PACIFIC ONLINE LIMITED
太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "Board") of Pacific Online Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	3	**974,261**	1,096,356
Cost of revenue	4	**(365,011)**	(385,780)
Gross profit		**609,250**	710,576
Selling and marketing costs	4	**(270,900)**	(322,045)
Administrative expenses	4	**(101,526)**	(96,582)
Product development expenses	4	**(77,983)**	(80,338)
Other income	5	**10,419**	3,394
Other gains — net	6	**—**	9,308
Operating profit		**169,260**	224,313
Finance income		**10,889**	4,505
Finance cost		**—**	(890)
Finance income — net	7	**10,889**	3,615
Profit before income tax		**180,149**	227,928
Income tax expense	8	**(28,953)**	(48,097)
Profit for the year		**151,196**	179,831

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Attributable to:			
— Equity holders of the Company		**151,196**	179,831
Earnings per share for profit attributable to equity holders of the Company for the year			
— Basic *(RMB)*	9	**13.36 cents**	16.04 cents
— Diluted *(RMB)*	9	**13.34 cents**	15.92 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**151,196**	179,831
Items that may be reclassified to profit or loss		
Change in value of investment in equity fund	**2,153**	4,075
Other comprehensive income for the year, net of tax	**2,153**	4,075
Total comprehensive income for the year	**153,349**	183,906
Attributable to:		
— Equity holders of the Company	**153,349**	183,906

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayment		**16,344**	16,668
Property and equipment		**248,557**	260,112
Intangible assets		**9,292**	11,535
Deferred income tax assets		**31,987**	24,989
Investment in equity fund	12	**35,182**	33,029
Held-to-maturity financial assets	13	**—**	28,207
		341,362	374,540
Current assets			
Inventories		**—**	948
Trade and other receivables and prepayments	11	**601,002**	578,694
Held-to-maturity financial assets	13	**28,193**	21,264
Short-term bank deposits with original terms of over three months		**3,677**	2,610
Cash and cash equivalents		**392,316**	410,849
		1,025,188	1,014,365
Total assets		**1,366,550**	1,388,905
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary shares		**10,477**	10,468
Reserves		**1,001,534**	1,004,222
Total equity		**1,012,011**	1,014,690
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**—**	515
Current liabilities			
Accruals and other payables	14	**259,547**	281,765
Prepaid advertising subscriptions from customers		**28,861**	25,115
Current income tax liabilities		**66,131**	66,820
		354,539	373,700
Total liabilities		**354,539**	374,215
Total equity and liabilities		**1,366,550**	1,388,905

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to equity holders of the Company		
		Ordinary shares	**Reserves**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015		10,312	948,278	958,590
Comprehensive income				
Profit for the year		—	179,831	179,831
Other comprehensive income		—	4,075	4,075
Total comprehensive income		—	183,906	183,906
Transactions with shareholders				
Cash dividends relating to 2014, paid in 2015	10	—	(155,017)	(155,017)
Share Award Scheme				
— purchase of shares		—	(1,224)	(1,224)
— value of employee services		—	1,619	1,619
Employees share option schemes				
— proceeds from shares issued		156	26,660	26,816
Balance at 31 December 2015		10,468	1,004,222	1,014,690
Comprehensive income				
Profit for the year		**—**	**151,196**	**151,196**
Other comprehensive income		**—**	**2,153**	**2,153**
Total comprehensive income		**—**	**153,349**	**153,349**
Transactions with shareholders				
Cash dividends relating to 2015, paid in 2016	10	**—**	**(157,619)**	**(157,619)**
Employees share option schemes				
— proceeds from shares issued		**9**	**1,582**	**1,591**
Balance at 31 December 2016		**10,477**	**1,001,534**	**1,012,011**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Year ended 31 December **2016** *RMB'000*	2015 *RMB'000*
Cash flows from operating activities			
Cash generated from operations		**163,308**	212,586
Income tax paid		**(37,155)**	(55,188)
Net cash generated from operating activities		**126,153**	157,398
Cash flows from investing activities			
Purchase of property and equipment		**(6,280)**	(12,888)
Disposals of property and equipment		**196**	81
Purchase of intangible assets		**(958)**	(600)
Proceeds from business disposal		**3,625**	5,500
Purchase of certificates of deposit		**(20,137)**	—
Maturity of certificates of deposit		**5,000**	—
Redemption of held-to-maturity financial assets	13	**21,000**	—
Loan to a key management personnel		**(2,564)**	—
Placement of short-term bank deposits with original terms of over three months		**(66,137)**	(5,187)
Receipt from maturity of short-term bank deposits with original terms of over three months		**65,070**	5,116
Acquisition of a subsidiary, net of cash acquired		**—**	(6,781)
Interest received		**7,831**	6,321
Net cash generated from/(used in) investing activities		**6,646**	(8,438)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme		**—**	(1,224)
Cash dividends paid	10	**(157,619)**	(155,017)
Proceeds from issuance of ordinary shares		**1,591**	26,816
Net cash used in financing activities		**(156,028)**	(129,425)
Net (decrease)/increase in cash and cash equivalents		**(23,229)**	19,535
Cash and cash equivalents at beginning of year		**410,849**	392,295
Exchange gains/(losses) on cash and cash equivalents		**4,696**	(981)
Cash and cash equivalents at end of year		**392,316**	410,849

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 P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

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

The Company has its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2007.

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

These consolidated financial statements have been approved for issue by the Board on 27 March 2017.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). They have been prepared under the historical cost convention, as modified by the revaluation of investment in equity fund, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards have been effective for the financial year beginning on 1 January 2016 and adopted by the Group:

- HKFRS 14 "Regulatory deferral accounts"
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operations"
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation"
- Amendments to HKAS 16 and HKAS 41 "Agriculture: bearer plants"
- Amendment to HKAS 27 "Equity method in separate financial statements"
- Annual improvements to HKFRSs 2012 — 2014 cycle
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: applying the consolidation exception"
- Amendments to HKAS 1 "Disclosure initiative"

The adoption of these new standards and amendments to standards did not have material impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and amendments to standards that have been issued but not yet effective

The following new standards and amendments to standards are effective for accounting periods beginning after 1 January 2016 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 12	Income taxes: recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to HKAS 7	Statement of cash flows: additional disclosure to evaluate changes in liabilities arising from financing activities	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these is expected to be relevant or have material impact to the consolidated financial statements of the Group, except the following:

- HKFRS 15, "Revenue from contracts with customers" is expected to be adopted by the Group for the financial year beginning on 1 January 2018. HKFRS 15 recognised revenue when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The underlying principal is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This is not the same as transfer of risks and rewards concept as currently adopted by the Group according to HKAS 18, "Revenue". Entities with transactions that involve variable considerations, selling multiple goods or services in a single arrangement, license arrangements or where the performance by an entity and payment by its customer might occur at significantly different times are expected to be significantly affected by the new revenue recognition principle of HKFRS 15. The directors of the Company are now assessing the impact of HKFRS 15 to the Group's revenue recognition, and at this preliminary stage, do not expect there will be significant changes to the Group's existing revenue recognition policy.

- HKFRS 9, "Financial instruments" is expected to be adopted by the Group for the financial year beginning on 1 January 2018. The major changes to the existing policies adopted by the Group includes:

  — *Changes on classification and measurement of financial assets and liabilities*

    HKFRS 9 replaces the multiple classification and measurement models for financial assets in HKAS 39 with a single model that has three classification categories: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The classification and measurement of financial liabilities under HKFRS 9 remains the same as in HKAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss.

    The directors of the Company do not expect the changes on the classification and measurement models introduced by HKFRS 9 would have material impact on the Group's existing financial assets and liabilities, as they are mainly comprised of loans and receivables, held-to-maturity financial assets and financial liabilities at amortised costs as determined under HKAS 39, which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to continuously be initially recognised at fair value and subsequently measured at amortised cost. Investment in equity fund currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income and hence this is expected to be no change to the accounting for it.

— *Changes on the impairment model*

HKFRS 9 introduce a new, forward looking, expected credit loss impairment model. The new rules mean that entities will have to record a day one loss equal to the 12-month expected credit loss on initial recognition of financial assets. HKFRS 9 contains a "three stages" approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest method. Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit loss rather than 12-month expected credit loss. The model includes operational simplifications for trade receivables. For trade receivables that do not contain a significant financing component, the loss allowance should be measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit loss.

The directors of the Company expect the new impairment model introduced by HKFRS 9 will generally result in earlier recognition of losses compared to the current incurred loss model of HKAS 39. The Group is in the process of assessing the impact of HKFRS 9.

- HKFRS 16, "Leases"

The Group is a lessee of certain offices and buses which are currently classified as operating leases. The Group's current accounting policy for such leases to record the operating lease expenses in the Group's consolidated income statement for the current year with the disclosure of related operating lease commitments. As at 31 December 2016, the Group's total non-cancellable operating lease commitments amounted to RMB4,182,000. HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated balance sheet. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated financial statement. In the consolidated income statement, as a result, the annual operating lease expenses under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019.

3. SEGMENT INFORMATION

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 internet advertising business from the perspective of the different internet portals which it operates. As all revenues of the Group are generated from customers in the PRC, they are not further evaluated on a geographic basis.

The chief operating decision-makers assess the performance of the operating segments based on the revenues generated. 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.

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

There were no inter-segment sales for the year ended 31 December 2016 (2015: same). The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated income statement.

	PCauto	**PConline**	**PClady**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2016					
Revenue	**647,880**	**169,550**	**61,972**	**94,859**	**974,261**
For the year ended 31 December 2015					
Revenue	703,917	187,203	96,755	108,481	1,096,356

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2016, all revenues of the Group were derived from external customers and they were all generated from the PRC (2015: same).

As at 31 December 2016, other than club membership included in the intangible assets and financial instruments, majority of other non-current assets of the Group were located in the PRC (2015: same).

For the year ended 31 December 2016, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (2015: same).

4. EXPENSES BY NATURE

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Employee benefit expenses	**299,144**	290,903
Service commission to advertising agencies	**144,009**	142,557
Advertising expenses	**139,793**	203,890
Outsourcing production cost	**64,607**	78,083
Other taxes and surcharge	**36,240**	40,172
Travelling and entertainment expenses	**27,011**	27,914
Depreciation and amortisation expenses		
— Depreciation of property and equipment	**17,007**	17,042
— Amortisation of intangible assets	**1,301**	1,054
— Amortisation of lease prepayment	**324**	324
Bandwidth and server custody fees	**18,346**	19,179
Technology service fees	**17,399**	21,350
Impairment charge of receivables	**21,777**	10,547
Impairment charge of intangible assets	**1,900**	—
Impairment charge of inventories	**1,456**	—
Impairment charge of goodwill	**—**	4,622
Rental expenses	**6,924**	7,972
Auditors' remuneration		
— Audit services	**3,609**	3,609
— Non-audit services	**516**	572
Cost of goods consumed	**1,958**	3,853
Professional fees	**1,755**	2,820
Other expenses	**10,344**	8,282
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	**815,420**	884,745

Product development expenses are mainly included in employee benefit expenses and depreciation and amortisation expenses. No product development expenses had been capitalised for the year ended 31 December 2016 (2015: same).

5. OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants	**8,575**	1,660
Investment income on held-to-maturity financial assets	**1,165**	1,734
Dividend income on investment in equity fund	**679**	—
	10,419	3,394

6. OTHER GAINS — NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net gain on disposal of business	**—**	9,308

In November 2015, the Group entered into an agreement with a third party on the disposal of business related to a portal of the Group for a cash consideration of RMB10,800,000. The disposal has been completed as at 31 December 2015. Net gain after related costs and expenses was RMB9,308,000.

7. FINANCE INCOME — NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
— Interest income	**6,141**	4,505
— Net foreign exchange gains	**4,748**	—
	10,889	4,505
Finance cost		
— Net foreign exchange losses	**—**	(890)
Finance income — net	**10,889**	3,615

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
PRC current tax	**36,466**	57,936
Deferred taxation	**(7,513)**	(9,839)
	28,953	48,097

The Company, which is a Cayman Islands corporation, is not subject to any profits tax. The subsidiaries of the Group incorporated in Hong Kong were not subject to Hong Kong profits tax as they had no assessable income arising in or derived from Hong Kong during the year ended 31 December 2016 (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.

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. (廣州太平洋電腦信息諮詢有限公司, "GZP Computer") and Guangdong Pacific Internet Information Service Co., Ltd. (廣東太平洋互聯網信息服務有限公司, "GDP Internet"), the principal operating subsidiaries of the Company, were formally designated as HNTE in 2014 and the applicable income tax rate is 15% for the three years from 2014 to 2016. Moreover, Guangzhou Fengwang Technology Co., Ltd. (廣州鋒網信息科技有限公司, "GZ Fengwang"), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2016 and the applicable income tax rate is 15% for the three years from 2016 to 2018. Assuming that there is no change to the relevant laws and regulations, the directors consider that these three 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 CIT Law.

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**180,149**	227,928
Tax calculated at the statutory tax rate of 25% (2015: 25%)	**45,038**	56,982
Tax effects of		
— Tax concessions available to certain PRC subsidiaries *(a)*	**(21,532)**	(24,029)
— Income not subject to tax	**(2,716)**	(1,877)
— Expenses not deductible for tax purposes *(b)*	**6,118**	10,851
— Additional deduction on product development expenses	**(5,892)**	(4,880)
— Utilisation of previously unrecognised tax losses	**(853)**	—
Re-measurement of deferred tax — change in the tax rate of a PRC subsidiary	**1,990**	—
Withholding tax on the earnings remitted by a PRC subsidiary	**6,800**	11,050
Tax charge	**28,953**	48,097

(a) The preferential tax treatments relating to HNTE were enjoyed by GZP Computer, GDP Internet and GZ Fengwang for the year ended 31 December 2016 (2015: GZP Computer and GDP Internet).

(b) Expenses not deductible for tax purposes mainly include expenses incurred by the Company and subsidiaries incorporated in Hong Kong.

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

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**151,196**	179,831
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,131,661**	1,121,428
Basic earnings per share *(RMB)*	**13.36 cents**	16.04 cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing diluted earnings per share). A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and awarded shares. No adjustment is made to earnings (numerator).

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**151,196**	179,831
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,133,175**	1,129,715
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,131,661**	1,121,428
— Adjustment for share options and awarded shares *(thousand shares)*	**1,514**	8,287
Diluted earnings per share *(RMB)*	**13.34 cents**	15.92 cents

10. DIVIDENDS

The dividend paid in 2016 included the payment of the 2015 final cash dividend of RMB13.93 cents (2015: RMB13.93 cents) per ordinary share out of the retained earnings, totalling RMB157,619,000 (2015: RMB155,017,000), excluding the dividend related to the ordinary shares held under the Share Award Scheme of RMB5,000 (2015: RMB44,000).

The directors recommended the payment of a final dividend of RMB11.35 cents per ordinary share in cash for the year ended 31 December 2016, totalling RMB128,528,000 based on the ordinary shares in issue as of 31 December 2016. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held on 19 May 2017. These consolidated financial statements do not reflect this dividend payable.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables, net of impairment provision *(a)*	**564,355**	553,672
Other receivables *(b)*	**29,456**	18,736
Prepayments	**7,191**	6,286
	601,002	578,694
Trade and other receivables are denominated in		
— RMB	**590,633**	571,875
— HKD	**3,178**	533
	593,811	572,408

(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. At 31 December 2016, the ageing analysis of the trade receivables (net of impairment provision of RMB51,183,000 (2015: RMB31,860,000)) was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 6 months	**392,715**	415,890
6 months to 1 year	**143,770**	114,137
1 year to 2 years	**27,870**	23,645
	564,355	553,672

As of 31 December 2016, trade receivables of RMB66,504,000 (2015: RMB58,187,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 6 months	**8,998**	12,220
6 months to 1 year	**29,636**	22,322
1 year to 2 years	**27,870**	23,645
	66,504	58,187

(b) Other receivables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Certificates of deposit *(i)*	**15,517**	—
Loan to a key management personnel *(ii)*	**2,684**	—
Advance to employees	**2,485**	4,816
Others	**8,770**	13,920
	29,456	18,736

(i) The range of coupon rate of the certificates of deposit is 3.35% to 4.28% per annum.

(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 31 December 2016, the fair value of the loan to a key management personnel is RMB2,684,000, 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.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

12. INVESTMENT IN EQUITY FUND

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**33,029**	28,954
Changes in fair value	**2,153**	4,075
At end of the year	**35,182**	33,029

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.

13. HELD-TO-MATURITY FINANCIAL ASSETS

All the held-to-maturity financial assets are listed bonds, which are all denominated in RMB.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Listed in Hong Kong	**10,169**	16,226
Listed outside Hong Kong	**18,024**	33,245
	28,193	49,471

The movement in held-to-maturity financial assets during the year is as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**49,471**	49,553
Amortised interest *(Note 5)*	**1,165**	1,734
Interest received	**(1,443)**	(1,816)
Redemption	**(21,000)**	—
At end of the year	**28,193**	49,471

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Listed bonds:		
Current		
Less than 1 year	**28,193**	21,264
Non-Current		
Between 1 and 2 years	**—**	28,207
	28,193	49,471

The coupon rates of the bonds are 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.

14. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries payable	**49,364**	48,737
Accrued expenses *(a)*	**179,751**	192,058
Other tax payable	**16,567**	21,419
Other payables *(b)*	**13,865**	19,551
	259,547	281,765

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2016 continued to be a year of adjustment for the Chinese economy. This has led to relatively cautious spending across all sectors, from sales to advertising. For the Company, this has also been a relatively difficult and challenging year. We have responded to these market challenges by restructuring, streamlining our staff, and both repositioning older products as well as launching new products.

PCauto continued to be the main income earner: After experiencing rapid growth, China's auto market is now entering a period of steady growth. Under market pressure, many car manufacturers have had to reduce their target projections. Vertically-integrated auto portals have begun to attempt to diversify, however content and services have generally lacked sufficient focus. PCauto has been actively adjusting its business strategy to take advantage of these opportunities to better service both consumers and auto dealers. On the consumer side, we have implemented a strategy geared towards young people, firmly taken "content is king" as the focus of our mobile content, and integrated a completely new model car library to provide users with a better content-browsing experience. Through our mobile platform, we have been able to better connect and service auto dealers and consumers throughout the entire customer journey. Our "Pocket Auto Salesman" component is geared towards auto dealers, helping them to better pinpoint potential customers while "Cool Auto Butler" is aimed at consumers, allowing for greater flexibility and convenience in arranging their after-sales vehicle servicing. Our hard work over the past year has begun to yield promising results. After repositioning and restructuring, PCauto is now ready to face new market opportunities and challenges and our outlook for 2017 is optimistic.

In the past year, growth in the technology sector has remained low. Due to the Note7 incident, Samsung Mobile has suspended its advertising spending while competing brands have also delayed their launch of new products to ensure product safety. The dominance of Apple (well-known for its limited marketing in online media) has ended, resulting in new needs and opportunities in the market. Despite industry difficulties, through the PConline team's "meticulous management" of product design and customer fulfilment, PConline's revenue has only decreased marginally. 2017 should be a stable year for PConline.

The mother and childcare market has expanded greatly following the rapid growth in the mobile internet industry and it has become increasingly popular for consumers to shop for these products online. Additionally, the enactment of the Two-Child Policy will likely lead to an enlargement of the scope of the mother and childcare market in China. Due to the rapid growth of the market, mother and childcare advertising spending strategies are in the process of diversifying, especially with regards to increasing spending on video streaming sites and new media sites. All this puts intense pressure on PCbaby's business. In the new year, PCbaby will speed up its new media layout, explore new forms of content creation, strengthen content generation pipelines, and expand coverage to more local areas, including new cities full of potential customers. Through this expansion and diversification of content creation and coverage, we expect PCbaby to resume substantial growth.

Last year, PClady and PChouse experienced major structural and personnel changes which affected business stability. However, we believe that these necessary adjustments and changes will result in healthy future growth.

Looking ahead, the market competition will continue to intensify. Last year's adjustment, personnel streamlining, and restructuring, however, will improve overall efficiency and cost effectiveness while the repositioning and gradual development of our new products will increase the Company's market competitiveness. We are quite optimistic about the new year's outlook.

Revenue

Revenue decreased 11.1% from RMB1,096.4 million for the year ended 31 December 2015 to RMB974.3 million for the year ended 31 December 2016.

Revenue for PCauto, the Group's automobile portal, decreased 8.0% from RMB703.9 million for the year ended 31 December 2015 to RMB647.9 million during the year ended 31 December 2016. The decrease in revenue for PCauto was primarily due to decreased spending from auto manufacturers. As a percentage of revenue, PCauto accounted for 64.2% during the year ended 31 December 2015 and 66.5% during the year ended 31 December 2016.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 9.4% from RMB187.2 million during the year ended 31 December 2015 to RMB169.6 million during the year ended 31 December 2016. The decrease was due to decline in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 17.1% during the year ended 31 December 2015 and 17.4% during the year ended 31 December 2016.

Revenue for PClady, the Group's lady and fashion portal, decreased 36.0% from RMB96.8 million during the year ended 31 December 2015 to RMB62.0 million during the year ended 31 December 2016. The decrease was driven by a slowdown in advertising demand from luxury fashion products. As a percentage of revenue, PClady accounted for 8.8% during the year ended 31 December 2015 and 6.4% during the year ended 31 December 2016.

Revenue from other operations, including PCbaby and PChouse portals, decreased by 12.6% from RMB108.5 million during the year ended 31 December 2015 to RMB94.9 million during the year ended 31 December 2016. Revenue from these segments decreased as the disposal of our game portal at the end of 2015 with no revenue contributed during the year 2016. As a percentage of revenue, revenue from other operations accounted for 9.9% during the year ended 31 December 2015 and 9.7% during the year ended 31 December 2016.

Cost of Revenue

Cost of revenue decreased 5.4% from RMB385.8 million during the year ended 31 December 2015 to RMB365.0 million during the year ended 31 December 2016. Gross profit margin was 64.8% during the year ended 31 December 2015 and 62.5% during the year ended 31 December 2016. The decrease in cost of revenue was mainly due to less outsourcing production costs and promotion fees of decrease in sales activities.

Selling and Marketing Costs

Selling and marketing costs decreased 15.9% from RMB322.0 million during the year ended 31 December 2015 to RMB270.9 million during the year ended 31 December 2016. The decrease was due to decreases in advertising expenses.

Administrative Expenses

Administrative expenses increased by 5.1% from RMB96.6 million during the year ended 31 December 2015 to RMB101.5 million during the year ended 31 December 2016, mainly due to higher impairment charge of receivables during the year.

Product Development Expenses

Product development expenses decreased by 2.9% from RMB80.3 million during the year ended 31 December 2015 to RMB78.0 million during the year ended 31 December 2016. The decrease was due to decrease in the number of product development staff and other related expenses.

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

Operating profit before share-based compensation expenses (non-GAAP) was RMB169.3 million during the year ended 31 December 2016, representing a 25.1% decrease from RMB225.9 million during the year ended 31 December 2015.

Other Income

Other income was RMB10.4 million during the year ended 31 December 2016 and RMB3.4 million during the year ended 31 December 2015. The increase was mainly due to increase in government grant during the year.

Finance Income and Cost

Net finance income was RMB3.6 million during the year ended 31 December 2015 and RMB10.9 million during the year ended 31 December 2016. The increase was mainly due to gain in foreign exchange.

Income Tax Expense

Income tax expenses decreased 39.8% from RMB48.1 million during the year ended 31 December 2015 to RMB29.0 million during the year ended 31 December 2016.

Net Profit

Net profit decreased 15.9% from RMB179.8 million during the year ended 31 December 2015 to RMB151.2 million during the year ended 31 December 2016.

Liquidity and Financial Resources

As of 31 December 2016, the Group had short-term deposits and cash totaling RMB396.0 million, compared with RMB413.5 million as of 31 December 2015.

In 2016, net cash generated from operating activities was RMB126.2 million, net cash generated from investing activities was RMB6.6 million, net cash used in financing activities was RMB156.0 million, with a net decrease in cash and cash equivalents of RMB23.2 million for the year ended 31 December 2016.

In 2015, net cash generated from operating activities was RMB157.4 million, net cash used in investing activities was RMB8.4 million, net cash used in financing activities was RMB129.4 million, with a net increase in cash and cash equivalents of RMB19.5 million for the year ended 31 December 2015.

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

Bank Borrowings

As of both 31 December 2016 and 31 December 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 for both years.

Material Acquisitions and Disposals

During the year ended 31 December 2016, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2016, the Group had no bank deposits or other assets pledged to secure its banking facilities.

Foreign Exchange Risk

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

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2016, the Group had 1,528 employees (2015: 1,798). The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

Proposed Final Dividend

The Board has recommended the payment of a final cash dividend of RMB11.35 cents per ordinary share for the year ended 31 December 2016 (the "Proposed Final Dividend"), which compares with RMB13.93 cents in 2015. The final dividend is subject to the shareholders' approval at the Company's forthcoming annual general meeting to be held on Friday, 19 May 2017 (the "2017 AGM"). The Proposed Final Dividend will be paid in cash on 9 June 2017 to shareholders whose names appear on the register of members of the Company at the close of business on 31 May 2017.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2017 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 15 May 2017.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Friday, 26 May 2017 to Wednesday, 31 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at the above address, for registration not later than 4:30 p.m. on Thursday, 25 May 2017.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Audit Committee

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, namely Mr. Tsui Yiu Wa, Alec (Chairman of the Audit Committee), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2016.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 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 experiences in the internet industry, the Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

Appreciation

I would like to take this opportunity to express my gratitude, on behalf of the Board, to all our employees for their contribution and to all our shareholders for their continuous support of our Group.

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

Hong Kong, 27 March 2017

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.