilities		<u>1,200,534</u>	<u>1,285,391</u>
Net current assets		<u>539,783</u>	<u>573,173</u>
Total assets less current liabilities		<u>919,102</u>	<u>958,590</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

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			Retained earnings RMB'000	Total RMB'000
						for Share Award Scheme I RMB'000	Statutory reserve funds RMB'000	Investment in equity fund RMB'000		
	10,312	328,343	4	306	45,201	(4,087)	43,250	(2,243)	537,504	958,590
Comprehensive income										
	—	—	—	—	—	—	—	—	80,578	80,578
	—	—	—	—	—	—	—	—	80,578	80,578
14	—	—	—	—	—	—	—	3,696	—	3,696
	—	—	—	—	—	—	—	3,696	80,578	84,274
Total comprehensive income										
10	—	—	—	—	—	—	—	—	(155,017)	(155,017)
18(b)	—	—	—	—	—	(1,224)	—	—	—	(1,224)
	—	(913)	—	—	2,241	—	—	—	—	2,241
18(c)	—	—	—	—	160	—	—	—	—	160
16(a)	148	25,175	—	—	—	—	—	—	—	25,323
	10,460	352,605	4	306	47,602	(4,398)	43,250	1,453	463,065	914,347

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			Retained earnings RMB'000	Total RMB'000
						for Share Award Scheme I RMB'000	Statutory reserve funds RMB'000	Investment in equity fund RMB'000		
	10,161	302,206	4	306	40,184	(5,558)	43,250	—	496,580	887,133
Comprehensive income										
	—	—	—	—	—	—	—	—	94,602	94,602
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	94,602	94,602
10	—	—	—	—	—	—	—	—	(180,303)	(180,303)
18(b)	—	—	—	—	—	(1,232)	—	—	—	(1,232)
	—	—	—	—	2,726	—	—	—	—	2,726
	—	(1,419)	—	—	—	1,419	—	—	—	—
16(a)	149	28,354	—	—	—	—	—	—	—	28,503
	10,310	329,141	4	306	42,910	(5,371)	43,250	—	410,879	831,429

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

		Unaudited	
		Six months ended 30 June	
		2015	2014
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		9,279	77,634
Income tax paid		(33,431)	(29,492)
		<u> </u>	<u> </u>
Net cash (used in)/generated from operating activities		(24,152)	48,142
Cash flows from investing activities			
Purchase of property and equipment and construction in progress		(8,483)	(28,369)
Disposals of property and equipment		103	156
Purchase of intangible assets		(247)	(619)
Investment in equity fund		—	(31,197)
Purchase of held-to-maturity financial assets		—	(5,995)
Placement of short-term bank deposits with original terms of over three months		(2,578)	(115,386)
Receipt from maturity of short-term bank deposits with original terms of over three months		2,539	12,500
Acquisition of a subsidiary, net of cash acquired	5	219	—
Interest received		3,373	6,024
		<u> </u>	<u> </u>
Net cash used in investing activities		(5,074)	(162,886)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme I		(1,224)	(1,232)
Cash dividends paid	10	(155,017)	(180,303)
Proceeds from issuance of ordinary shares	16(a)	25,323	28,503
		<u> </u>	<u> </u>
Net cash used in financing activities		(130,918)	(153,032)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of period		392,295	438,036
Exchange losses on cash and cash equivalents		(2,549)	(1,818)
		<u> </u>	<u> </u>
Cash and cash equivalents at end of period		<u><u>229,602</u></u>	<u><u>168,442</u></u>

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 28 August 2015.

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

Key events

In June 2015, through execution of a new series of structure contracts among the Group, two registered owners of Guangzhou Yingyue Computer Technology Co., Ltd. ("GZ Yingyue"), and GZ Yingyue and its two subsidiaries (collectively as "GZ Yingyue Group"), the Group has rights to variable returns from its involvement with GZ Yingyue Group and has ability to affect those returns through its power over GZ Yingyue Group and is considered to control GZ Yingyue Group.

The Group acquired iCare Newlife Technologies, Inc. in March 2015. Further details are given in Note 5.

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 2014, 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 2014, 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.

Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Brand and technology*

Brand and technology acquired in a business combination are recognised at fair value at the acquisition date. Brand and technology have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brand and technology over their estimated useful lives of 5 to 10 years.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

Amendments to HKFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

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 revenues 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.

Revenues of other segments relate to those generated from other portals, including baby and home products, on-line game and other services.

There were no inter-segment sales for the six months ended 30 June 2015 (six months ended 30 June 2014: 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.

	PCauto	PConline	PClady	Others	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six months ended 30 June 2015					
Revenue	<u>324,016</u>	<u>81,822</u>	<u>34,589</u>	<u>50,818</u>	<u>491,245</u>
For the six months ended 30 June 2014					
Revenue	<u>227,520</u>	<u>100,390</u>	<u>37,762</u>	<u>37,925</u>	<u>403,597</u>

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2015 all revenues of the Group were derived from external customers and they were all generated from the PRC (six months ended 30 June 2014: same).

As at 30 June 2015, other than club membership included in the intangible assets, investment in equity fund and held-to-maturity financial assets, majority of other non-current assets of the Group were located in the PRC (31 December 2014: same).

For the six months ended 30 June 2015, 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 2014: same).

5. BUSINESS COMBINATION

On 31 March 2015, the Group indirectly through a subsidiary, Smooth Choice Limited ("Smooth Choice"), acquired 100% of the equity interest in iCare Newlife Technologies, Inc., a PRC company, which engages in the sales of mother and baby intellectual products, at a consideration of RMB7,000,000. The acquisition is expected to increase its scale of operation and market presence in the online advertising and services related on PCbaby portal. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of RMB4,622,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected to be derived from combining the operations of the Group and the acquired business.

The following table summarises the consideration to be paid for iCare Newlife Technologies, Inc., the fair value of the assets acquired and liabilities assumed at the acquisition date.

	31 March 2015 <i>RMB'000</i>
Total purchase consideration, to be paid in cash	7,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	219
Intangibles — brand and technology	2,300
Other non-current assets	122
Receivables	438
Other current assets	328
Payables and other liabilities	(454)
Deferred income tax liabilities	(575)
Total identifiable net assets	2,378
Goodwill	4,622
	7,000

Acquisition-related costs were not significant and have been charged to administrative expenses in the condensed consolidated interim income statement for the six months ended 30 June 2015.

Deferred tax of RMB575,000 has been provided in relation to these fair value adjustments.

The acquired business contributed revenue of RMB321,000 and net losses of RMB2,589,000 to the Group for the period since the date of acquisition. The Group's revenue and results for the period would not be materially different if the acquisition had occurred on 1 January 2015.

6. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Government grants	552	—
Investment income on held-to-maturity financial assets	863	—
	<u>1,415</u>	<u>—</u>

7. FINANCE (COST)/INCOME — NET

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Finance income		
— Interest income	<u>2,464</u>	<u>6,052</u>
Finance cost		
— Net foreign exchange losses	<u>(2,581)</u>	<u>(1,892)</u>
Finance (cost)/income — net	<u>(117)</u>	<u>4,160</u>

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
PRC current tax	20,881	23,892
Deferred taxation	<u>1,355</u>	<u>4,229</u>
	<u>22,236</u>	<u>28,121</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 2015 (six months ended 30 June 2014: 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"). 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 formally designated as HNTE in 2014 for the three years ending 31 December 2016 under the CIT Law. Consequently, GZP Computer and GDP Internet used 15% in the computation of deferred taxes as of 30 June 2015 (six months ended 30 June 2014: same) 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 2014: same) in accordance with the CIT Law.

9. 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 I (Note 18(b))).

	Unaudited	
	Six months ended 30 June	
	2015	2014
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>80,578</u>	<u>94,602</u>
Weighted average number of ordinary shares for basic earnings per share (<i>thousand shares</i>)	<u>1,113,762</u>	<u>1,101,638</u>
Basic earnings per share (<i>RMB</i>)	<u><u>7.23 cents</u></u>	<u><u>8.59 cents</u></u>

(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	
	2015	2014
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>80,578</u>	<u>94,602</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousand shares</i>)	<u>1,127,562</u>	<u>1,126,017</u>
— Weighted average number of ordinary shares for basic earnings per share (<i>thousand shares</i>)	<u>1,113,762</u>	<u>1,101,638</u>
— Adjustment for share options and awarded shares (<i>thousand shares</i>)	<u>13,800</u>	<u>24,379</u>
Diluted earnings per share (<i>RMB</i>)	<u><u>7.15 cents</u></u>	<u><u>8.40 cents</u></u>

10. DIVIDENDS

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: same).

The dividend paid in the six months ended 30 June 2015 included the 2014 final cash dividend of RMB13.93 cents (six months ended 30 June 2014: RMB16.25 cents) per ordinary share out of the retained earnings, totalling RMB155,017,000 (six months ended 30 June 2014: RMB180,303,000), which has already excluded the dividend related to the ordinary shares held for the Share Award Scheme I of RMB44,000 (six months ended 30 June 2014: RMB276,000).

11. PROPERTY AND EQUIPMENT, CONSTRUCTION IN PROGRESS, INTANGIBLE ASSETS AND GOODWILL

	Property and equipment <i>RMB'000</i> (Unaudited)	Construction in progress <i>RMB'000</i> (Unaudited)	Intangible assets <i>RMB'000</i> (Unaudited)	Goodwill <i>RMB'000</i> (Unaudited)
Six months ended 30 June 2015				
Net book amount as at 1 January 2015	264,736	—	9,689	—
Additions	8,483	—	247	—
Acquisition of a subsidiary (<i>Note 5</i>)	122	—	2,300	4,622
Disposals	(86)	—	—	—
Depreciation and amortisation	(8,330)	—	(498)	—
	<u>264,925</u>	<u>—</u>	<u>11,738</u>	<u>4,622</u>
Net book amount as at 30 June 2015	<u>264,925</u>	<u>—</u>	<u>11,738</u>	<u>4,622</u>
Six months ended 30 June 2014				
Net book amount as at 1 January 2014	202,243	—	12,292	—
Additions	66,188	5,665	619	—
Disposals	(119)	—	—	—
Depreciation and amortisation	(7,389)	—	(1,997)	—
	<u>260,923</u>	<u>5,665</u>	<u>10,914</u>	<u>—</u>
Net book amount as at 30 June 2014	<u>260,923</u>	<u>5,665</u>	<u>10,914</u>	<u>—</u>

12. 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 2015 <i>RMB'000</i>	Audited As at 31 December 2014 <i>RMB'000</i>
Deferred income tax assets:		
— to be recovered after more than 12 months	6,099	4,957
— to be recovered within 12 months	12,219	10,536
	<u>18,318</u>	<u>15,493</u>

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

	Advertising expenses in excess of allowance <i>RMB'000</i> (Unaudited)	Provision for impairment of trade receivables <i>RMB'000</i> (Unaudited)	Accrued advertising and other expenses <i>RMB'000</i> (Unaudited)	Accrued salary expense <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
At 1 January 2015	—	4,957	3,521	7,015	15,493
Credited/(Charged) to the income statement	4,004	1,142	(300)	(2,021)	2,825
At 30 June 2015	<u>4,004</u>	<u>6,099</u>	<u>3,221</u>	<u>4,994</u>	<u>18,318</u>
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>—</u>	<u>4,213</u>	<u>9,910</u>

Deferred income tax liabilities

	Unaudited As at 30 June 2015 <i>RMB'000</i>	Audited As at 31 December 2014 <i>RMB'000</i>
Deferred income tax liabilities:		
— to be recovered after more than 12 months	475	—
— to be recovered within 12 months	4,280	—
	<u>4,755</u>	<u>—</u>

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

	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries <i>RMB'000</i> (Unaudited)	Intangible assets acquired in business combinations at fair value <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
At 1 January 2015	—	—	—
Acquisition of a subsidiary (<i>Note 5</i>)	—	575	575
Charged/(credit) to the income statement	4,200	(20)	4,180
At 30 June 2015	<u>4,200</u>	<u>555</u>	<u>4,755</u>

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%.

13. 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 2015, the ageing analysis of the trade receivables (net of impairment provision of RMB28,427,000 (31 December 2014: RMB23,069,000)) was as follows:

	Unaudited As at 30 June 2015 RMB'000	Audited As at 31 December 2014 RMB'000
Current to 6 months	420,888	420,747
6 months to 1 year	115,609	62,684
1 year to 2 years	5,965	5,767
Above 2 years	—	18
	<u>542,462</u>	<u>489,216</u>

(b) Other receivables and prepayments

	Unaudited As at 30 June 2015 RMB'000	Audited As at 31 December 2014 RMB'000
Other receivables	3,039	5,778
Advance to employees	5,758	5,030
Prepayments	17,084	5,116
	<u>25,881</u>	<u>15,924</u>

14. INVESTMENT IN EQUITY FUND

	<i>RMB'000</i> (Unaudited)
At 1 January 2015	28,954
Change in fair value	<u>3,696</u>
At 30 June 2015	<u>32,650</u>
	<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 Group invested as a limited partner in an unlisted equity fund (“the Fund”) established and managed by an independent third party partner. The investment is denominated in USD with an initial cost of USD5,000,000. The Group does not have control or significant influence in the Fund. The directors classified the investment as available-for-sale financial assets.

The fair value of investment in equity fund is based on the fair value of underlying investments held by the Fund, which are mainly influenced by the market price of the listed stocks and cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted equity investments.

15. HELD-TO-MATURITY FINANCIAL ASSETS

All the held-to-maturity financial assets are listed bonds which are dominated in RMB.

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Listed in Hong Kong	16,266	16,283
Listed outside Hong Kong	33,245	33,270
	<u>49,511</u>	<u>49,553</u>

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

	RMB'000
	(Unaudited)
At 1 January 2015	49,553
Amortised interest (<i>Note 6</i>)	863
Interest received	(905)
At 30 June 2015	<u>49,511</u>

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Listed bonds:		
Current		
Less than 1 year	<u>19,224</u>	—
Non-current		
Between 1 and 2 years	22,141	21,288
Between 2 and 3 years	<u>8,146</u>	<u>28,265</u>
	<u>49,511</u>	<u>49,553</u>

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

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

16. ORDINARY SHARES

	Authorised ordinary shares		
	<i>Number of shares ('000)</i>	<i>HKD'000</i>	<i>RMB'000</i>
At 31 December 2014 and 30 June 2015	<u>100,000,000</u>	<u>1,000,000</u>	<u>969,200</u>
	Issued and fully paid up		
	<i>Number of shares ('000)</i>	<i>HKD'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2015	1,111,687	11,117	10,312
Share Option Plans			
— issued shares (a)	<u>18,861</u>	<u>189</u>	<u>148</u>
At 30 June 2015	<u>1,130,548</u>	<u>11,306</u>	<u>10,460</u>
At 1 January 2014	1,092,554	10,926	10,161
Share Option Plans			
— issued shares (a)	<u>18,797</u>	<u>188</u>	<u>149</u>
At 30 June 2014	<u>1,111,351</u>	<u>11,114</u>	<u>10,310</u>

- (a) Share options exercised during the six months ended 30 June 2015 resulted in 18,861,000 shares being issued (six months ended 30 June 2014: 18,797,000 shares) with exercise proceeds of RMB25,323,000 (six months ended 30 June 2014: RMB28,503,000). The nominal value of these shares of RMB148,000 (six months ended 30 June 2014: RMB149,000) and the premium of RMB25,175,000 (six months ended 30 June 2014: RMB28,354,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price during the period was HKD3.56 per share (six months ended 30 June 2014: HKD4.81).

All the ordinary shares issued during the six months ended 30 June 2015 rank pari passu with the then existing ordinary shares in all respects.

17. TRADE AND OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Trade payables (a)	261	—
Salaries payable	32,455	44,518
Accrued expenses (b)	129,214	158,926
Other tax payable	14,779	27,837
Other payables (c)	<u>28,027</u>	<u>20,220</u>
	<u>204,736</u>	<u>251,501</u>

- (a) All the trade payables are within three months.
- (b) Accrued expenses mainly represented accrued sales commission fees payable to advertising agencies and accrued advertising expenses.
- (c) Other payables mainly represented deposits due to third parties.

18. 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 8.7% of the issued share capital of the Company as of 30 June 2015. 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 2015	1.71	27,697	—	—	27,697
Granted	—	—	—	—	—
Exercised	1.72	(18,861)	—	—	(18,861)
Forfeited	—	—	—	—	—
At 30 June 2015	<u>1.69</u>	<u>8,836</u>	<u>—</u>	<u>—</u>	<u>8,836</u>
Currently exercisable as at 30 June 2015	<u>1.69</u>	<u>8,836</u>	<u>—</u>	<u>—</u>	<u>8,836</u>
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>

(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 2015		31 December 2014	
	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	2,629	1.32	7,007
— 22 November 2017	1.71	2,976	1.71	10,045
— 22 November 2017	1.96	3,231	1.96	10,645
		<u>8,836</u>		<u>27,697</u>

(v) *Fair value 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 value 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 2015 (six months ended 30 June 2014: same).

(b) Share Award Scheme I

On 10 January 2011 (the “Adoption Date”), the Board approved and adopted a restricted share award scheme (the “Share Award Scheme I”) 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 I and holding shares awarded to the employees (the “Awarded Shares”) before they vest. Unless early terminated by the Board, the Share Award Scheme I 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 I for the six months ended 30 June 2015 were as follows:

	Awarded Shares (<i>thousands</i>) (Unaudited)	Shares to be awarded (<i>thousands</i>) (Unaudited)	Shares to be purchased (<i>thousands</i>) (Unaudited)	Total shares held by the Trustee (<i>thousands</i>) (Unaudited)
At 1 January 2015	1,624	—	(392)	1,232
Purchased	—	8	392	400
Granted to employees	—	—	—	—
Forfeited	—	—	—	—
Vested	(913)	—	—	(913)
	<u>711</u>	<u>8</u>	<u>—</u>	<u>719</u>
At 30 June 2015	<u>711</u>	<u>8</u>	<u>—</u>	<u>719</u>
At 1 January 2014	1,193	727	—	1,920
Purchased	—	358	—	358
Granted to employees	961	(961)	—	—
Forfeited	(65)	65	—	—
Vested	(579)	—	—	(579)
	<u>1,510</u>	<u>189</u>	<u>—</u>	<u>1,699</u>
At 30 June 2014	<u>1,510</u>	<u>189</u>	<u>—</u>	<u>1,699</u>

For the Awarded Shares granted under the Share Award Scheme I, fair value 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 total expense recognised for employee services received in respect of the Share Award Scheme I for the six months ended 30 June 2015 was RMB2,241,000 (six months ended 30 June 2014: RMB2,726,000).

During the six months ended 30 June 2015, the Share Award Scheme Trust received cash dividend amounting to RMB44,000 (six months ended 30 June 2014: RMB276,000) which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

(c) Share Award Scheme II adopted by a subsidiary

On 31 March 2015, the directors of the Company and Smooth Choice approved and adopted a restricted share award scheme in Smooth Choice (the “Share Award Scheme II”). Under the Share Award Scheme II, a director of Smooth Choice will receive an award of 15% equity interest shares in Smooth Choice. The vesting of the restricted share award with a performance condition is based on required services and performance from the award recipient.

For the awarded shares granted under the Share Award Scheme II, fair value 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 shares awarded under the Share Award Scheme II during the six months ended 30 June 2015 is about RMB1,050,000 and they will be valid and effective for a term of one to three years.

The total expense recognised for employee services received in respect of the Share Award Scheme II for the six months ended 30 June 2015 was RMB160,000 (six months ended 30 June 2014: nil).

CHAIRMAN'S STATEMENT

I am pleased to report another six months of solid growth despite an increasingly challenging environment in China. Our steady top line growth was driven in part by robust performances from our automobile, baby, and home improvement portals. Total revenue for the first half of the year came out to RMB491.2 million, an increase of 21.7%, while net profit decreased by 14.8% to RMB80.6 million.

Several factors accounted for the decrease in profit. During the first half of the year, we increased our investment into marketing for both our PC and mobile platforms. The investment is critical to the long-term brand recognition of the Group. In March 2015, we acquired iCare Newlife Technologies, Inc., a startup that specializes in the development of smart hardware devices in the rapidly growing maternity and child-parenting markets. Though still in the early investment stage, iCare Newlife Technologies, Inc. recently launched a fetal heart monitoring device and an intelligent weight. These new products will help us to expand our user base and gather more data for expectant parents. We intend to integrate the data into PCbaby's current information-based platform, which will enhance user stickiness and drive account growth. We also increased product development headcount in our other portals as we seek new ways to support growth. We are committed to product innovation and development. That said, we will continue to allocate our resources carefully in order to ensure consistent and viable returns on our investments.

Revenue from PCauto increased 42.4%, accounting for 66.0% of total revenue during the first half of the year. Our growing user base and lead generation capabilities are enabling us to become a more effective marketing platform. We continue to make good progress in the development of mobile products. Two of our newest mobile applications are a social-networking platform targeted at China's auto fan clubs, and a study tool that assists car learners preparing for the driver's test. We offered group sales, promotions for new car models, and other incentives to promote and increase transactions for our dealership customers. We are also excited about the products we currently have in the pipeline, including an automotive financing platform, new mobile applications, and after-sales service initiatives. We are confident that these initiatives will further strengthen our leading position in the market.

Revenue from PConline declined 18.5% as the expected recovery in the PC and laptop market lagged behind expectations during the first half of 2015. We adapted our strategy to the changing preferences of our users as they migrate towards mobile devices and shopping online. We will continue to strengthen our e-commerce platform, best.pconline.com.cn (今日聚超值), as it generates more advertising revenue from e-commerce vendors. We will also aggressively develop new advertising revenue from our mobile platform. In addition, we will continue to broaden our content to better serve the marketing needs of new and emerging product categories such as intelligent wearable devices and radio-controlled model aircrafts. With these initiatives, we maintain a positive outlook of PConline in the second half of 2015.

Revenue from PClady decreased 8.4% as a result of the slowdown in advertising demand from luxury products and changes in customer mix. Despite these challenges, we will continue to streamline our operations as we remain focused on building PClady into a base for future growth. We recently launched cherry (櫻桃幫), a mobile application that serves as an online-to-offline platform for the rapidly growing aesthetic services market. In June 2015, we announced the formation of a new corporate structure for PClady's operations, which will aid it in attracting investors for its future development and expansion.

Revenue from other operations, including PCgames, PCbaby, and PChouse increased 34.0%. Both PCbaby and PChouse saw strong growth as their brand awareness and innovation capabilities increase. The combined revenue from these two portals is rapidly becoming more meaningful with robust growth expected to continue throughout the rest of the year. With our strong expertise, we are well positioned to benefit from the rapid development of the child-caring and home improvement.

Looking ahead, we expect a challenging yet exciting environment throughout the remainder of 2015. We will continue to strengthen our ability to compete by expanding and improving our products and services.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased 21.7% from RMB403.6 million for the six months ended 30 June 2014 to RMB491.2 million for the six months ended 30 June 2015.

Revenue for PCauto, the Group's automobile portal, increased 42.4% from RMB227.5 million for the six months ended 30 June 2014 to RMB324.0 million during the six months ended 30 June 2015. The increase in revenue for PCauto was primarily due to increased advertising spending from automobile manufacturers and dealerships. As a percentage of revenue, PCauto accounted for 56.4% during the six months ended 30 June 2014 and 66.0% during the six months ended 30 June 2015.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 18.5% from RMB100.4 million during the six months ended 30 June 2014 to RMB81.8 million during the six months ended 30 June 2015. The decrease was driven by reduced digital marketing spending from major consumer electronics brands. As a percentage of revenue, PConline accounted for 24.9% during the six months ended 30 June 2014 and 16.7% during the six months ended 30 June 2015.

Revenue for PClady, the Group's lady and fashion portal, decreased 8.4% from RMB37.8 million during the six months ended 30 June 2014 to RMB34.6 million during the six months ended 30 June 2015. The decrease was driven by a slowdown in advertising demand from luxury products and changes in product mix. As a percentage of revenue, PClady accounted for 9.3% during the six months ended 30 June 2014 and 7.0% during the six months ended 30 June 2015.

Revenue from other operations, including the PCgames, PCbaby and PChouse portals, increased by 34.0% from RMB37.9 million during the six months ended 30 June 2014 to RMB50.8 million during the six months ended 30 June 2015. 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 9.4% during the six months ended 30 June 2014 and 10.3% during the six months ended 30 June 2015.

Cost of Revenue

Cost of revenue increased 35.7% from RMB125.4 million during the six months ended 30 June 2014 to RMB170.2 million during the six months ended 30 June 2015. Gross profit margin was 68.9% during the six months ended 30 June 2014 and 65.4% during the six months ended 30 June 2015.

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

Selling and Marketing Costs

Selling and marketing costs increased 43.4% from RMB94.2 million during the six months ended 30 June 2014 to RMB135.1 million during the six months ended 30 June 2015. The increase was mainly due to increases in staff costs, as well as marketing expenses related to brand development through search engines and other related channels.

Administrative Expenses

Administrative expenses increased by 27.4% from RMB37.8 million during the six months ended 30 June 2014 to RMB48.1 million during the six months ended 30 June 2015, due to an increase in headcount in support of the Group's growth during the period.

Product Development Expenses

Product development expenses increased by 31.2% from RMB27.7 million during the six months ended 30 June 2014 to RMB36.3 million during the six months ended 30 June 2015. 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 RMB105.3 million during the six months ended 30 June 2015, representing a 13.2% decrease from RMB121.3 million during the six months ended 30 June 2014.

Finance Cost and Income

Net finance income was RMB4.2 million during the six months ended 30 June 2014 and net finance cost was RMB0.1 million during the six months ended 30 June 2015.

Income Tax Expense

Income tax expenses decreased 20.9% from RMB28.1 million during the six months ended 30 June 2014 to RMB22.2 million during the six months ended 30 June 2015.

Net Profit

Net profit decreased 14.8% from RMB94.6 million during the six months ended 30 June 2014 to RMB80.6 million during the six months ended 30 June 2015.

Liquidity and Financial Resources

As of 30 June 2015, the Group had short-term deposits and cash totaling RMB232.2 million, compared with RMB394.8 million as of 31 December 2014. The decline in cash was primarily due to the payment of a cash dividend totaling RMB155.0 million during the six months ended 30 June 2015.

The Company had no external debt as of 31 December 2014 and 30 June 2015.

Bank Borrowings

As of 30 June 2015, 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 2014.

Material Acquisitions and Disposal

During the six months ended 30 June 2015, the Group had no material acquisitions and disposals of subsidiaries and associates.

Charges on Assets

As of 30 June 2015, the Group had no bank deposits or other assets pledge to secure its banking facilities.

Foreign Exchange Risk

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

Employees and Remuneration Information

As of 30 June 2015, the Group had 1,869 employees (31 December 2014: 1,762), an increase of 6.1% from the first half of 2015. 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

Despite the challenges ahead, the Group expects steady revenue growth from its well-balanced portal portfolio. The Group will leverage its core strengths as it continues to invest in select markets. The Group believes this is the best course of action to increase shareholder value and drive sustainable future growth.

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 2015.

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 2015, 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, 28 August 2015

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.