



Pacific Online Limited
太平洋網絡有限公司

INTERIM REPORT 2016

Incorporated in the Cayman
Islands with limited liability

Stock Code : **543**





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Lam Wai Yan
(Chairman and Chief Executive Officer)
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

COMPANY SECRETARY

Mr. Wong Huk Yung, Hudson

AUTHORISED REPRESENTATIVES

Mr. Wang Ta-Hsing
Mr. Wong Huk Yung, Hudson

AUDIT COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

REMUNERATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

NOMINATION COMMITTEE

Dr. Lam Wai Yan *(Chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak

PRINCIPAL BANKERS

Bank of China
China Construction Bank
Wing Hang Bank

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

115 Gaopu Road
Tianhe, Guangzhou
PRC
Postcode: 510663

PLACE OF BUSINESS IN HONG KONG

Portion of Unit 807, Tower 2
Lippo Centre, 89 Queensway
Hong Kong

GROUP'S PORTAL ADDRESSES

www.pconline.com.cn
www.pcauto.com.cn
www.pclady.com.cn
www.pcbaby.com.cn
www.pchouse.com.cn

WEBSITE ADDRESS

corp.pconline.com.cn

STOCK CODE

543

CONDENSED CONSOLIDATED INTERIM RESULTS

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 2016 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 2016

	Note	Unaudited Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Revenue	6	471,448	491,245
Cost of revenue		(163,624)	(170,202)
Gross profit		307,824	321,043
Selling and marketing costs		(124,642)	(135,118)
Administrative expenses		(63,193)	(48,131)
Product development expenses		(39,026)	(36,278)
Other income	7	6,922	1,415
Operating profit		87,885	102,931
Finance income	8	5,599	2,464
Finance cost	8	—	(2,581)
Finance income/(cost) — net	8	5,599	(117)
Profit before income tax		93,484	102,814
Income tax expense	9	(19,424)	(22,236)
Profit for the period		74,060	80,578
Attributable to:			
Equity holders of the Company		74,060	80,578
Earnings per share for profit attributable to equity holders of the Company			
— basic (RMB)	10	6.55 cents	7.23 cents
— diluted (RMB)	10	6.54 cents	7.15 cents

The notes on pages 9 to 30 form an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit for the period	74,060	80,578
<i>Items that may be reclassified to profit or loss</i>		
Change in value of investment in equity fund	1,266	3,696
Other comprehensive income for the period, net of tax	1,266	3,696
Total comprehensive income for the period	75,326	84,274
Attributable to:		
Equity holders of the Company	75,326	84,274

The notes on pages 9 to 30 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2016

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		16,506	16,668
Property and equipment	12	254,667	260,112
Intangible assets	12	9,333	11,535
Deferred income tax assets	13	29,515	24,989
Investment in equity fund	15	34,295	33,029
Held-to-maturity financial assets	16	8,231	28,207
Other receivables and prepayments	14	2,564	—
		355,111	374,540
Current assets			
Inventories		—	948
Trade and other receivables and prepayments	14	618,263	578,694
Held-to-maturity financial assets	16	22,199	21,264
Short-term bank deposits with original terms of over three months		62,460	2,610
Cash and cash equivalents		168,937	410,849
		871,859	1,014,365
Total assets		1,226,970	1,388,905
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	10,469	10,468
Reserves		922,421	1,004,222
Total equity		932,890	1,014,690

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2016

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	13	4,600	515
Current liabilities			
Accruals and other payables	18	197,022	281,765
Prepaid advertising subscriptions from customers and deferred revenue		27,617	25,115
Current income tax liabilities		64,841	66,820
		289,480	373,700
Total liabilities		294,080	374,215
Total equity and liabilities		1,226,970	1,388,905

Lam Wai Yan
Director

Wang Ta-Hsing
Director

The notes on pages 9 to 30 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016



		Unaudited									
		Attributable to equity holders of the Company									
		Shares held									Total
		Ordinary	Share	Merger	Capital	Share-based	for Share	Statutory	Investment	Retained	
Note		shares	premium	reserve	redemption	compensation	Award	reserve	in equity	earnings	
		RMB'000	RMB'000	RMB'000	reserve	reserve	Scheme I	funds	fund	RMB'000	RMB'000
Six months ended 30 June 2016											
	Balance at 1 January 2016	10,468	391,556	4	306	4,180	776	43,250	1,832	562,318	1,014,690
Comprehensive income											
	Profit for the period	—	—	—	—	—	—	—	—	74,060	74,060
	Other comprehensive income										
	— change in value of investment in equity fund	—	—	—	—	—	—	—	1,266	—	1,266
15											
Total comprehensive income		—	—	—	—	—	—	—	1,266	74,060	75,326
	Cash dividends relating to 2015, paid in 2016	—	—	—	—	—	—	—	—	(157,617)	(157,617)
11											
	Employees share option schemes										
	— value of employee services	—	—	—	—	160	—	—	—	—	160
19(a)											
	— proceeds from shares issued	1	330	—	—	—	—	—	—	—	331
17(a)											
	— transfer upon exercise of share options	—	178	—	—	(178)	—	—	—	—	—
17(a)											
Balance at 30 June 2016		10,469	392,064	4	306	4,162	776	43,250	3,098	478,761	932,890
Six months ended 30 June 2015											
	Balance at 1 January 2015	10,312	328,343	4	306	45,201	(4,087)	43,250	(2,243)	537,504	958,590
Comprehensive income											
	Profit for the period	—	—	—	—	—	—	—	—	80,578	80,578
	Other comprehensive income										
	— change in value of investment in equity fund	—	—	—	—	—	—	—	3,696	—	3,696
15											
Total comprehensive income		—	—	—	—	—	—	—	3,696	80,578	84,274
	Cash dividends relating to 2014, paid in 2015	—	—	—	—	—	—	—	—	(155,017)	(155,017)
11											
	Share Award Scheme I										
	— purchase of shares	—	—	—	—	—	(1,224)	—	—	—	(1,224)
	— value of employee services	—	—	—	—	2,241	—	—	—	—	2,241
	— vesting of Awarded Shares	—	(913)	—	—	—	913	—	—	—	—
	Share Award Scheme II										
	— value of employee services	—	—	—	—	160	—	—	—	—	160
	Employees share option schemes										
	— proceeds from shares issued	148	25,175	—	—	—	—	—	—	—	25,323
17(a)											
Balance at 30 June 2015		10,460	352,605	4	306	47,602	(4,398)	43,250	1,453	463,065	914,347

The notes on pages 9 to 30 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations		(750)	9,279
Income tax paid		(21,844)	(33,431)
Net cash used in operating activities		(22,594)	(24,152)
Cash flows from investing activities			
Purchase of property and equipment		(3,480)	(8,483)
Disposals of property and equipment		253	103
Purchase of intangible assets		(197)	(247)
Purchase of certificates of deposit		(20,137)	—
Redemption of held-to-maturity financial assets	16	19,000	—
Loan to a key management personnel		(2,564)	—
Expenditure related to business disposal		(989)	—
Placement of short-term bank deposits with original terms of over three months		(62,460)	(2,578)
Receipt from maturity of short-term bank deposits with original terms of over three months		2,610	2,539
Acquisition of a subsidiary, net of cash acquired		—	219
Interest received		5,429	3,373
Net cash used in investing activities		(62,535)	(5,074)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme I		—	(1,224)
Cash dividends paid	11	(157,617)	(155,017)
Proceeds from issuance of ordinary shares	17(a)	331	25,323
Net cash used in financing activities		(157,286)	(130,918)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of period		410,849	392,295
Exchange gains/(losses) on cash and cash equivalents		503	(2,549)
Cash and cash equivalents at end of period		168,937	229,602

The notes on pages 9 to 30 form an integral part of this condensed consolidated interim financial information.



NOTES TO THE INTERIM FINANCIAL INFORMATION

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 of the Company on 26 August 2016.

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 financial statements of the Group for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRS effective for the financial year ending 31 December 2016.

Amendments to HKFRS effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

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

4. ESTIMATES

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015, apart from the estimates that are required in determining the impairment of the intangible assets acquired in a business combination.



NOTES TO THE INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

There have been no changes in the risk management policies since year end.

5.2 Foreign exchange risk

The Group mainly operates in the PRC and most of the Group's transactions, assets and liabilities are denominated in RMB. Therefore, to maintain the flexibility in the Company and HK subsidiaries' payment of daily operation, the Group holds certain monetary assets denominated in USD or HKD subject to certain thresholds stated in its treasury mandate. This exposes the Group to foreign exchange risk.

At 30 June 2016, if RMB had strengthened/weakened by 0.5% against the HKD/USD with all other variables held constant, post tax profit for the period would have been RMB390,000 (six months ended 30 June 2015: RMB105,000) lower/higher, mainly as a result of net foreign exchange losses/gains in HKD/USD denominated cash at bank and other receivables. Similarly, the impact on equity would have been RMB171,000 lower/higher coming from USD denominated investment in equity fund classified as available-for-sale financial assets as at 30 June 2016 (six months ended 30 June 2015: RMB163,000).

5.3 Price risk

The Group is exposed to price risk because of investments held by the Group and classified on the consolidated balance sheet as investment in equity fund.

Investment in equity fund is held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of underlying investments related to investment in equity fund at the end of the reporting period. If equity prices of the respective underlying investments held by the Group had been 5% higher/lower as at 30 June 2016, the other comprehensive income would have been approximately RMB1,715,000 (six months end 30 June 2015: RMB1,633,000) higher/lower.

5.4 Liquidity risk

The Group aims to finance its operations with its own capital and earnings. It did not have any borrowings or credit facilities committed/utilised during the six months ended 30 June 2016. Management considers that the Group does not have significant liquidity risk.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.5 Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, deposits with banks, trade and other receivables, as well as held-to-maturity financial assets. The carrying amount of these balances in the Interim Financial Information represents the Group's maximum exposure to credit risk in relation to its financial assets.

To manage this risk, deposits and certificates of deposit, which are included in trade and other receivables, are mainly placed with state-owned financial institutions in the PRC and international financial institutions outside the PRC of high credit quality. There was no recent history of default from these financial institutions.

For trade receivables, a material portion of online advertising services revenues was derived from advertising agents. If they experience financial difficulties in settling the outstanding amount due to the Group, the Group's online advertising services might be adversely affected in terms of recoverability of receivables. To manage this risk, the Group assesses the credit quality of the advertising agents, taking into account their financial position, past experience and other factors.

Other receivables are mainly advances to employees. The directors are of the opinion that no significant credit risk exists. Held-to-maturity financial assets are investments in listed securities. The Group assesses the risk by reference to external credit ratings and considers that there is no significant credit risk.

5.6 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
— Investment in equity fund	—	—	34,295	34,295



NOTES TO THE INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.6 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no changes in valuation techniques during the period.

The changes in level 3 instruments for the six months period ended 30 June 2016 are presented in Note 15.

The Group determines the fair value of the Group's financial instrument carried at fair value in level 3 at each reporting date.

For the six months ended 30 June 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.7 Fair value of financial assets and liabilities measured at amortised cost

The fair value of held-to-maturity investments are as follows:

	Fair value	
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Current	22,378	19,503
Non-current	7,931	27,611
	30,309	47,114

For the six months ended 30 June 2016, there were no reclassifications of financial assets.

Except for loan to a key management personnel, the carrying amounts of the Group's trade and other receivables and accruals and other payables approximate their fair value due to their short maturities. The fair values of loan to a key management personnel is disclosed in Note 14.

6. 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 different internet portals. The reportable operating segments are grouped into PCauto, PConline, PClady and Others. The Company currently does not allocate cost of revenue, operating costs or assets to its segments, as its chief operating decision makers do not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Company does not report a measure of profit or total assets for each reportable segment.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. SEGMENT INFORMATION (CONTINUED)

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

There were no inter-segment sales for the six months ended 30 June 2016 (six months ended 30 June 2015: same). The revenue from external parties reported to the chief operating decision makers is measured in a manner consistent with that in the condensed consolidated interim income statement.

	PCauto RMB'000 (Unaudited)	POnline RMB'000 (Unaudited)	PClady RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Group RMB'000 (Unaudited)
For the six months ended 30 June 2016					
Revenue	331,059	65,915	27,141	47,333	471,448
For the six months ended 30 June 2015					
Revenue	324,016	81,822	34,589	50,818	491,245

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2016 all revenues of the Group were generated from the PRC and derived from external customers (six months ended 30 June 2015: same).

As at 30 June 2016, 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 2015: same).

For the six months ended 30 June 2016, 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 2015: same).

7. OTHER INCOME

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Government grants	6,051	552
Investment income on held-to-maturity financial assets	871	863
	6,922	1,415

NOTES TO THE INTERIM FINANCIAL INFORMATION

8. FINANCE INCOME/(COST) — NET

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income		
— Interest income	5,100	2,464
— Net foreign exchange gains	499	—
	5,599	2,464
Finance cost		
— Net foreign exchange losses	—	(2,581)
	5,599	(117)

9. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
PRC current tax	19,865	20,881
Deferred taxation	(441)	1,355
	19,424	22,236

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 2016 (six months ended 30 June 2015: 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9. INCOME TAX EXPENSE (CONTINUED)

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. and Guangdong Pacific Internet Information Service Co., Ltd., the principal operating subsidiaries of the Company, were formally designated as HNTE in 2014 and the applicable income tax rate is 15% for the three years from 2014 to 2016. Assuming that there is no change to the relevant laws and regulations, the directors consider that these two subsidiaries will continue to be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax.

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

10. 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).

	Unaudited Six months ended 30 June	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	74,060	80,578
Weighted average number of ordinary shares for basic earnings per share (thousand shares)	1,131,421	1,113,762
Basic earnings per share (RMB)	6.55 cents	7.23 cents

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. EARNINGS PER SHARE (CONTINUED)

(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	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	74,060	80,578
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	1,133,150	1,127,562
— Weighted average number of ordinary shares for basic earnings per share (thousand shares)	1,131,421	1,113,762
— Adjustment for share options and awarded shares (thousand shares)	1,729	13,800
Diluted earnings per share (RMB)	6.54 cents	7.15 cents

11. DIVIDENDS

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: same).

The dividends paid in the six months ended 30 June 2016 included the 2015 final cash dividend of RMB13.93 cents (six months ended 30 June 2015: 2014 final cash dividend of RMB13.93 cents) per ordinary share out of the retained earnings, totalling RMB157,617,000 (six months ended 30 June 2015: RMB155,017,000), which has already excluded the dividends related to the ordinary shares held for the Share Award Scheme I of RMB6,000 (six months ended 30 June 2015: RMB44,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

	Property and equipment RMB'000 (Unaudited)	Intangible assets RMB'000 (Unaudited)	Goodwill RMB'000 (Unaudited)
Six months ended 30 June 2016			
Net book amount as at 1 January 2016	260,112	11,535	—
Additions	3,480	197	—
Impairment (a)	—	(1,900)	—
Disposals	(310)	—	—
Depreciation and amortisation	(8,615)	(499)	—
Net book amount as at 30 June 2016	254,667	9,333	—
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	122	2,300	4,622
Disposals	(86)	—	—
Depreciation and amortisation	(8,330)	(498)	—
Net book amount as at 30 June 2015	264,925	11,738	4,622

(a) The impairment charge of RMB1,900,000 during the six months ended 30 June 2016 was related to the brand and technology.

13. 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 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	11,412	6,981
— to be recovered within 12 months	18,103	18,008
	29,515	24,989

NOTES TO THE INTERIM FINANCIAL INFORMATION

13. DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets (Continued)

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)	Accruals RMB'000 (Unaudited)	Accrued salary expense RMB'000 (Unaudited)	Tax losses RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2016	11,480	6,981	6,528	—	—	24,989
Credited/(Charged) to the income statement	156	4,431	(5,205)	—	5,144	4,526
At 30 June 2016	11,636	11,412	1,323	—	5,144	29,515
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	4,004	6,099	3,221	4,994	—	18,318

Deferred income tax liabilities

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Deferred income tax liabilities:		
— to be recovered after more than 12 months	—	435
— to be recovered within 12 months	4,600	80
	4,600	515

NOTES TO THE INTERIM FINANCIAL INFORMATION

13. DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities (Continued)

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 RMB'000 (Unaudited)	Intangible assets acquired in business combination at fair value RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2016	—	515	515
Charged/(credited) to the income statement	4,600	(515)	4,085
At 30 June 2016	4,600	—	4,600
At 1 January 2015	—	—	—
Acquisition of a subsidiary	—	575	575
Charged/(credited) to the income statement	4,200	(20)	4,180
At 30 June 2015	4,200	555	4,755

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%.

NOTES TO THE INTERIM FINANCIAL INFORMATION

14. 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 2016, the ageing analysis of the trade receivables (net of impairment provision of RMB50,239,000 (31 December 2015: RMB31,860,000)) was as follows:

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Current to 6 months	445,970	415,890
6 months to 1 year	88,945	114,137
1 year to 2 years	24,345	23,645
	559,260	553,672

(b) Other receivables and prepayments

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Certificates of deposit (i)	20,265	—
Prepayments	17,841	6,286
Advances to employees	6,424	4,816
Loan to a key management personnel (ii)	2,274	—
Prepaid employee benefits	290	—
Others	14,473	13,920
	61,567	25,022
Less non-current portion:		
Loan to a key management personnel (ii)	(2,274)	—
Prepaid employee benefits	(290)	—
Current portion	59,003	25,022

(i) The range of coupon rate of the certificates of deposit is 2.30% to 4.28% per annum.

NOTES TO THE INTERIM FINANCIAL INFORMATION

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(b) Other receivables and prepayments (Continued)

- (ii) On 1 February 2016, the Group lent a loan amounting to HKD3,000,000 (equivalent to RMB2,564,000) to a key management personnel, which is interest-free and due on the earlier of the cessation date of employment and 31 January 2019. As at 30 June 2016, the fair value of the loan to a key management personnel is RMB2,274,000, which is based on cash flows discounted using a rate based on the borrowing rate of 4.75%. The fair value is within level 3 of the fair value hierarchy.

15. INVESTMENT IN EQUITY FUND

	RMB'000 (Unaudited)
At 1 January 2016	33,029
Change in fair value	1,266
At 30 June 2016	34,295
	RMB'000 (Unaudited)
At 1 January 2015	28,954
Change in fair value	3,696
At 30 June 2015	32,650

- (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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. HELD-TO-MATURITY FINANCIAL ASSETS

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Bonds		
— Listed in Hong Kong	12,391	16,226
— Listed outside Hong Kong	18,039	33,245
	30,430	49,471

All the held-to-maturity financial assets are denominated in RMB.

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

	RMB'000 (Unaudited)
At 1 January 2016	49,471
Amortised interest (Note 7)	871
Interest received	(912)
Redemption	(19,000)
At 30 June 2016	30,430

	RMB'000 (Unaudited)
At 1 January 2015	49,553
Amortised interest (Note 7)	863
Interest received	(905)
At 30 June 2015	49,511

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. HELD-TO-MATURITY FINANCIAL ASSETS (CONTINUED)

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

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Current		
Less than 1 year	22,199	21,264
Non-current		
Between 1 and 2 years	8,231	28,207
	30,430	49,471

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.

17. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares ('000)	HKD'000	RMB'000
At 31 December 2015 and 30 June 2016	100,000,000	1,000,000	969,200
	Issued and fully paid up		
	Number of shares ('000) (Unaudited)	HKD'000 (Unaudited)	RMB'000 (Unaudited)
At 1 January 2016	1,131,342	11,314	10,468
Share Option Plans — issued shares (a)	203	2	1
At 30 June 2016	1,131,545	11,316	10,469
At 1 January 2015	1,111,687	11,117	10,312
Share Option Plans — issued shares (a)	18,861	189	148
At 30 June 2015	1,130,548	11,306	10,460

NOTES TO THE INTERIM FINANCIAL INFORMATION

17. ORDINARY SHARES (CONTINUED)

- (a) Share options exercised during the six months ended 30 June 2016 resulted in 203,000 shares being issued (six months ended 30 June 2015: 18,861,000 shares) with exercise proceeds of RMB331,000 (six months ended 30 June 2015: RMB25,323,000). The nominal value of these shares of RMB1,000 (six months ended 30 June 2015: RMB148,000) and the premium of RMB330,000 (six months ended 30 June 2015: RMB25,175,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average share price at the time of exercise was HKD2.11 per share (six months ended 30 June 2015: HKD3.56 per share).

All the ordinary shares issued during the six months ended 30 June 2016 rank pari passu with the then existing ordinary shares in all respects.

18. ACCRUALS AND OTHER PAYABLES

	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
Salaries payable	39,356	48,737
Accrued expenses (a)	120,425	192,058
Other tax payable	18,937	21,419
Other payables (b)	18,304	19,551
	197,022	281,765

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



NOTES TO THE INTERIM FINANCIAL INFORMATION

19. 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 2016. 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.



NOTES TO THE INTERIM FINANCIAL INFORMATION

19. SHARE-BASED COMPENSATION COSTS (CONTINUED)

(a) Share Option Plan (Continued)

(ii) Post-IPO Share Option Plan (Continued)

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.

On 11 May 2016, the Company granted 3,300,000 share options with exercise price of HKD2.35 to an employee under the Post-IPO Share Option Plan. The exercisable date for the options are as follows:

Vesting period	Number of options (thousands)
1 year from 11 May 2016	1,100
2 years from 11 May 2016	1,100
3 years from 11 May 2016	1,100
	3,300

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. SHARE-BASED COMPENSATION COSTS (CONTINUED)

(a) Share Option Plan (Continued)

(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 2016	1.67	7,955	—	—	7,955
Granted	—	—	2.35	3,300	3,300
Exercised	1.96	(203)	—	—	(203)
Forfeited	1.96	(52)	—	—	(52)
At 30 June 2016	1.66	7,700	2.35	3,300	11,000
Currently exercisable as at 30 June 2016	1.66	7,700	—	—	7,700
At 1 January 2015	1.71	27,697	—	—	27,697
Exercised	1.72	(18,861)	—	—	(18,861)
At 30 June 2015	1.69	8,836	—	—	8,836
Currently exercisable as at 30 June 2015	1.69	8,836	—	—	8,836

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. SHARE-BASED COMPENSATION COSTS (CONTINUED)

(a) Share Option Plan (Continued)

(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 2016		31 December 2015	
	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	2,598	1.32	2,598
— 22 November 2017	1.71	2,703	1.71	2,703
— 22 November 2017	1.96	2,399	1.96	2,654
Post-IPO Share Option Plan				
— 10 May 2020	2.35	3,300	—	—
		11,000		7,955

(v) Fair value of options

The fair value of options granted on 11 May 2016 under Post-IPO Share Option Plan was determined using the Trinomial Valuation Model. The expense recognised for employee services received for the six months ended 30 June 2016 was RMB160,000 (six months ended 30 June 2015: nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang Ko Chiang ("Mr. Wang")	Substantial shareholder
Kexim Company Limited ("Kexim")	Controlled by Mr. Wang
Beijing Pacific Times Property Management Co., Ltd. ("Pacific Times")	Controlled by Mr. Wang
South China Resources Development Consultants Limited ("SCRD Consultants")	Controlled by Mr. Wang

(b) Related party transactions

The Group undertook the following related party transactions during the period:

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Rental expenses paid for office and advertising billboards:		
SCRD Consultants	18	264
Kexim	610	609
	628	873
Property management fees paid for office:		
Pacific Times	80	78

These transactions were conducted at terms pursuant to agreements entered into between the Group and the respective related parties.

(c) Loan to a key management personnel

The loan to a key management personnel is interest-free and due on the earlier of the cessation of employment and 31 January 2019. The fair value and the effective interest rate of the loan to a key management personnel is disclosed in Note 14.

No provision is considered necessary regarding the loan to a key management personnel as at 30 June 2016.



CHAIRMAN'S STATEMENT

I have pleasure in reporting the six months results of the Group. The reporting period has seen an extremely challenging environment for our sector. In this so called "age of the self-media", the costs involved in operating as a mini media are so greatly reduced. The market is now littered with people writing articles or otherwise contributing contents that are designed for only one thing: gathering "fans". They offer alternative ways for advertisers to disseminate product information. This reduces the advertisers' reliance on quality contents provided by mainstay internet companies. On the other hand, the jittery global economy generally, and in China particularly, makes the manufacturers and distributors much more careful with their marketing budgets. The result for mainstream internet media companies is an uphill battle to earn revenue from the reducing share of a shrinking pie.

With some hard work and remaining focused, we managed to pull in RMB471.4 million for the first six months of the year, 4% lower when compared to the corresponding period last year. Faced with the fast changing operating environment, the Group made a significant effort in developing new products and services on the mobile and new media platforms. Against the continuing trend of rapidly increasing costs associated with the provision of quality contents and services, we recorded a net profit after tax of RMB74.1 million for the six months ended 30 June 2016, 8.1% lower than the corresponding period last year.

We believe the explosive proliferation of small media companies in the market and their ability to raise capital for burning is coming to an end, following the end of era of rapid growth of internet and smart phone users. There is a limit to the number of content providers one can read or follow. Information seekers will return to internet companies that provide quality contents and has the facilities to accumulate useful information for future reference. Guided by these thoughts, the Group is undergoing a re-structuring process and at the same time streamlining its operations to contain costs.

Revenue from PCauto increased modestly by 2.2%, accounting for 70.2% of the Group's total revenue during the first half of the year. The auto industry in China has been impacted by the gloomy economy outlook. Both auto manufacturers and dealerships run very tight marketing budgets, in anticipation of an even harsher market. We managed to maintain our leadership in the market and, under our "Auto Dealer+" initiative, we provide new and more effective sales and management tools to our partners. During the period, we launched two mobile products: "Pocket Auto Salesman" and "Cool Auto Butler", which provide the salesmen and after sale service providers respectively with leaping enhancements in their sales and management capabilities. These products are well received by the users. We trust our mobile and new media strategies will bring us avenues for satisfactory growth in the medium term.

The severity of the downturn of the markets for technology products has had its impact on the sales volumes of PConline's major customers, and thus ourselves. Compared to the corresponding period, the large scale contraction of the market of Notebooks has shown no sign of easing. The earthquake of Kumamoto, Japan interrupted the production of the digital cameras because of the shortage of their key component parts. The sales of a major e-commerce customer were far short of expectation in its 18 June discount promotion event. However, the market has a silver-lining. The dominance of Apple, which is known as a limited user of the media for marketing, is over and thus there are new demands. The development of technology and product innovation, such as the use of Virtual Reality and Augmented Reality, is putting new momentum into the market. We believe the situation has bottomed out and as a leader in this market, PConline is well positioned to take advantage of the new norm.



CHAIRMAN'S STATEMENT

PCLady has had a very tough first six months of this year. The 21.5% drop in revenue was partly due to a business strategic change associated with medical cosmetics. Despite the downturn in sales, the team has been focusing on the delivery of products and contents utilising mobile, video and live broadcast techniques. One of the key new products launched is "Modern Classes" in which young ladies can participate in make-up classes and seminars via their mobile phones. Together with another app, "Choices", which combines fashion and cosmetic information with a self-media platform, PCLady has laid down the foundation to demonstrate its potential.

During the six months ended 30 June 2016, PCbaby has witnessed a significant trend of support and reliance by pregnant women, as a result of innovative ideas and professional baby care contents, some commenced with the acquisition of iCare Newlife Technologies, Inc. This has resulted in increased demand for advertisements of new-born products such as milk powders and diapers. The introduction of new advertising law restricting the advertisement of medical related baby products has, however, delayed the monetisation of this effort. With the second-child policy launched in China, we will continue to invest resources to maintain our leadership in baby care contents, and expect to grow fast in the mobile based pregnant women and new born baby product sector.

PChouse has seen its turnover affected by a number of strong competitors entering the market, especially in the Northern part of China. We have undergone a review of the user requirements and have initiated new products utilising video and conference delivery techniques. These and other improvements in the PChouse magazine will enable a solid growth of our income base in the future.

All in all, without underestimating the difficulties associated with the economy and our markets, we are excited about the new initiatives that the product teams across the board are taking. The team spirit is high and, as a result of streamlining and re-deployment of resources to targeted products, the Group is positive about the prospects ahead of us.



MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Revenue decreased 4.0% from RMB491.2 million for the six months ended 30 June 2015 to RMB471.4 million for the six months ended 30 June 2016.

Revenue for PCauto, the Group's automobile portal, increased 2.2% from RMB324.0 million for the six months ended 30 June 2015 to RMB331.1 million during the six months ended 30 June 2016. 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 66.0% during the six months ended 30 June 2015 and 70.2% during the six months ended 30 June 2016.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 19.4% from RMB81.8 million during the six months ended 30 June 2015 to RMB65.9 million during the six months ended 30 June 2016. The decrease was due to decline in demand from major consumer electronics brands. As a percentage of revenue, PConline accounted for 16.7% during the six months ended 30 June 2015 and 14.0% during the six months ended 30 June 2016.

Revenue for PClady, the Group's lady and fashion portal, decreased 21.5% from RMB34.6 million during the six months ended 30 June 2015 to RMB27.1 million during the six months ended 30 June 2016. 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 7.0% during the six months ended 30 June 2015 and 5.8% during the six months ended 30 June 2016.

Revenue from other operations, including the PCbaby and PChouse portals, decreased by 6.9% from RMB50.8 million during the six months ended 30 June 2015 to RMB47.3 million during the six months ended 30 June 2016. The decrease was mainly due to the disposal of PCgames portal in the second half of 2015. As a percentage of revenue, revenue from other operations accounted for 10.3% during the six months ended 30 June 2015 and 10.0% during the six months ended 30 June 2016.

COST OF REVENUE

Cost of revenue decreased 3.9% from RMB170.2 million during the six months ended 30 June 2015 to RMB163.6 million during the six months ended 30 June 2016. Gross profit margin was 65.4% during the six months ended 30 June 2015 and 65.3% during the six months ended 30 June 2016.

The decrease in cost of revenue was mainly due to lower costs related to offline marketing activities.

SELLING AND MARKETING COSTS

Selling and marketing costs decreased 7.8% from RMB135.1 million during the six months ended 30 June 2015 to RMB124.6 million during the six months ended 30 June 2016. The decrease was mainly due to less marketing expenses and promotion fees during the period.



MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 31.3% from RMB48.1 million during the six months ended 30 June 2015 to RMB63.2 million during the six months ended 30 June 2016, due to an increase in impairment charge of receivables during the period.

PRODUCT DEVELOPMENT EXPENSES

Product development expenses increased by 7.6% from RMB36.3 million during the six months ended 30 June 2015 to RMB39.0 million during the six months ended 30 June 2016. The increase was primarily due to increases in personnel-related expenses 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 RMB88.0 million during the six months ended 30 June 2016, representing a 16.4% decrease from RMB105.3 million during the six months ended 30 June 2015.

OTHER INCOME

Other income was RMB1.4 million during the six months ended 30 June 2015 and was RMB6.9 million during the six months ended 30 June 2016. The increase was due to increase in government grants.

FINANCE COST AND INCOME

Net finance cost was RMB0.1 million during the six months ended 30 June 2015 and net finance income was RMB5.6 million during the six months ended 30 June 2016.

INCOME TAX EXPENSE

Income tax expenses decreased 12.6% from RMB22.2 million during the six months ended 30 June 2015 to RMB19.4 million during the six months ended 30 June 2016.

NET PROFIT

Net profit decreased 8.1% from RMB80.6 million during the six months ended 30 June 2015 to RMB74.1 million during the six months ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2016, the Group had short-term deposits and cash totaling RMB231.4 million, compared with RMB413.5 million as of 31 December 2015. The decline in cash was primarily due to the payment of a cash dividend totaling RMB157.6 million during the six months ended 30 June 2016.

The Company had no external debt as of 31 December 2015 and 30 June 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

BANK BORROWINGS

As of 30 June 2016, 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 2015.

MATERIAL ACQUISITIONS AND DISPOSAL

During the six months ended 30 June 2016, the Group had no material acquisitions and disposals of subsidiaries and associates.

CHARGES ON ASSETS

As of 30 June 2016, 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 RMB. Therefore, the overall foreign currency risk was not considered to be significant.

EMPLOYEES AND REMUNERATION INFORMATION

As of 30 June 2016, the Group had 1,653 employees (31 December 2015: 1,759), a decrease of 6.0% from the first half of 2016. This is the result of the Group's internal re-structuring and streamlining its support operations. The Group determines staff's remuneration based on factors such as performance and years of experience.



OTHER INFORMATION

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 2016.

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 2016, 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.

SHARE OPTION PLAN

The Company has adopted a Pre-IPO Share Option Plan and a Post-IPO Share Option Plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

During the six months ended 30 June 2016, movements of the two share option plans of the Company are as follows:

(a) Pre-IPO Share Option Plan

Category	Date of grant	Exercise period ⁽¹⁾	Exercise price per share	Number of share options			As at 30 June 2016
				As at 1 January 2016	Exercised during the period	Lapsed during the period	
Employees in aggregate	23 November 2007	23 November 2009–22 November 2017	HKD1.32	2,598,212	—	—	2,598,212
	23 November 2007	23 November 2010–22 November 2017	HKD1.71	2,703,179	—	—	2,703,179
	23 November 2007	23 November 2011–22 November 2017	HKD1.96	2,653,734	(203,183)	(52,118)	2,398,433
Total				7,955,125	(203,183)	(52,118)	7,699,824

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) No share options have been granted/cancelled under the Pre-IPO Share Option Plan during the six months ended 30 June 2016.

(b) Post-IPO Share Option Plan

Category	Date of grant	Exercise period ⁽¹⁾	Exercise price per share	Number of share options		
				As at 1 January 2016	Granted during the period	As at 30 June 2016
Employee	11 May 2016	11 May 2017–10 May 2020	HKD2.354	—	1,100,000	1,100,000
	11 May 2016	11 May 2018–10 May 2020	HKD2.354	—	1,100,000	1,100,000
	11 May 2016	11 May 2019–10 May 2020	HKD2.354	—	1,100,000	1,100,000
Total				—	3,300,000	3,300,000

OTHER INFORMATION

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) No share options have been exercised/cancelled/lapsed under the Post-IPO Share Option Plan during the six months ended 30 June 2016.
- (3) The closing price of the shares of the Company immediately before the date of grant on 11 May 2016 was HKD2.330.

Further details of the two share option plans of the Company are set out in Note 19 to the Interim Financial Information.

DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2016, the interests of the directors of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(1) Interests in shares of the Company

Name of director	Long/ Short position	Capacity	Number of ordinary shares in the Company	Note	Percentage of the Company's issued share capital [†]
Dr. Lam Wai Yan	Long	Beneficial owner	308,064,561	—	27.23%
Mr. Ho Kam Wah	Long	Interests held by a controlled corporation	99,348,480	(1)	8.78%
	Long	Beneficial owner	2,055,900	—	0.18%
	Long	Interests of spouse	1,432,200	(2)	0.13%
			102,836,580	—	9.09%
Ms. Zhang Cong Min	Long	Beneficial owner	30,933,814	—	2.73%
Mr. Wang Ta-Hsing	Long	Beneficial owner	3,458,015	—	0.31%
Mr. Tsui Yiu Wa, Alec	Long	Beneficial owner	232,051	—	0.02%
Mr. Thaddeus Thomas Beczak	Long	Beneficial owner	232,051	—	0.02%



OTHER INFORMATION

Notes:

- (1) These shares were held by Treasure Field Holdings Limited, a controlled corporation of Mr. Ho Kam Wah.
- (2) Mr. Ho Kam Wah was deemed to be interested in 1,432,200 shares of the Company through the interests of his spouse, Ms. Yeung Yuk Chun.

[†] The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2016.

(2) Interests in shares of associated corporations

Name of associated corporations	Name of director	Long/Short position	Capacity	Amount of registered capital (RMB)	Percentage of interest of associated corporations
Guangzhou Yingxin Computer Technology Exchange Co., Ltd.	Ms. Zhang Cong Min	Long	Beneficial owner	2,280,000	40%
Guangzhou Yingyue Computer Technology Co., Ltd.	Ms. Zhang Cong Min	Long	Beneficial owner	1,920,000	60%

Save as disclosed above, as at 30 June 2016, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, the following persons (other than the directors and chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in shares of the Company

Name of substantial shareholder	Long/ Short position	Capacity	Number of ordinary shares in the Company	Note	Percentage of the Company's issued share capital [†]
Ms. Ma Muk Lan	Long	Interests of spouse	308,064,561	(1)	27.23%
Gallop Assets Management Limited	Long	Beneficial owner	296,172,030	(2)	26.17%
J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust	Long	Trustee	296,172,030	(2)	26.17%
Mr. Wang Ko Chiang	Long	Founder of a discretionary trust	296,172,030	(2)	26.17%
	Long	Interests held by controlled corporations	100,000	(3)	0.01%
			296,272,030	—	26.18%
Mrs. Wang Tang Shi Ming	Long	Interests of spouse	296,172,030	(4)	26.17%
	Long	Interests held by a controlled corporation	100,000	(3)	0.01%
			296,272,030	—	26.18%
Treasure Field Holdings Limited	Long	Beneficial owner	99,348,480	(5)	8.78%
Ms. Yeung Yuk Chun	Long	Interests of spouse	101,404,380	(6)	8.96%
	Long	Beneficial owner	1,432,200	—	0.13%
			102,836,580	—	9.09%

Notes:

- (1) Ms. Ma Muk Lan was deemed to be interested in 308,064,561 shares of the Company through the interests of her spouse, Dr. Lam Wai Yan.
- (2) These shares were held by Gallop Assets Management Limited, the entire issued share capital of which was owned by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust, a discretionary trust founded by Mr. Wang Ko Chiang. As such, J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust was deemed to be interested in 296,172,030 shares of the Company held by Gallop Assets Management Limited.

Accordingly, Mr. Wang Ko Chiang, as the founder of The Gallop Trust was deemed to be interested in 296,172,030 shares of the Company held by Gallop Assets Management Limited.

- (3) The 100,000 shares of the Company were held by Joy Way Co., Ltd., which was jointly owned by Mr. Wang Ko Chiang and Mrs. Wang Tang Shi Ming.
- (4) Mrs. Wang Tang Shi Ming was deemed to be interested in 296,172,030 shares of the Company through the interests of her spouse, Mr. Wang Ko Chiang.
- (5) The interests of Treasure Field Holdings Limited was also disclosed as the interests of Mr. Ho Kam Wah in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations".
- (6) Ms. Yeung Yuk Chun was deemed to be interested in 101,404,380 shares of the Company through the interests of her spouse, Mr. Ho Kam Wah.

[†] The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, no person, other than the directors of the Company whose interests are set out in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.



OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code.

Specific enquiry has been made of the Company's directors and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the accounting period covered by the interim report.

COMPLIANCE WITH WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standards set out in the Model Code. For this purpose, Relevant Employees include any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company throughout the accounting period covered by the interim report.

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, 26 August 2016