Pacific Online Limited
太平洋網絡有限公司

ANNUAL 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
OCBC Wing Hang Bank

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House
Cricket Square
Grand Cayman KY1-1001
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

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

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Pacific Online Limited (the "Company") and its subsidiaries (together, the "Group"), I would like to present the annual results of the Company for the year ended 31 December 2016.

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.

CHAIRMAN'S STATEMENT

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.

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.

Lam Wai Yan
Chairman

Hong Kong, 27 March 2017

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.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses increased 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 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 grants 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 gains in foreign exchange.

INCOME TAX EXPENSE

Income tax expense 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

EXECUTIVE DIRECTORS

Dr. Lam Wai Yan ("Dr. Lam"), aged 65, is an executive director, the Chairman of the Board and of the nomination committee and the Chief Executive Officer of the Company, a director of certain subsidiaries of the Company and a substantial shareholder of the Company. Dr. Lam obtained a bachelor's degree in Science from the University of Texas at EL PASO, in 1975 and a doctor's degree in Professional Studies from Middlesex University in 2014. He has extensive local and overseas general management experience and has more than 20 years of experience in IT industry. He had been a vice president and director of Dean Witter Reynolds Inc. from 1979 to 1989 and a director of CLSA Limited (formerly known as "Credit Lyonnais Securities (Asia) Limited") from 1990 to 1991. Dr. Lam co-founded the Group and has played a key role in developing the businesses of the Group since 1997 and led the Group to become one of the leading specialized content portal in China.

Mr. Ho Kam Wah ("Mr. Ho"), aged 64, is an executive director of the Company and a director of certain subsidiaries of the Company. He is also a director and the controlling shareholder of Treasure Field Holdings Limited, a substantial shareholder of the Company. Mr. Ho obtained a bachelor's degree in Science from Illinois State University in 1976. He is principally involved in strategic planning and assisting in overall management and business development of the Group. Mr. Ho co-founded the Group and has played a major role in developing the businesses of the Group since 1997 and has an extensive management experience over 20 years in IT industry.

Mr. Wang Ta-Hsing ("Mr. Wang"), aged 42, is an executive director of the Company and a director of certain subsidiaries of the Company. He joined the Group in 2005. Mr. Wang obtained a bachelor's degree in Science from the University of California, Berkeley in 1998 and a master's degree in Business Administration from Columbia University in 2004. Mr. Wang is responsible for financing and accounting management of the Group. Mr. Wang has been the director of Kwong Fong Industries Corporation (a company listed on the Taiwan Stock Exchange) since June 2012.

Ms. Zhang Cong Min ("Ms. Zhang"), aged 49, is an executive director and the Chief Operating Officer of the Company and a director of certain subsidiaries of the Company. Ms. Zhang graduated EMBA programme from China Europe International Business School (中歐國際工商學院) in 2011 and obtained a bachelor's degree in Chemical Analysis from the University of Science and Technology of China (中國科學技術大學) in 1991. Ms. Zhang joined the Group in January 2003. Prior to joining the Group, Ms. Zhang worked as a marketing manager and assistant general manager of Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). Ms. Zhang has over 20 years of experience in operation management and IT industry. She has held various management positions in the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsui Yiu Wa, Alec ("Mr. Tsui"), aged 67, is an independent non-executive director, the chairman of both the audit committee and remuneration committee and a member of the nomination committee of the Company. He joined the Group in November 2007. Mr. Tsui obtained a bachelor's degree in Science (Industrial Engineering) and a master's degree in Engineering (Industrial Engineering) from the University of Tennessee, Knoxville in 1975 and 1976, respectively. He attended the Programme for Senior Managers in Government at the John F. Kennedy School of Government, Harvard University in 1993. He has been a member of the Hong Kong Securities and Investment Institute (formerly known as "Hong Kong Securities Institute") since 1998. Mr. Tsui has over 30 years' extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission of Hong Kong prior to joining the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and becoming the chief executive in 1997. He was also the chairman of the Hong Kong Securities and Investment Institute from 2001 to 2004. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui has resigned as an independent non-executive director of China Power International Development Limited (a company listed on the Hong Kong Stock Exchange) in December 2016. Currently, Mr. Tsui is an independent non-executive director of Industrial and Commercial Bank of China (Asia) Limited (a company delisted on the Hong Kong Stock Exchange on 21 December 2010). Besides, Mr. Tsui is acting as independent non-executive director of the following listed companies:

Name of listed companies
COSCO SHIPPING International (Hong Kong) Co., Ltd.
(formerly known as COSCO International Holdings Limited)
DTXS Silk Road Investment Holdings Company Limited
Kangda International Environmental Company Limited
Summit Ascent Holdings Limited
ATA Inc.
Melco Crown Entertainment Limited
Melco Crown (Philippines) Resorts Corporation

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. Thaddeus Thomas Beczak ("Mr. Beczak"), aged 66, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in November 2007. Mr. Beczak graduated from Georgetown University (B.S.F.S.) and Columbia University (M.B.A.). He is a member of the board of advisers of the School of Foreign Service at Georgetown University. Currently, Mr. Beczak is acting as non-executive director of a number of non-listed companies. Besides, Mr. Beczak is acting as independent non-executive director of the following listed companies:

Name of listed companies
China Minsheng Financial Holding Corporation Limited
Phoenix Satellite Television Holdings Limited
Singapore Exchange Limited

Mr. Beczak was previously the vice chairman of China Renaissance Holdings Limited and chairman of China Renaissance Securities (Hong Kong) Limited until June 2014. Mr. Beczak was a senior advisor to Nomura International (Hong Kong) Limited and non-executive chairman of Nomura Asia Holding N.V. From September 1997 until December 2003, Mr. Beczak was a director of Kerry Holdings Limited. During this time he also held various board and operating positions within the group including deputy chairman of SCMP Holdings Limited and publisher of South China Morning Post Publishers Limited, deputy chairman of Shangri-La Asia Limited, deputy chairman of Kuok Philippines Properties (now known as "Shang Properties, Inc."), a director of China World Trade Center Limited and a director of Kerry Properties Limited.

From November 1997 until December 2002, Mr. Beczak was chairman of the Listing Committee of Hong Kong Stock Exchange and a member of board of directors of the Hong Kong Stock Exchange from 1998 until 2001. From June 2001 until May 2007, he was a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong. Currently, he is a member of the international advisory committee of the China Securities Regulatory Commission (CSRC).

Prior to joining the Kerry group, Mr. Beczak was a managing director of J.P. Morgan Inc. and president of J.P. Morgan Inc. and president of J.P. Morgan Securities Asia from 1990 until 1997. While at J.P. Morgan, Hong Kong, he was a director of the Bank of the Philippine Islands and a committee member of the Hong Kong Association of Banks.

Mr. Chan Chi Mong, Hopkins ("Mr. Chan"), aged 59, is an independent non-executive director and a member of the audit committee and remuneration committee of the Company. He joined the Group in May 2012. Mr. Chan is the founder member of the Institute of Leadership and Management, U.K. Mr. Chan has over twenty years' experiences in finance and management. He served as the vice president and associate director of Dean Witter Reynolds (H.K.) Ltd., and the executive director of Silver Grant International Finance Ltd. He was appointed as Justice of the Peace by the Government of the Hong Kong Special Administrative Region on 1 July 2015. He is the supervisor of Hong Kong Pui Ching Middle School, and Hong Kong Pui Ching Primary School. In social service, he is the board chairman of Baptist Oi Kwan Social Service. Currently, Mr. Chan is acting as independent non-executive director of Talent Property Group Limited (a company listed on the Hong Kong Stock Exchange).

SENIOR MANAGEMENT

Ms. Lu Wu Qing ("Ms. Lu"), aged 48, is the senior vice president and chief administrative officer of the Group and joined the Group in 2003. Prior to joining the Group, Ms. Lu worked as a deputy manager of the administrative department of Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). She obtained a bachelor's degree in Computer Software from Sun Yat-sen University (中山大學) in 1990.

Ms. Fan Zeng Chun ("Ms. Fan"), aged 46, is the vice president responsible for finance of the PRC operations in the Group. She joined the Group in 2003. Prior to joining the Group, Ms. Fan worked as a senior accounting manager at Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). Ms. Fan is a qualified accountant (enterprise) and certified internal auditor. Ms. Fan graduated from the Zhejiang Zhijin Economic Professional School (浙江治金經濟專科學校) with a Certificate of Industrial Economics (經濟系工業經濟專業專科).

Mr. Wong Huk Yung, Hudson ("Mr. Wong"), aged 51, is the company secretary and financial controller of the Group and joined the Group in 2005. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wong was a qualified accountant working for international accounting firms and a Hong Kong listed company. He obtained a bachelor's degree in Economics and Accounting from University of Reading.

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Group's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2016, save for the deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized below.

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest developments.

THE BOARD

Responsibilities and Delegation

The Board is responsible for overall management and control of the Company. Its main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management. Any director may request independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

The Board has delegated a schedule of responsibilities to the executive directors and senior management of the Company. These responsibilities include implementing decisions of the Board and directing and co-ordinating day-to-day operation and management of the Company. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Board Composition

The following chart illustrated the structure and membership of the Board and the Board committees as at 31 December 2016:

Board of Directors

Executive Directors

Dr. Lam Wai Yan, *Chairman of the Board 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

Executive Committee

Dr. Lam Wai Yan, *Chairman*
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

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

The Board has at all times during the year ended 31 December 2016 met the requirements of the Listing Rules of having at least three independent non-executive directors (representing at least one-third of the Board) with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement.

The biographical details of the directors of the Company are set out under the section headed "Directors' and Senior Management's profiles" in this annual report. None of the members of the Board is related to one another.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Appointment, Re-Election and Removal of Directors

Each of the executive directors of the Company is engaged on a service agreement with the Company for a term of three years. The Company has also issued a letter of appointment to each of the independent non-executive directors of the Company for a term of three years.

According to the Company's Articles of Association (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting.

Pursuant to the above provisions in the Articles of Association, Dr. Lam Wai Yan, Mr. Wang Ta-Hsing and Mr. Chan Chi Mong, Hopkins shall retire by rotation at the forthcoming 2017 annual general meeting of the Company (the "2017 AGM"). It is noted that all the above three retiring directors will offer themselves for re-election. The Company's circular, sent together with this annual report, contains detailed information of such retiring directors as required by the Listing Rules.

Training and Continuous Professional Development of Directors

Each newly appointed director of the Company receives induction on the first occasion of his/her appointment, so as to ensure he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading materials on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2016, the Company (i) has organized briefings conducted by the Company Secretary for all the directors, namely, Dr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Ta-Hsing, Ms. Zhang Cong Min, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, on corporate governance and update on the Listing Rules amendments; and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying.

Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Company's directors and they have confirmed that they have complied with the Own Code and the Model Code throughout the period from 1 January 2016 to the date of this report.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2016 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Dr. Lam Wai Yan	4/4	—	—	1/1	1/1
Mr. Ho Kam Wah	4/4	—	—	—	1/1
Mr. Wang Ta-Hsing	3/4	—	—	—	1/1
Ms. Zhang Cong Min	3/4	—	—	—	1/1
Mr. Tsui Yiu Wa, Alec	4/4	2/2	1/1	1/1	1/1
Mr. Thaddeus Thomas Beczak	4/4	2/2	1/1	1/1	1/1
Mr. Chan Chi Mong, Hopkins	4/4	2/2	1/1	—	1/1

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the independent non-executive directors without the presence of executive directors during the year.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established four Board committees, namely, the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website (http://corp.pconline.com.cn) and on the Stock Exchange's website (www.hkexnews.hk) (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Chairman of the Board, Dr. Lam Wai Yan, acting as the Chairman of the Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

Audit Committee

The Audit Committee comprises a total of three members, namely, Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, all of whom are independent non-executive directors of the Company. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The principal duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; (iii) make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and (iv) review the Company's financial controls, internal control, risk management systems and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2016, the Audit Committee has performed the following major tasks:

— Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2015, the related accounting principles and practices adopted by the Group and the relevant audit findings; the report from the external auditor on the Company's internal control and risk management; and the recommendation of the re-appointment of the external auditor; and

— Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2016 and the related accounting principles and practices adopted by the Group; and the review of the arrangements for employees of the Company to raise concerns about possible improprieties.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Audit Committee also met the external auditor twice without the presence of the executive directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

Remuneration Committee

The Remuneration Committee comprises a total of three members, namely, Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, all of whom are independent non-executive directors of the Company.

The principal duties of the Remuneration Committee are to (i) make recommendations to the Board on the Company's remuneration policy and structure for directors and members of senior management and the establishment of a formal and transparent procedure for developing such remuneration policy and structure; (ii) make recommendations on the remuneration packages of directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code was adopted); and (iii) review and approve performance-based remuneration by reference to corporate goals and objectives.

During the year ended 31 December 2016, the Remuneration Committee has reviewed and made recommendations on the payment of discretionary bonus to the executive directors of the Company and remuneration package of the directors and senior management of the Company.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of senior management by band for the year ended 31 December 2016 is set out below:

	Number of individuals
HKD0 to HKD2,000,000	3
HKD2,000,001 to HKD3,000,000	2
	5

Details of the remuneration of each director of the Company for the year ended 31 December 2016 are set out in note 7 to the consolidated financial statements contained in this annual report.

Nomination Committee

The Nomination Committee comprises a total of three members, being one executive director, namely, Dr. Lam Wai Yan (Chairman), and two independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec and Mr. Thaddeus Thomas Beczak. Accordingly, a majority of the members are independent non-executive directors of the Company.

The principal duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) make recommendations to the Board on the rotation, appointment and succession planning of directors; and (iii) assess the independence of independent non-executive directors of the Company.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 December 2016, the Nomination Committee has performed the following major tasks:

— Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;

— Recommendation of the re-appointment of those directors standing for re-election at the 2016 annual general meeting of the Company; and

— Assessment of the independence of the independent non-executive directors of the Company.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year ended 31 December 2016, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016.

The Board is responsible for presenting a balanced, clear and understandable assessment of interim and annual reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is committed to complying with legal and regulatory requirements in relation to governance, risk management, compliance and internal control of operations of the Group. The Board acknowledges that it has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take to achieve the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Board, supported by the Audit Committee as well as the management, conducted a review of the Company's risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016. The review also covered the financial reporting and internal audit functions as well as the adequacy of staff qualifications and experiences and other relevant resources.

The Company identifies risks from a long-term perspective instead of concentrating only on medium and short-term risks. Regular reviews of the online advertising industry are conducted to provide guidance. Research on laws, regulations and industrial standards is also conducted to enable the Company to anticipate potential changes and to consult with relevant experts on issues as necessary.

In setting up the risk management and internal control systems, the Company's objectives are as follows:

- Identify risks that may potentially impact the Company's performance
- Introduce appropriate controls to manage identified risks
- Provide the Board and management of the Company with reasonable assurance that the Company's business objectives will be achieved

An independent risk assessment and internal control review of the adequacy and effectiveness of the risk management and internal control systems has been performed by an outsourced internal auditor during the year. This review has been conducted based on risk parameters such as the probability and hazard of the risks, critical points that may trigger the risk control measures, and the prioritization of risk control, among others. Relevant information has been collected through the management during the assessment period to classify and analyze the risk sources identified and to make reasonable estimates about the probability of the risks as well as the losses they may generate.

The approach used in the risk assessment and internal control review was as follows:

- Review existing documentation and conduct interviews with management and key process owners to identify and document key risk areas
- Identify, aggregate and analyze existing and emerging risks
- Identify and assess mitigating actions for identified risks
- Perform testing procedures to evaluate the existence and effectiveness of internal controls in relation to processes
- Perform walkthrough tests to determine if the key controls were in place and effective for monitoring the processes, as well as to identify any control weaknesses

The risk management function in place in the Company is largely top-down, involving the Board, the Audit Committee, the legal department and key business units. All these play an important role in ensuring that risks are properly managed.

During the independent review, key issues in relation to financial, information technology, operational and legal compliance controls and risk management functions have been examined, and findings and recommendations for improvement have been provided to the Audit Committee. The Company has carried out improvement measures in accordance with the findings of the review during the year, and it is expected that ongoing review of the same nature will be conducted in subsequent years.

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

EXTERNAL AUDITOR AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2016 are analyzed below:

Type of services provided by the Group's external auditors	**Fees paid/ payable** (RMB)
Audit services (including interim review):	3,609,000
Non-audit services*	516,000
TOTAL	4,125,000

* The non-audit services conducted by the external auditors include providing professional services on internal control, tax filings and other relevant services.

COMPANY SECRETARY

During the year ended 31 December 2016, Mr. Wong Huk Yung, Hudson, the Company Secretary, has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables shareholders and investors to make the best investment decision.

The Company maintains a website at "http://corp.pconline.com.cn", as a communication platform with shareholders and investors, where information on the Company's announcement, financial information and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company. Contact details are as follows:

Address: Unit 807, Tower 2, Lippo Centre, 89 Queensway, Hong Kong
(For the attention of the Investor Relations Department)

Email: ir@pconline.com.cn

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. The Chairman of the Board, independent non-executive directors as well as the Chairmen and/or other members of the Audit Committee, Remuneration Committee and Nomination Committee will normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised.

The Company continues to enhance communication and relationship with its shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Company's Articles of Association as follows:

(i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

(ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://corp.pconline.com.cn).

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange and the Company immediately after the relevant general meetings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board recognizes the importance of strong Environmental, Social and Governance ("ESG") performance in meeting the changing expectations of stakeholders and enhancing the performance of the Group. The Board has taken overall responsibility for the Company's ESG strategy and reporting and is strongly committed to the promotion of a culture of environmental awareness among our staff, which will support sustainable development of the Company.

With the aim to strengthening ESG disclosure requirements, the Company has taken the initiative to formulate policies, measure relevant performance and monitor progress. The Company's work in the ESG area is reported herein, according to ESG reporting requirements and areas in the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules (the "ESG Guide") and other related rules.

This ESG Report describes the progress made by the Company on our environmental journey during the year 2016, in relation to operations of the Company's head office in Guangzhou. The headings under which our progress is reported follow those in the ESG Guide.

A. ENVIRONMENTAL SUBJECT AREA

Aspect A1: Emissions

As the Company operates in the online advertising field, its emissions, such as air pollutants arising from the fuel usage of company cars and air travel, are insignificant compared to companies in other industries (e.g. manufacturing, mining). Non-hazardous wastes (commercial wastes and the disposal of computer devices and office equipment) produced by the Company are also at a minimum.

During the year 2016, indirect emissions from the Guangzhou head office were mainly generated from the consumption of purchased electricity. The Company has been persistent in conducting business in an environmentally responsible manner and has taken measures to reduce electricity consumption, as reported in the next section.

Aspect A2: Use of Resources

The Company has always placed great emphasis on energy and resources conservation, and consistently applies a strategy of efficient consumption.

Resources used in the Guangzhou head office are mainly printing paper, electricity, water, and fuel for land and air travel. Company cars are maintained and the related gas consumed is insignificant. Staff is encouraged to use video/telephone conferencing to reduce business travel and energy consumption. The Company uses a large amount of papers for printing annual reports every year, but the number of copies has been monitored to the minimum level to avoid wastage.

There are currently some energy-saving guidelines included in the Office Management Policy (e.g. turning off computers and office equipment when leaving the office, closing windows when the air conditioning is in use, etc.). The Company is considering the inclusion of further guidelines on the efficient use of resources to raise the awareness of staff on the importance of protecting the environment.

The Company has implemented energy and water saving practices, resulting in low consumption levels. Water-efficient sensor taps are installed to avoid unnecessary water wastage. The workplace temperature has been maintained at a comfortable level to encourage energy conservation and to reduce emissions. In relation to this, the Company has made reference to the relevant standard recommended by the General Office of the State Council, i.e. setting air-conditioning temperature at 26.0°C during the summer period.

Aspect A3: Environment and Natural Resources

As the Company operates in the online advertising field, its operations do not directly involve the use of natural resources and have relatively little adverse impact on the environment and natural resources.

The Company endeavours to comply with applicable environmental laws and regulations and has adopted effective measures to reduce wastage. These include, for example, use of sunlight to reduce electricity usage in washrooms and adoption of appropriate disposal procedures for electronic waste e.g. computer devices. Our employees are fully aware that it is important to minimize the impact on the environment and natural resources when conducting operations of the Company.

B. SOCIAL SUBJECT AREA

Aspect B1: Employment

The Company values its employees and is committed to providing a fair and equitable workplace environment for all employees. The Company's gender distribution is even within the various departments.

Our staff handbook deals with recruitment, employee movement, salary adjustments and promotions, termination of employment, and equal opportunity (non-discrimination against gender, marital status, disability, age, race, family status, sexual orientation, nationality and religion).

In the year 2016, there was no non-compliance or breach of legislation related to applicable employment laws and regulations.

Aspect B2: Health and Safety

The Company is committed to providing and maintaining a safe and healthy working environment for all employees. The Company premises are surrounded by a garden which helps to purify the air, and thus is beneficial to the staff's general health. Security guards are employed to ensure there is no unauthorized entry.

As the Company staff are mainly office-based, performing IT-related duties and providing customer support services, safety issues are not a significant concern.

There have been no work-related injuries or fatalities in the year 2016.

Aspect B3: Development and Training

The Company places importance on continuing development of professional knowledge and skills, and provision of relevant training to employees.

The Company has established policies on staff development and training in the staff handbook. Training courses/activities on company operations are offered to various levels of employees, including directors.

Environment-related programmes are also offered to employees, including talks, stakeholder engagement programmes, and recycling activities.

In addition, employees are encouraged to foster a low-carbon and sustainable working environment in the office, and to support continuous improvement of the Company's environmental performance.

For example, staff members are encouraged to undertake the following:

- Investigate and explore additional means to enhance the energy efficiency of electrical appliances, such as air-conditioning, lighting and electrical installations, and other office equipment in working areas, where possible

- Provide and promote the use of green facilities such as waste separation bins and used battery collection

- Make suggestions to improve the existing "Green Procurement Practice Guide" so as to provide updated information on how to take into account environmental considerations during the procurement process

Aspect B4: Labour Standards

The Company complies with all applicable labour laws and regulations on employment in the PRC in which the Company or its subsidiaries operate.

The Company considers child and forced labour unacceptable and have to be prevented. The Company has instituted a comprehensive screening and recruiting process to prohibit the use of such labour.

Employee work schedules are set up fairly to keep within standard working hours and all employees are provided with appropriate leave entitlements including annual leave, sick leave, marriage leave, maternity leave, examination leave and compassionate leave.

Aspect B5: Supply Chain Management

The Company has established policies on supply chain management, including criteria and procedures for the selection of suppliers, which are mainly IT companies in the PRC.

The Company assesses and selects suppliers based on the quality of goods and services provided, and maintains a management-approved list of suppliers.

The Company mainly purchases IT services, and office equipment and supplies through this approved list.

Aspect B6: Product Responsibility

As the Company is an online content provider, promoting the products/services of its clients, product responsibility lies with these clients.

The Company operates online portals for different categories of products/services and has standard procedures for handling complaints. Each portal takes immediate action on receipt of any complaint, resolving such or following up until resolution. Complaints are filed weekly for future reference.

The Company takes appropriate action to protect intellectual property rights, which gives the business its competitive edge. The legal department is responsible for the registration of the Company's self-created trademarks and patents, and advises on the rights to use images. Unauthorized software is strictly forbidden.

The Company is committed to complying with relevant laws and regulations on customer data protection and privacy. Any unauthorized copying, dissemination or disclosure of confidential information, including identities and transaction records of registered members of portals, are strictly prohibited.

Aspect B7: Anti-corruption

The Company is committed to adhering to the highest ethical standards and maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption.

Whistle-blowing procedure includes mailbox for employees to report any misconduct or dishonest activities, such as suspected corruption, fraud and other forms of criminality, directly to the chief executive officer and/or chief operating officer.

The staff handbook stipulates that if an employee receives money, gifts or rebates as bribes, the Company has the right to terminate the employment contract and reserves the right to further legal action.

There was no legal case regarding corrupt practices nor any case of corruption found or reported by the Company in the year 2016.

Aspect B8: Community Investment

The Company encourages employees to contribute their time and efforts in participating in various local community activities and events. The Company creates job opportunities for the community, and also takes part in youth development initiatives and recovery efforts in the wake of significant natural disasters.

The Board is pleased to present the annual report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2016.

GROUP REORGANISATION

The Company was incorporated on 27 August 2007 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. The Company is an investment holding company of the companies now comprising the Group.

The Company's shares have been listed on main board of the Stock Exchange since 18 December 2007. After the completion of group reorganisation as set out in the prospectus of the Company dated 5 December 2007 (the "Prospectus"), pursuant to an agreement dated 12 November 2007, the Company acquired the entire issued capital of Takehigh Industry Limited through a share swap and became the holding company of the companies now comprising the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of internet advertising services in the People's Republic of China. The activities of its subsidiaries are set out in note 16 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group, an indication of likely future developments in the Group's business and discussion on the Company's environmental policies and performances and the relationships with its stakeholders, can be found in the Chairman's Statement, Management Discussion and Analysis, Corporate Governance Report and Environmental, Social and Governance Report contained in this annual report. The review forms part contained in this directors' report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 50.

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") (2015: RMB13.93 cents), subject to the shareholders' approval at the 2017 AGM to be held on Friday, 19 May 2017. 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.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and assets less liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 122 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into by the Company are disclosed under the paragraph headed "Share Option Schemes" in this directors' report and in note 24 to the consolidated financial statements.

SHARE OPTION SCHEMES

Pursuant to the shareholders' resolutions of the Company passed on 23 November 2007, 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.

Summary of the Share Option Schemes of the Company is as follows:

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
1.	Purpose	To recognize the contribution to the Group by the executive directors, certain senior management staff and employees of the Group and to retain those persons whose contributions are important to the long-term growth and profitability of the Group.	To advance the interests of the Company and its shareholders by enabling the Company to grant share options to attract, retain and reward the eligible persons, to provide to the eligible persons a performance incentive for continued and improved services with the Company and its subsidiaries, and to enhance such persons' contribution to increase the profits by encouraging capital accumulation and share ownership.
2.	Participants	Any executive directors, senior management staff and employees of the Group.	Any directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment, contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group.
3.	Total number of ordinary shares available for issue	No further option could be granted under the Pre-IPO Share Option Plan.	98,130,880 shares, being approximately 8.7% of the issued share capital as at the date of this annual report.
4.	Maximum entitlement of each participant	Determined by the Board.	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options already granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting. Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HKD5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
5.	Period within which the securities must be taken up under an option	An option may be exercised during a period to be determined and notified by the Board to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Pre-IPO Share Option Plan.	An option may be exercised at any time during a period to be determined and notified by the Board to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Post-IPO Share Option Plan.
6.	Minimum period for which an option must be held before it can be exercised	The minimum period for which an option granted must be held before it can be exercised is as follow: **Minimum Period** — **Number of options exercisable** 24 months from the date of grant — 1st phase options, being one-third of the total number of options granted 36 months from the date of grant — 2nd phase options, being a further one-third of the total number of options granted 48 months from the date of grant — 3rd phase options, being a further one-third of the total number of options granted	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
7.	Acceptance of offer	Options granted must be taken up within 14 days from the date of offer, upon payment of HKD1 per grant.	Options granted must be taken up within 28 days from the date of offer, upon payment of HKD1 per grant.
8.	Basis of determining the exercise price	Determined by the Board.	Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the grant of options; and (iii) the nominal value of an ordinary share of the Company.
9.	Remaining life of the scheme	Expired on 28 November 2007.	It will remain in force for a period of 10 years, commencing on 23 November 2007.

During the year ended 31 December 2016, movements of the two share option plans of the Company are as follows:

(a) Pre-IPO Share Option Plan

				Number of share options			
Category	Date of grant	Exercise period[1]	Exercise price per share	As at 1 January 2016	Exercised during the year	Lapsed during the year	As at 31 December 2016
Employees in aggregate	23 November 2007	23 November 2009–22 November 2017	HKD1.32	2,598,212	(400,000)	—	2,198,212
	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	(663,183)	(52,118)	1,938,433
Total				7,955,125	(1,063,183)	(52,118)	6,839,824

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 year ended 31 December 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 year	Lapsed during the year	As at 31 December 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)	—

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 under the Post-IPO Share Option Plan during the year ended 31 December 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 24 to the consolidated financial statements.

SHARE AWARD SCHEME

The Board adopted a restricted share award scheme (the "Share Award Scheme") on 10 January 2011 (the "Adoption Date") as an incentive to retain and encourage the eligible participants for the continual operation and development of the Group. Eligible participants include any director, any employee, any consultant or adviser of or to the Company or the Group and who, in the absolute opinion of the Board, have contributed to the Company or the Group.

Pursuant to the Share Award Scheme, the Board may, from time to time, at its absolute discretion select eligible participants and determine the number of shares to be awarded. The aggregate number of shares to be awarded by the Board throughout the duration of the Share Award Scheme shall not exceed 2.5% of the issued share capital of the Company as at the Adoption Date. The term of the Share Award Scheme is 10 years commencing from the Adoption Date.

During the year, no shares were granted. Further details in relation to the Share Award Scheme are set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 and note 24 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company had distributable reserves amounting to RMB1,063.7 million (2015: RMB1,113.1 million).

Under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands, the share premium account and the retained earnings are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 29.0% of the total sales for the year and sales to the largest customer included therein amounted to 9.7%. Purchases from the Group's five largest suppliers accounted for 30.3% of the total purchases for the year and purchase from the largest supplier included therein amounted to 9.3%.

None of the directors or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers or five largest suppliers.

EMPLOYEES 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.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS

The directors of the Company during the year were as follows:

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

In accordance with Article 87 of the Company's Articles of Association, Dr. Lam Wai Yan, Mr. Wang Ta-Hsing and Mr. Chan Chi Mong, Hopkins shall retire from office by rotation at the 2017 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2017 AGM.

The Company has received annual confirmations of independence from Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins pursuant to Rule 3.13 of the Listing Rules. The Company considers the independent non-executive directors to be independent as at the date of this report.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2017 AGM has a service agreement with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party during the year.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the year.

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

As at 31 December 2016, the interests of the directors of the Company in the shares and underlying 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 were as follows:

(1) Interests in shares of the Company

Name of director	Long/ Short position	Capacity	Number of ordinary shares in the Company	Percentage of the Company's issued share capital†
Dr. Lam Wai Yan	Long	Beneficial owner	308,064,561	27.20%
Mr. Ho Kam Wah	Long	Interests held by a controlled corporation	99,348,480 (Note)	8.77%
	Long	Beneficial owner	3,491,565	0.31%
			102,840,045	9.08%
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%

Note: These shares were held by Treasure Field Holdings Limited, a controlled corporation of 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 31 December 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. ("GZ Yingxin")	Ms. Zhang Cong Min	Long	Beneficial owner	2,280,000	40%
Guangzhou Yingyue Computer Technology Co., Ltd. ("GZ Yingyue")	Ms. Zhang Cong Min	Long	Beneficial owner	1,920,000	60%

Save as disclosed above, as at 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the above paragraphs headed "Share Option Schemes" and "Share Award Scheme" in this directors' report and in note 24 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 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:

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)	27.20%
Gallop Assets Management Limited	Long	Beneficial owner	296,172,030	(2)	26.15%
J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust	Long	Trustee	296,172,030	(2)	26.15%
Mr. Wang Ko Chiang	Long	Founder of a discretionary trust	296,172,030	(2)	26.15%
	Long	Interests held by a controlled corporation	100,000	(3)	0.01%
			296,272,030	—	26.16%
Mrs. Wang Tang Shi Ming	Long	Interests of spouse	296,172,030	(4)	26.15%
	Long	Interests held by a controlled corporation	100,000	(3)	0.01%
			296,272,030	—	26.16%
Treasure Field Holdings Limited	Long	Beneficial owner	99,348,480	(5)	8.77%

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, 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".

† The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2016.

Save as disclosed above, as at 31 December 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, to the best knowledge of the directors, none of the directors and their respective associates was considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or the Group.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained a sufficient public float.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into the Group during year ended 31 December 2016 is contained in note 28 to the consolidated financial statements.

During the year ended 31 December 2016, save for the continuing connected transactions as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A of the Listing Rules.

1. Tenancy Agreement 2016

On 30 December 2015, the Group entered into the tenancy agreement (the "Tenancy Agreement 2016") with Kexim Company Limited ("Kexim") for a term of 3 years commencing from 1 January 2016 to 31 December 2018. Under the terms of the Tenancy Agreement 2016, Kexim leased to the Group certain premises and properties for general office uses.

Mr. Wang Ta-Hsing, a director of the Company, has interests in Kexim. Therefore, Kexim is considered as Mr. Wang Ta-Hsing's associate and the connected person of the Company under the Listing Rules.

During the year ended 31 December 2016, the total amount of fees paid by the Group under the Tenancy Agreement 2016 was RMB249,000 and the annual cap amount was RMB270,000.

2. Advertising Agreement 2016

On 30 December 2015, the Group entered into the advertising agreement with Kexim (the "Advertising Agreement 2016") for a term of 3 years commencing from 1 January 2016 to 31 December 2018. Under the terms of the Advertising Agreement 2016, Kexim authorised the Company to lease the advertising boards on the external walls of the relevant property(ies) which were owned by Kexim and/or its respective subsidiaries as well as to receive and collect all revenue in connection with the leasing of such advertising boards, and the Company is responsible for obtaining all necessary government approvals for placing such outdoor advertisements and for paying the associated costs thereof.

Mr. Wang Ta-Hsing, a director of the Company, has interests in Kexim. Therefore, Kexim is considered as Mr. Wang Ta-Hsing's associate and the connected person of the Company under the Listing Rules.

During the year ended 31 December 2016, the total amount of fees paid by the Group under the Advertising Agreement 2016 was RMB995,000 and the annual cap amount was RMB4,000,000.

3. Property Management Service Agreement 2016

On 30 December 2015, the Company entered into the property management service agreement ("Property Management Service Agreement 2016") with Beijing Pacific Times Property Management Co., Ltd. (北京太平洋時代物業管理有限公司) ("BPT Property Management") for a term of 3 years commencing from 1 January 2016 to 31 December 2018. Under the terms of the Property Management Service Agreement 2016, BPT Property Management agreed to provide and the Group agreed to receive property management services in relation to the premises owned or rented by the Group.

Mr. Wang Ta-Hsing, a director of the Company, has interests in BPT Property Management. Therefore, BPT Property Management is considered as Mr. Wang Ta-Hsing's associate and the connected person of the Company under the Listing Rules.

During the year ended 31 December 2016, the total amount of fees paid by the Group under the Property Management Service Agreement 2016 was RMB160,000 and the annual cap was RMB500,000.

4. Structure Contract Transactions

The Group had continuing connected transactions in the form of structure contracts (the "Structure Contract Transactions").

Existing Structure Contracts

The Group conducts its online advertising business through GZ Yingxin, Guangdong Pacific Internet Information Service Co., Ltd. ("GDP Internet") and the subsidiaries of GDP Internet under the structure contracts entered into with the Company's wholly-owned subsidiary, Guangzhou Pacific Computer Information Consulting Co., Ltd. ("GZP Computer") (the "Existing Structure Contracts"). GZ Yingxin, a company incorporated in the PRC with limited liability that holds 100% of the equity interest of GDP Internet, is owned as to 40% by Ms. Zhang Cong Min, 30% by Ms. Lu Wu Qing and 30% by Ms. Fan Zeng Chun (collectively known as "GZ Yingxin Shareholders"). As a result of the Existing Structure Contracts, the Group is able to recognize and receive the economic benefit of the business and operations of GZ Yingxin, GDP Internet and the subsidiaries of GDP Internet. The Existing Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests of GZ Yingxin Shareholders in GZ Yingxin and the equity interests of GZ Yingxin in, or assets of, GDP Internet and the subsidiaries of GDP Internet. Further details relating to the Existing Structure Contracts are disclosed in the section headed "Structure Contracts" in the Prospectus.

PClady Structure Contracts

The Company envisaged that one of its existing portals, PClady (www.PClady.com.cn) which is specialized in women lifestyle-related topics, would be able to attract different and specific group of investors. Under the structure contracts entered into with the Company's wholly-owned subsidiary, Guangzhou Fengwang Information Technology Co., Ltd. ("GZFW Technology") on 30 June 2015, the Group conducts its online business relating to PClady portal through GZ Yingyue, Guangzhou Shangjin Internet Co., Ltd. ("GZS Internet") and Guangzhou Shangjin Advertising Co., Ltd. ("GZS Advertising") (the "PClady Structure Contracts"). GZ Yingyue, a company incorporated in the PRC with limited liability that holds 100% of the equity interest of GZS Internet and GZS Advertising (a wholly-owned subsidiary of GZS Internet), is owned as to 60% by Ms. Zhang Cong Min and 40% by Ms. Lu Wu Qing, (collectively known as "GZ Yingyue Shareholders"). As a result of the PClady Structure Contracts, the Group is able to recognize and receive the economic benefit of the business and operations of GZ Yingyue, GZS Internet and GZS Advertising. The PClady Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests of GZ Yingyue Shareholders in GZ Yingyue and the equity interests of GZ Yingyue in, or assets of, GZS Internet and GZS Advertising. Further details relating to the PClady Structure Contracts are disclosed in the Company's announcement dated 2 July 2015 (the "Announcement").

During the year ended 31 December 2016, the revenue subject to the Existing Structure Contracts and PClady Structure Contracts was RMB972 million. As at 31 December 2016, the total assets subject to the Existing Structure Contracts and PClady Structure Contracts was RMB736 million.

Risk factors in relation to the Existing Structure Contracts and PClady Structure Contracts

The risks associated with the Existing Structure Contracts and PClady Structure Contracts were set out in the Prospectus and the Announcement and are highlighted as follows:

- If the PRC government finds that the Existing Structure Contracts and PClady Structure Contracts with the structure for operating the Group's businesses in China do not comply with the applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of the Group's interest in the domestic entities.

- The Company relies on the Existing Structure Contracts and PClady Structure Contracts to control and obtain the economic benefits from GDP Internet and GZS Internet, the operating entities in the PRC, which may not be as effective in providing operational control as direct ownership.

- The GZ Yingxin Shareholders and GZ Yingyue Shareholders may have conflicts of interest with the Group, which may materially and adversely affect the Group's business.

In light of the above risks associated with the Existing Structure Contracts and PClady Structure Contracts, the Group has adopted relevant procedures and internal control measures to ensure the effective operation of the Group and the implementation of the Existing Structure Contracts and PClady Structure Contracts, including (i) discuss and make all necessary modification to the Existing Structure Contracts and PClady Structure Contracts in order to maintain the economic interests; (ii) regular report by relevant divisions of the Group to the senior management of the Company in relation to the compliance of the Existing Structure Contracts and PClady Structure Contracts; (iii) regular report by the senior management of the Group to the Board any non-compliance issues; (iv) retain legal adviser and/or other professional to assist the Group to deal with specific issues arising from the Existing Structure Contracts and PClady Structure Contracts, if required; and (v) annual review by the independent non-executive directors of the Company the compliance of the Existing Structure Contracts and PClady Structure Contracts.

As at the date of this annual report, there has been no material change in the Existing Structure Contracts and PClady Structure Contracts and/or the circumstances under which they were adopted.

The independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2016 and confirmed as follows:

(I) The continuing connected transaction related to Tenancy Agreement 2016, Advertising Agreement 2016 and Property Management Service Agreement 2016 had been:

a) entered into by the Group in the ordinary and usual course of business;

b) entered into by the Group on normal commercial terms or better; and

c) entered into by the Group in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

(II) The Structure Contract Transactions had been entered into in accordance with the relevant provisions of the structure contracts; the terms of the structure contracts remain unchanged and consistent with those disclosed in the Prospectus and Announcement; and no dividends have been made by GZ Yingxin to GZ Yingxin Shareholders and by GZ Yingyue to GZ Yingyue Shareholders; and any new structural contractual arrangements entered into, renewed and/or "cloned" during the year ended 31 December 2016 are fair and reasonable so far as the Company is concerned and in the interests of the Company and its shareholders as a whole.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

AUDITOR

A resolution will be proposed at the 2017 AGM to re-appoint Messrs. PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
Lam Wai Yan
Chairman

27 March 2017

羅兵咸永道

To the Shareholders of Pacific Online Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Pacific Online Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 121, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to recoverability of trade receivables.

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Recoverability of trade receivables Refer to note 4(a) (critical accounting estimates and judgments) and note 19 to the consolidated financial statements. As at 31 December 2016, the net book value of trade receivables amounted to RMB564,355,000 (after the provision of RMB51,183,000), which approximated to 41% of the Group's total assets. We focused on this area because management made subjective judgements over the timing of recognition of impairment of trade receivables and the estimation of the size of any such impairment. At each period end, management performed individual credit evaluations on key customers and some other customers primarily comprising online advertising agencies. These evaluations focused on the customer's settlement history and current ability to pay, and took into account information specific to the customer as well as pertaining to the economic environment in which the customer operated.	With respect to management's individual credit evaluations for customers, we evaluated and tested the key controls over credit risk management. These key controls were related to the identification of which receivables were impaired, estimation of the recoverable amount of impaired debts and the resulting impairment provisions. We obtained a breakdown of each individual customer's recoverability assessment from management. Where impairment was individually provided, we tested a sample of the receivables to check the impairment was evidenced properly in relation to the time and the size of the provision made. In addition, we examined a sample of receivables of individually assessed customers which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate based on the external evidence obtained from our independent research on publicly available information and examination of payment records in the current year in respect of the relevant counterparties. We found no material exceptions in these tests.

Key Audit Matter	How our audit addressed the Key Audit Matter
For receivables which were not subject to individual evaluations or individually assessed as not impaired, management collectively assessed the possibility of impairment taking into account of the ageing analysis and the history of bad debt losses incurred in respect of those groups of customers. All of these assessments involved significant judgements made by management.	In respect of the collective assessment, we challenged the underlying information referenced by the management through validation of receivables ageing reports and comparison of the history of bad debt losses incurred. Based on our audit procedures, we were satisfied that management's assessments were reasonable and consistent with the evidence that we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. We describe the matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is ZEE, HO SUM.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2017

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**974,261**	1,096,356
Cost of revenue	6	**(365,011)**	(385,780)
Gross profit		**609,250**	710,576
Selling and marketing costs	6	**(270,900)**	(322,045)
Administrative expenses	6	**(101,526)**	(96,582)
Product development expenses	6	**(77,983)**	(80,338)
Other income	8	**10,419**	3,394
Other gains — net	9	**—**	9,308
Operating profit		**169,260**	224,313
Finance income		**10,889**	4,505
Finance cost		**—**	(890)
Finance income — net	10	**10,889**	3,615
Profit before income tax		**180,149**	227,928
Income tax expense	11	**(28,953)**	(48,097)
Profit for the year		**151,196**	179,831
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)	12	**13.36 cents**	16.04 cents
— Diluted (RMB)	12	**13.34 cents**	15.92 cents

The notes on pages 55 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	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

The notes on pages 55 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		**16,344**	16,668
Property and equipment	14	**248,557**	260,112
Intangible assets	15	**9,292**	11,535
Deferred income tax assets	18	**31,987**	24,989
Investment in equity fund	20	**35,182**	33,029
Held-to-maturity financial assets	21	**—**	28,207
		341,362	374,540
Current assets			
Inventories		**—**	948
Trade and other receivables and prepayments	19	**601,002**	578,694
Held-to-maturity financial assets	21	**28,193**	21,264
Short-term bank deposits with original terms of over three months	22	**3,677**	2,610
Cash and cash equivalents	22	**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	25	**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

Lam Wai Yan	Wang Ta-Hsing
Director	Director

The notes on pages 55 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary shares RMB'000	Reserves RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company		
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	13	—	(155,017)	(155,017)
Share Award Scheme	24(b)			
— purchase of shares		—	(1,224)	(1,224)
— value of employee services		—	1,619	1,619
Employees share option schemes	24(a)			
— 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	13	**—**	**(157,619)**	**(157,619)**
Employees share option schemes	24(a)			
— proceeds from shares issued		**9**	**1,582**	**1,591**
Balance at 31 December 2016		**10,477**	**1,001,534**	**1,012,011**

The notes on pages 55 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	26	**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	21	**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	13	**(157,619)**	(155,017)
Proceeds from issuance of ordinary shares	23(a)	**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	22	**392,316**	410,849

The notes on pages 55 to 121 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

(a) General information

Pacific Online Limited (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 Company and its subsidiaries (together, the "Group") are 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 of directors (the "Board") of the Company on 27 March 2017.

(b) Operations of the online advertising business of the Group

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which include online advertising through the internet. In order for the Group to provide such services in the PRC, the following arrangements have been made:

— *Establishment of Guangzhou Yingxin Computer Technology Exchange Co., Ltd. (廣州英鑫計算機科技交流有限公司, "GZ Yingxin")*

GZ Yingxin, a PRC limited liability company, was established on 25 November 2003 by Ms. Zhang Cong Min, Ms. Fan Zeng Chun and Ms. Lu Wu Qing, employees of Takehigh Industrial Limited ("Takehigh") and its subsidiaries (together, the "Takehigh Group"), who are PRC citizens as its legal owners (the "3 Registered Owners"). Takehigh also made loans to the 3 Registered Owners for the financing of the initial working capital of GZ Yingxin in connection with its establishment. Through the execution of various contracts and agreements (collectively defined as "Structure Contracts", see below for more details) among the Takehigh Group, GZ Yingxin and the 3 Registered Owners, the Takehigh Group controls GZ Yingxin. GZ Yingxin is accounted for as a subsidiary of the Takehigh Group.

1. GENERAL INFORMATION (CONTINUED)

(b) Operations of the online advertising business of the Group (Continued)

— *Transfer/acquisition of equity ownership of certain PRC operating companies to GZ Yingxin*

Through various equity transfer arrangements commenced after the establishment of GZ Yingxin, all the equity interests of two operating companies in the PRC, Guangzhou Pacific Advertising Co., Ltd. (廣州市太平洋廣告有限公司, "GZP Advertising") 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") were transferred to GZ Yingxin by August 2007.

Thereafter, GZ Yingxin became the holding company of GDP Internet and GZP Advertising.

— *Structure Contracts arrangements made between Takehigh Group and GZ Yingxin Group*

In addition to GZ Yingxin, Structure Contracts have also been executed among Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司, "GZP Computer"), a subsidiary of the Takehigh Group, the subsidiaries of GZ Yingxin, and the 3 Registered Owners. Through these contractual arrangements, Takehigh exercise effective financial and operational control over GZ Yingxin and its subsidiaries (collectively the "GZ Yingxin Group"). Takehigh and GZP Computer are also entitled to substantially all the operating profits and residual benefits generated by GZ Yingxin Group under these arrangements. In particular, the 3 Registered Owners are required under the contractual arrangements made with the Takehigh Group to transfer their interests in GZ Yingxin to the Takehigh Group or its designee, upon the Takehigh Group's request at the lowest amount of consideration permitted by PRC law and upon the time when the relevant PRC law and regulations allow such to do so.

Further, the Takehigh Group owns the intellectual property developed by GDP Internet and it also receives the cash flows derived from the operations of GDP Internet and its subsidiaries through the levying of service and consultancy fees. The ownership interests in GZ Yingxin and GDP Internet have also been pledged by the 3 Registered Owners to the Takehigh Group.

As a result of the contractual arrangements, Takehigh has rights to variable returns from its involvement with GZ Yingxin Group and has ability to affect those returns through its power over GZ Yingxin Group and is considered to control GZ Yingxin Group.

1. GENERAL INFORMATION (CONTINUED)

(b) Operations of the online advertising business of the Group (Continued)

— *Similar Structure Contracts arrangements made subsequent to GZ Yingxin Group*

Similar Structure Contracts were also executed for other PRC operating companies established by the Group subsequently. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have been consolidated by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

(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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

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

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 principle 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 (Note 2.21).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

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

- 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 (Note 2.9), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

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

— 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 (Note 2.11). The Group is in the process of assessing the impact of HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

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

- 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, as set out in Note 2.24, is 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 (Note 27). 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.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The directors of the Company have concluded that it is appropriate to include GZ Yingxin Group and the other PRC operating companies under Structure Contracts as stated in Note 1(b) in its consolidated financial statements, notwithstanding lack of the legal ownership, because as described in Note 1(b), the Company has rights to variable returns from its involvement with these companies and has the ability to affect those returns through its power over these companies and is considered to control these companies. Consequently, the Company regards these companies as consolidated structured entities under HKFRS.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Interests in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the interests in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the functional and presentation currency of all the individual entities of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement within "finance income — net", except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. On the disposal of a foreign operation, all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

2.5 Lease prepayment

Lease prepayment is up-front payment to acquire long-term interest in land. Lease prepayment is carried at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of lease prepayment on a straight-line basis over the remaining periods of the lease which are from 35 years to 45 years.

2.6 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	39–47 years
Building improvement	10 years
Leasehold improvements	the shorter of their useful lives and the lease terms
Computers and servers	3–5 years
Motor vehicles	5 years
Furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within administrative expenses in the consolidated income statement.

2.7 Intangible assets

(a) *Computer software and technology*

Acquired computer software and technology are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two years.

(b) *Club membership*

Club membership is stated at cost less impairment losses, if any. No amortisation is charged as the club membership has an indefinite useful life because the Company has the contractual right to control over the asset and legal rights with no definite period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(c) Brand and technology

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

(d) Goodwill

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

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

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

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example club membership, are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGUs"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables, available for sale, and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" (Note 2.13), "short-term bank deposits with original terms of over three months" and "cash and cash equivalents" (Note 2.14) in the consolidated balance sheet.

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group's available for sale financial assets comprise 'investment in equity fund' (Note 20) in the consolidated balance sheet.

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(b) Recognition and measurement (Continued)

Changes in the fair value of available for sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as "gains and losses from investment securities".

Interest on held-to-maturity financial assets calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable distribution costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.9(b) for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Accruals and other payables

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.17 Prepaid advertising subscriptions from customers

Prepaid advertising subscriptions from customers represent subscription fees paid by customers in advance for online advertising services but services have not yet rendered by the Group at the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from interests in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences (Continued)

Deferred income tax assets are recognised on deductible temporary differences arising from interests in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Pension obligations

The group companies incorporated in the PRC contributes based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

The group companies incorporated in Hong Kong operate a defined contribution plan, the assets of which are generally held in a separate trustee-administered fund. These group companies pay fixed contribution into such defined contribution plan and have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

Contributions to these defined contributions plans are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (Continued)

(b) Housing benefits

Full-time PRC employees of the Group are entitled to participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of these employees on a monthly basis. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the housing funds are expensed as incurred.

2.20 Share-based payment

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Company. The fair value of the employee services received in exchange for the grant of equity instruments of the Company is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using the Binomial valuation model or the Trinomial valuation model, which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of awarded shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statements, are treated as part of the "interests in subsidiaries" in the Company's balance sheet.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities, stated net of value added taxes. Revenue is shown after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Online advertising revenues

The Group derives its online advertising services revenues from placing online advertisements such as banners, links and logos on the Group's websites in the PRC for its customers.

Revenues from online advertisements are derived from written contracts with customers that include the related fee, payment terms and provide persuasive evidence of the arrangement. The majority of the online advertising contracts are for the provision of online advertisement for a fixed period of time with no guaranteed minimum impression level. Revenues from these contracts are recognised based on the time period the advertisement is displayed. The Group also organises promotional events to help customers promote their products. Revenues from organising promotional events are recognised when the services have been rendered. Advertising contracts may consist of both display advertising service and promotional events services. The consideration from these transactions is allocated to each separately deliverable based on the relative fair value of each deliverable. The Group determines the fair value of each deliverable based on the selling price of the deliverable if sold separately by the Group. The consideration allocated to each deliverable is recognised as revenue when the revenue recognition criteria for that component have been met.

In all contracts, there are no future obligations after the completion of the contract and no rights of refund related to the impression levels.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivable is recognised using the original effective interest rate.

2.23 Product development expenses

Expenditure on product development research is expensed as incurred.

Expenditure on development or from the development phase of an individual project is recognised as an internally generated intangible if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, prick risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) 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 Hong Kong subsidiaries' payment of daily operation, the Group holds certain monetary assets denominated in US dollar ("USD") or Hong Kong dollar ("HKD") subject to certain thresholds stated in its treasury mandate. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD and HKD as management considers that such risk could not be effectively reduced in a low-cost way. Accordingly, the Group did not purchase any forward contract to hedge the foreign exchange risk during the year ended 31 December 2016.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2016, the exchange rate of RMB to HKD and USD were 0.8945 and 6.9370 respectively. If RMB had strengthened/weakened by 0.5% against the HKD/USD with all other variables held constant, post tax profit for the year would have been RMB254,000 (2015: RMB128,000) 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 RMB176,000 (2015: RMB165,000) lower/higher due to the foreign exchange impact in USD denominated investment in equity fund classified as available for sale financial assets as at 31 December 2016.

(ii) 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. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management on a case by case basis.

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 31 December 2016, the other comprehensive income would have been approximately RMB1,759,000 (2015: RMB1,651,000) higher/lower.

(iii) Interest rate risk

Interest rate risk relates to the risk that fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Held-to-maturity financial assets amortised using the effective interest rate expose the Group to fair value interest rate risk. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(iii) Interest rate risk (Continued)

For deposits held in banks which are interest bearing, as at 31 December 2016, if the market interest rates had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,485,000 (2015: RMB1,550,000) higher/lower, mainly as a result of higher/lower interest income on bank deposits.

Other financial assets and liabilities do not have material interest rate risk.

(iv) 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.

To manage this risk, deposits 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 of cash and cash equivalents and term deposits with original terms of over three months from these financial institutions.

For trade receivables, further to Note 2.21(a), 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. Further quantitative disclosures in respect of trade receivables are set out in Note 19.

Other receivables are mainly advance 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.

(v) 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 year ended 31 December 2016. Management considers that the Group does not have significant liquidity risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 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 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available for sale financial assets				
— Investment in equity fund				
31 December 2016	**—**	**—**	**35,182**	**35,182**
31 December 2015	—	—	33,029	33,029

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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation (Continued)

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.

The changes in level 3 instruments for the year ended 31 December 2016 are presented in Note 20.

The directors determine the fair value of the Group's financial instrument carried at fair value in level 3 at each of the reporting dates.

(d) Fair value of financial assets and liabilities measured at amortised cost

For the year ended 31 December 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value of financial assets and liabilities measured at amortised cost (Continued)

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

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Current	28,388	19,503
Non-current	—	27,611
	28,388	47,114

For the year ended 31 December 2016, there were no reclassifications of financial assets.

The carrying amounts of the Group's trade and other receivables and accruals and other payables approximate their fair values due to their short maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Recognition of income taxes

The Group is mainly subject to income tax in the PRC. There are transactions (including entitlement to preferential tax treatment and deductibility of expenses) where the ultimate tax determination is uncertain until the final tax position is confirmed by relevant tax authorities. In addition, the Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available in the future against which the temporary differences, the carry forward of unused tax credits and unused tax losses could be utilised. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The directors consider that there would be adequate taxable profits to be generated in the future in order to utilise these deferred tax assets recognised.

(c) Held-to-maturity financial assets

The Group follows the HKAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in HKAS 39, it will be required to reclassify the whole class as available for sale financial assets. The investments would, therefore, be measured at fair value not amortised cost.

(d) Fair value of investment in equity fund

Investment in equity fund is carried at their fair value. The fair value of the investment in equity fund was determined by reference to valuations conducted on the underlying investments by the independent third party partner using valuation techniques which involve certain assumptions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment in equity fund and corresponding adjustments to the changes in fair value reported in other comprehensive income and the carrying amount of investment in equity fund included in the consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Fair value of investment in equity fund (Continued)

When there has been a significant or prolonged decline in the fair value of an investment below their cost, impairment assessment would be performed by the directors of the Company. The determination of what is significant or prolonged requires judgement. In making this judgement, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(e) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating unit have been determined based on value-in-use calculation. These calculations require the use of estimates.

5. 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.

5. SEGMENT INFORMATION (CONTINUED)

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 RMB'000	**PConline** RMB'000	**PClady** RMB'000	**Others** RMB'000	**Total** 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 and 2015, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (2015: same).

6. EXPENSES BY NATURE

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

	2016 **RMB'000**	2015 RMB'000
Employee benefit expenses (Note 7)	**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 (Note 14)	**17,007**	17,042
— Amortisation of intangible assets (Note 15)	**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 (Note 15)	**1,900**	—
Impairment charge of inventories	**1,456**	—
Impairment charge of goodwill (Note 15)	**—**	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).

7. EMPLOYEE BENEFIT EXPENSES

	2016 RMB'000	2015 RMB'000
Wages, salaries and bonuses	**247,906**	239,309
Share-based compensation expenses (Note 24)	**—**	1,619
Social security contributions	**15,528**	15,799
Contributions to pension schemes (a)	**22,950**	21,812
Contributions to housing fund	**12,760**	12,364
	299,144	290,903

(a) Pensions scheme — defined contribution plans

The PRC employees of the Group participate in defined contribution retirement schemes based on laws and regulations in the PRC. Each employee covered by these schemes is entitled to, after their retirement from the Group, a monthly pension as determined by these schemes. The local government authorities of the PRC are responsible for the pension liabilities to these retired employees. The Group made monthly contributions to the retirement schemes at rates ranging from 12% to 22% of the basic salaries of employees during the year ended 31 December 2016 (2015: same).

All the Hong Kong employees of the Group participate in a mandatory provident scheme (the "MPF Scheme"). Under the MPF Scheme, each company of the Group in Hong Kong (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employers and employees are subject to a cap of HKD1,500 per month and thereafter contributions are voluntary.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments mentioned above.

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of Directors

Directors' and chief executive's emoluments

The remuneration of each Director for the year ended 31 December 2016 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Share-based compensation RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Chairman and chief executive officer ("CEO")							
Dr. Lam Wai Yan	—	598	1,474	1,765	—	8	3,845
Executive directors							
Mr. Wang Ta-Hsing	—	359	—	—	—	15	374
Mr. Ho Kam Wah	—	4	—	—	—	—	4
Ms. Zhang Cong Min	—	1,726	1,684	381	—	83	3,874
Independent non-executive directors							
Mr. Tsui Yiu Wa, Alec	359	—	—	—	—	—	359
Mr. Thaddeus Thomas Beczak	359	—	—	—	—	—	359
Mr. Chan Chi Mong, Hopkins	359	—	—	—	—	—	359
Total	1,077	2,687	3,158	2,146	—	106	9,174

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of Directors (Continued)

Directors' and chief executive's emoluments (Continued)

The remuneration of each Director for the year ended 31 December 2015 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Share-based compensation RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Chairman and the CEO							
Dr. Lam Wai Yan	—	545	1,402	689	—	14	2,650
Executive directors							
Mr. Wang Ta-Hsing	—	337	—	—	—	14	351
Mr. Ho Kam Wah	—	4	—	—	—	—	4
Ms. Zhang Cong Min	—	1,558	1,497	364	93	61	3,573
Independent non-executive directors							
Mr. Tsui Yiu Wa, Alec	337	—	—	—	—	—	337
Mr. Thaddeus Thomas Beczak	337	—	—	—	—	—	337
Mr. Chan Chi Mong, Hopkins	337	—	—	—	—	—	337
Total	1,011	2,444	2,899	1,053	93	89	7,589

During the year ended 31 December 2016, none (2015: same) of the directors waived or agreed to waive any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: same).

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: same). No consideration was provided to or receivable by third parties for making available directors' services (2015: same). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: same).

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of Directors (Continued)

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2015: same).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining three (2015: three) individuals during the year are as follows:

	2016 **RMB'000**	2015 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**6,024**	5,116
Contributions to pension schemes	**106**	98
Share-based compensation expenses	**—**	111
	6,130	5,325

The emoluments of the remaining three (2015: three) individuals fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
HKD1,500,001 to HKD2,000,000	**1**	—
HKD2,000,001 to HKD2,500,000	**1**	3
HKD2,500,001 to HKD3,000,000	**1**	—
	3	3

8. OTHER INCOME

	2016 RMB'000	2015 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

9. OTHER GAINS — NET

	2016 RMB'000	2015 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.

10. FINANCE INCOME — NET

	2016 RMB'000	2015 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

11. INCOME TAX EXPENSE

	2016 RMB'000	2015 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"). GZP Computer and 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.

11. INCOME TAX EXPENSE (CONTINUED)

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:

	2016 RMB'000	2015 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.

12. 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 (Note 24(b))).

	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).

	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

13. 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) (Note 24(b)).

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.

14. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Building improvement RMB'000	Leasehold improvements RMB'000	Computers and servers RMB'000	Motor vehicles RMB'000	Furniture, fittings and equipment RMB'000	Total RMB'000
At 1 January 2015							
Cost	220,893	43,039	8,025	39,489	6,342	11,484	329,272
Accumulated depreciation	(14,538)	(12,181)	(1,859)	(25,482)	(3,500)	(6,976)	(64,536)
Net book amount	206,355	30,858	6,166	14,007	2,842	4,508	264,736
Year ended 31 December 2015							
Opening net book amount	206,355	30,858	6,166	14,007	2,842	4,508	264,736
Additions	2,114	4,079	—	4,362	1,011	1,322	12,888
Acquisition of a subsidiary	—	—	—	—	—	122	122
Disposals	—	—	—	(466)	(29)	(97)	(592)
Depreciation (Note 6)	(5,011)	(4,494)	(804)	(4,163)	(1,099)	(1,471)	(17,042)
Closing net book amount	203,458	30,443	5,362	13,740	2,725	4,384	260,112
At 31 December 2015							
Cost	223,007	47,118	8,025	42,214	7,057	12,224	339,645
Accumulated depreciation	(19,549)	(16,675)	(2,663)	(28,474)	(4,332)	(7,840)	(79,533)
Net book amount	203,458	30,443	5,362	13,740	2,725	4,384	260,112
Year ended 31 December 2016							
Opening net book amount	**203,458**	**30,443**	**5,362**	**13,740**	**2,725**	**4,384**	**260,112**
Additions	**—**	**942**	**456**	**3,912**	**159**	**811**	**6,280**
Disposals	**—**	**—**	**—**	**(746)**	**—**	**(82)**	**(828)**
Depreciation (Note 6)	**(5,037)**	**(4,778)**	**(804)**	**(4,107)**	**(880)**	**(1,401)**	**(17,007)**
Closing net book amount	**198,421**	**26,607**	**5,014**	**12,799**	**2,004**	**3,712**	**248,557**
At 31 December 2016							
Cost	**223,007**	**48,060**	**8,481**	**45,380**	**7,216**	**12,953**	**345,097**
Accumulated depreciation	**(24,586)**	**(21,453)**	**(3,467)**	**(32,581)**	**(5,212)**	**(9,241)**	**(96,540)**
Net book amount	**198,421**	**26,607**	**5,014**	**12,799**	**2,004**	**3,712**	**248,557**

14. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense has been charged to the consolidated income statement as follows:

	2016 **RMB'000**	2015 RMB'000
Cost of revenue	**6,765**	3,739
Selling and marketing costs	**5,255**	206
Administrative expenses	**3,802**	11,890
Product development expenses	**1,185**	1,207
	17,007	17,042

Lease rentals amounting to RMB1,123,000 for the year ended 31 December 2016 (2015: RMB1,574,000) relating to the lease of office buildings were included in the consolidated income statement.

15. INTANGIBLE ASSETS

	Computer software and technology	Club membership	Brand and technology	Goodwill	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015					
Cost	14,800	8,793	—	—	23,593
Accumulated amortisation	(13,904)	—	—	—	(13,904)
Net book amount	896	8,793	—	—	9,689
Year ended 31 December 2015					
Opening net book amount	896	8,793	—	—	9,689
Additions	600	—	—	—	600
Acquisition of a subsidiary	—	—	2,300	4,622	6,922
Impairment charge	—	—	—	(4,622)	(4,622)
Amortisation charge (Note 6)	(814)	—	(240)	—	(1,054)
Closing net book amount	682	8,793	2,060	—	11,535
At 31 December 2015					
Cost	15,400	8,793	2,300	4,622	31,115
Accumulated amortisation and impairment	(14,718)	—	(240)	(4,622)	(19,580)
Net book amount	682	8,793	2,060	—	11,535
Year ended 31 December 2016					
Opening net book amount	**682**	**8,793**	**2,060**	**—**	**11,535**
Additions	**958**	**—**	**—**	**—**	**958**
Impairment charge (a)	**—**	**—**	**(1,900)**	**—**	**(1,900)**
Amortisation charge (Note 6)	**(1,141)**	**—**	**(160)**	**—**	**(1,301)**
Closing net book amount	**499**	**8,793**	**—**	**—**	**9,292**
At 31 December 2016					
Cost	**16,065**	**8,793**	**2,300**	**4,622**	**31,780**
Accumulated amortisation and impairment	**(15,566)**	**—**	**(2,300)**	**(4,622)**	**(22,488)**
Net book amount	**499**	**8,793**	**—**	**—**	**9,292**

15. INTANGIBLE ASSETS (CONTINUED)

Amortisation has been charged to the consolidated income statement as follows:

	2016 RMB'000	2015 RMB'000
Product development expenses	394	636
Cost of revenue	388	82
Administrative expenses	383	293
Selling and marketing costs	136	43
	1,301	1,054

(a) The impairment charge of RMB1,900,000 during the year ended 31 December 2016 was related to the brand and technology, which were expected to be of no use in the future due to the modification in business model to adapt to changes in market.

16. SUBSIDIARIES

The following is a list of the principal subsidiaries (including controlled structured entities) of the Company at 31 December 2016:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
Pacific E-Commerce Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD2	*100%
New Forest Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD1	*100%
Takehigh	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD11,875	100%
Winsom Technology Limited (偉信科技有限公司)	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD10,000	100%
Smooth Choice Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD100	100%
Fortune Asset Limited (福聲有限公司)	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD1	100%
Unique Fast Limited (快尊有限公司)	Hong Kong, limited liability company	Investment holding in Hong Kong	HKD100	100%
GZP Computer	The PRC, foreign investment enterprise	Information technology and software development and provision of computer information consultancy services in the PRC	RMB80,000,000	100%
GZP Advertising (a)	The PRC, limited liability company	Provision of advertising services in the PRC	RMB500,000	100%

16. SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
GDP Internet (a)	The PRC, limited liability company	Provision of online advertising services in the PRC	RMB10,000,000	100%
GZ Yingxin (a)	The PRC, limited liability company	Provision of computer technology services in the PRC	RMB5,700,000	100%
Shanghai Pan-Pacific Information Technology Co., Ltd. (上海環宇太平洋信息科技有限公司)	The PRC, foreign investment enterprise	Not yet commenced formal operations	USD140,000	100%
GZ Fengwang	The PRC, limited liability company	Information technology and software development and provision of computer information consultancy services in the PRC	RMB3,500,000	100%
Guangzhou Pacific Online Technology Co., Ltd. (廣州太平洋網絡科技有限公司)	The PRC, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Shanghai Yingzhen Online Technology Co., Ltd. (上海英臻網絡科技有限公司)	The PRC, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Beijing Taihe Xinyang Online Technology Co., Ltd. (北京太合新洋網絡科技有限公司)	The PRC, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Guangzhou Yingrui Technology Co., Ltd. (廣州英睿科技有限公司)	The PRC, foreign investment enterprise	Technology research, test and development	RMB1,000,000	100%
Guangzhou Chuangcheng Online Technology Co., Ltd. (廣州創程網絡科技有限公司)	The PRC, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Guangzhou Yingyue Computer Technology Co., Ltd. (廣州英悅計算機科技有限公司) (a)	The PRC, limited liability company	Information technology and software development and provision of computer information consultancy services in the PRC	RMB3,200,000	100%
Guangzhou Shangjin Internet Co., Ltd. (廣州尚進網絡有限公司) (a)	The PRC, limited liability company	Provision of online advertising services in the PRC	RMB3,000,000	100%
Guangzhou Shangjin Advertising Co., Ltd. (廣州市尚謹廣告有限公司) (a)	The PRC, limited liability company	Provision of advertising services in the PRC	RMB500,000	100%
iCare Newlife Technologies, Inc. (北京瑞智和康科技有限公司)	The PRC, limited liability company	Development of computer technique, trading of electronic and medical products, healthy consultation	RMB2,364,706	100%
Guangzhou Yurui Information Technology Co., Ltd. (廣州裕睿信息科技有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB2,000,000	100%
Guangzhou Yingyou Information Technology Co., Ltd. (廣州英佑信息科技有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB2,000,000	100%

16. SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
Guangzhou Shangcong Online Technology Co., Ltd. (廣州尚聰網絡科技有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB2,000,000	100%
Guangzhou Shangcong Advertising Co., Ltd. (廣州市上聰廣告有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB500,000	100%
Guangzhou Yingku Online Co., Ltd. (廣州英酷網絡有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB1,200,000	100%
Guangzhou Kuche Information Technology Co., Ltd. (廣州酷車信息科技有限公司)	The PRC, limited liability company	Not yet commenced formal operations	RMB1,000,000	100%

* Shares held directly by the Company.

(a) As described in Note 1(b), the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights. As a result, they are presented as controlled structured entities of the Company.

(b) In connection with the implementation of the Share Award Scheme of the Group mentioned in Note 24(b), the Company has set up a structured entity, and its particulars are as follows:

Structured entity	Principal activities
Share Award Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible employees of the Group

As the Company has rights to variable returns from the contributions of the employees who are awarded with the shares by the scheme through their continued employment with the Group and has ability to affect those returns through its power to govern the financial and operating policies of the Share Award Scheme Trust, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust in accordance with the requirements of HKFRS.

17 FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2016

	Loans and Receivables RMB'000	Available for sale RMB'000	Held-to-maturity financial assets RMB'000	Total RMB'000
Current assets				
Trade and other receivables excluding prepayments (Note 19)	593,811	—	—	593,811
Short-term bank deposits with original terms of over three months (Note 22)	3,677	—	—	3,677
Cash and cash equivalents (Note 22)	392,316	—	—	392,316
Held-to-maturity financial assets (Note 21)	—	—	28,193	28,193
Non-current assets				
Investment in equity fund (Note 20)	—	35,182	—	35,182
Total	989,804	35,182	28,193	1,053,179

31 December 2015

	Loans and Receivables RMB'000	Available for sale RMB'000	Held-to-maturity financial assets RMB'000	Total RMB'000
Current assets				
Trade and other receivables excluding prepayments (Note 19)	572,408	—	—	572,408
Short-term bank deposits with original terms of over three months (Note 22)	2,610	—	—	2,610
Cash and cash equivalents (Note 22)	410,849	—	—	410,849
Held-to-maturity financial assets (Note 21)	—	—	21,264	21,264
Non-current assets				
Investment in equity fund (Note 20)	—	33,029	—	33,029
Held-to-maturity financial assets (Note 21)	—	—	28,207	28,207
Total	985,867	33,029	49,471	1,068,367

17 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Other financial liabilities at amortised cost	
	2016	2015
	RMB'000	RMB'000
Current liabilities		
Accruals and other payables excluding other tax payable and salaries payable (Note 25)	**193,616**	211,609

18. 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

	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**23,903**	6,981
— to be recovered within 12 months	**8,084**	18,008
	31,987	24,989

18. DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets (Continued)

The movement of deferred income tax assets during the year is as follows:

	Provision for impairment of trade receivables RMB'000	Accrued salary expenses RMB'000	Accrued advertising and other expenses RMB'000	Advertising expenses in excess of allowance RMB'000	Tax Loss RMB'000	Total RMB'000
At 1 January 2015	4,957	7,015	3,521	—	—	15,493
Credited/(charged) to the consolidated income statement	2,024	(7,015)	3,007	11,480	—	9,496
At 31 December 2015	6,981	—	6,528	11,480	—	24,989
Credited/(charged) to the consolidated income statement	4,158	—	(3,044)	1,284	4,600	6,998
At 31 December 2016	**11,139**	**—**	**3,484**	**12,764**	**4,600**	**31,987**

Deferred income tax liabilities

	2016 RMB'000	2015 RMB'000
Deferred income tax liabilities		
— to be recovered after more than 12 months	**—**	435
— to be recovered within 12 months	**—**	80
	—	515

18. DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities (Continued)

The movement of deferred income tax liabilities during the year is as follows:

	Intangible assets acquired in business combination at fair value RMB'000
At 1 January 2016	515
Credited to the consolidated income statement	(515)
At 31 December 2016	—

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2016 RMB'000	2015 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

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(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:

	2016 RMB'000	2015 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:

	2016 RMB'000	2015 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

	2016 RMB'000	2015 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

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(b) Other receivables (Continued)

(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.

20. INVESTMENT IN EQUITY FUND

	2016 **RMB'000**	2015 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.

21. 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 8)	**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.

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

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

22. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS WITH ORIGINAL TERMS OF OVER THREE MONTHS

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	150,614	150,956
Short-term bank deposits	245,379	262,503
	395,993	413,459
Less:		
Short-term bank deposits with original terms of over three months	(3,677)	(2,610)
Cash and cash equivalents	392,316	410,849

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

The weighted average effective interest rate on short-term bank deposits with original terms of over three months of the Group was 1.04% for the year ended 31 December 2016 (2015: 2.16%). The weighted average effective interest rate of the remaining short-term bank deposits of the Group was 2.83% for the year ended 31 December 2016 (2015: 1.94%).

As at 31 December 2016, except for the cash on hand, all of the cash and cash equivalents of the Group were placed in listed state-owned/commercial banks in mainland China or Hong Kong (2015: same). Management did not expect any losses from non-performance by these counterparties.

23. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares '000	HKD'000	RMB'000
At 31 December 2015 and 2016	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of Shares '000	HKD'000	RMB'000
At 1 January 2015	1,111,687	11,117	10,312
Employees share option schemes — issued shares (a)	19,655	197	156
At 31 December 2015	1,131,342	11,314	10,468
Employees share option schemes — issued shares (a)	1,063	11	9
At 31 December 2016	**1,132,405**	**11,325**	**10,477**

As at 31 December 2016, the total number of issued ordinary shares of the Company was 1,132,405,000 shares (2015: 1,131,342,000 shares) which included 33,000 shares (2015: 33,000 shares) held under the Share Award Scheme (Note 24(b)).

(a) Share options exercised during the year ended 31 December 2016 resulted in 1,063,000 shares being issued (2015: 19,655,000 shares), with exercise proceeds of RMB1,591,000 (2015: RMB26,816,000). The nominal value of these shares of RMB9,000 (2015: RMB156,000) and the premium of RMB1,582,000 (2015: RMB26,660,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HKD2.08 (2015: HKD3.05) per share.

All the ordinary shares issued during the year ended 31 December 2016 rank pari passu with the then existing ordinary shares in all respects.

24. RESERVES

	Share premium	Merger reserve	Capital redemption reserve	Share-based compensation reserve	Shares held for Share Award Scheme	Statutory reserve funds (c)	Investment in equity fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	328,343	4	306	45,201	(4,087)	43,250	(2,243)	537,504	948,278
Share Award Scheme (b)									
— purchase of shares	—	—	—	—	(1,224)	—	—	—	(1,224)
— value of employee services	—	—	—	1,619	—	—	—	—	1,619
— vesting of Awarded Shares	(6,087)	—	—	—	6,087	—	—	—	—
— transfer upon vesting of Awarded Shares	15,476	—	—	(15,476)	—	—	—	—	—
Employees share option schemes (a)									
— proceeds from shares issued	26,660	—	—	—	—	—	—	—	26,660
— transfer upon exercise of share options	27,164	—	—	(27,164)	—	—	—	—	—
Revaluation of available for sale investment	—	—	—	—	—	—	4,075	—	4,075
Profit for the year	—	—	—	—	—	—	—	179,831	179,831
Cash dividends relating to 2014, paid in 2015	—	—	—	—	—	—	—	(155,017)	(155,017)
At 31 December 2015	**391,556**	**4**	**306**	**4,180**	**776**	**43,250**	**1,832**	**562,318**	**1,004,222**
Employees share option schemes (a)									
— proceeds from shares issued	**1,582**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,582**
— transfer upon exercise of share options	**1,614**	**—**	**—**	**(1,614)**	**—**	**—**	**—**	**—**	**—**
Revaluation of available for sale investment	**—**	**—**	**—**	**—**	**—**	**—**	**2,153**	**—**	**2,153**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**151,196**	**151,196**
Cash dividends relating to 2015, paid in 2016	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(157,619)**	**(157,619)**
At 31 December 2016	**394,752**	**4**	**306**	**2,566**	**776**	**43,250**	**3,985**	**555,895**	**1,001,534**

(a) Share options reserves

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 were 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.

24. RESERVES (CONTINUED)

(a) Share options reserves (Continued)

(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 31 December 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.

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, which all forfeited as at 31 December 2016.

24. RESERVES (CONTINUED)

(a) Share options reserves (Continued)

(iii) Movements in share options

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

	Pre-IPO Share Option Plan		Post-IPO Share Option Plan		
	Average exercise price (HKD)	**Number of options** (thousands)	**Average exercise price** (HKD)	**Number of options** (thousands)	**Total number of options** (thousands)
At 1 January 2015	1.71	27,697	—	—	27,697
Exercised	1.72	(19,655)	—	—	(19,655)
Forfeited	1.68	(87)	—	—	(87)
At 31 December 2015	1.67	7,955	—	—	7,955
Currently exercisable as at 31 December 2015	1.67	7,955	—	—	7,955
At 1 January 2016	**1.67**	**7,955**	**—**	**—**	**7,955**
Granted	**—**	**—**	**2.35**	**3,300**	**3,300**
Exercised	**1.72**	**(1,063)**	**—**	**—**	**(1,063)**
Forfeited	**1.96**	**(52)**	**2.35**	**(3,300)**	**(3,352)**
At 31 December 2016	**1.66**	**6,840**	**—**	**—**	**6,840**
Currently exercisable as at 31 December 2016	**1.66**	**6,840**	**—**	**—**	**6,840**

24. RESERVES (CONTINUED)

(a) Share options reserves (Continued)

(iv) Outstanding share options

Share options outstanding at end of the year have the following expiry date and exercise prices:

Expiry date	2016 Exercise price in HKD per share	2016 Number of options (thousands)	2015 Exercise price in HKD per share	2015 Number of options (thousands)
Pre-IPO Share Option Plan				
— 22 November 2017	**1.32**	**2,198**	1.32	2,598
— 22 November 2017	**1.71**	**2,703**	1.71	2,703
— 22 November 2017	**1.96**	**1,939**	1.96	2,654
At 31 December		**6,840**		7,955

(b) Share Award Scheme

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

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

Employees are not entitled to dividends on any awarded shares that are not yet transferred to them.

24. RESERVES (CONTINUED)

(b) Share Award Scheme (Continued)

Movements in the number of shares held for the Share Award Scheme for the year ended 31 December 2016 are as follows:

	Awarded Shares (thousands)	Shares to be awarded (thousands)	Shares to be purchased (thousands)	Total shares held by the Trustee (thousands)
At 1 January 2015	1,624	—	(392)	1,232
Purchased	—	8	392	400
Forfeited	(25)	25	—	—
Vested	(1,599)	—	—	(1,599)
At 31 December 2015	—	33	—	33
At 1 January and 31 December 2016	**—**	**33**	**—**	**33**

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

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

No expenses were recognised for employee services received in respect of the Share Award Scheme for the year ended 31 December 2016 (2015: RMB1,619,000) (Note 7).

During the year ended 31 December 2016, the Share Award Scheme Trust received cash dividend amounting to RMB5,000 (2015: RMB44,000) which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

24. RESERVES (CONTINUED)

(c) Statutory reserve funds

In accordance with the Companies Laws of the PRC and the provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners at the meetings of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the provisions of the articles of association of wholly owned foreign subsidiary of the Company in the PRC, appropriations from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Funds is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

25. ACCRUALS AND OTHER PAYABLES

	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.

26. CASH GENERATED FROM OPERATIONS

	2016 RMB'000	2015 RMB'000
Profit before income tax	180,149	227,928
Adjustments for:		
— Finance income — net	(10,837)	(3,615)
— Investment income on held-to-maturity financial assets (Note 8)	(1,165)	(1,734)
— Dividend income on investment in equity fund (Note 8)	(679)	—
— Impairment charge of receivables	21,777	10,547
— Impairment charge of intangible assets (Note 15)	1,900	—
— Impairment charge of inventories	1,456	—
— Depreciation (Note 14)	17,007	17,042
— Losses on disposal of property and equipment	632	129
— Gain on business disposal (Note 9)	—	(9,308)
— Amortisation of lease prepayment	324	324
— Amortisation of intangible assets (Note 15)	1,301	1,054
— Amortisation of employee benefit of loan to a key management	97	—
— Share-based compensation expense (Note 24)	—	1,619
— Impairment charge of goodwill (Note 15)	—	4,622
	211,962	248,608
Changes in working capital:		
— Inventories	(508)	(620)
— Trade and other receivables and prepayments	(30,049)	(78,272)
— Accruals and other payables	(21,843)	28,760
— Prepaid advertising subscriptions from customers	3,746	14,110
Cash generated from operations	163,308	212,586

27. COMMITMENTS

Operating lease commitments

The Group leases offices and buses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
Not later than 1 year	3,569	4,424
Later than 1 year and not later than 5 years	613	1,058
	4,182	5,482

28. 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.	Controlled by Mr. Wang
South China Resources Development Consultants Limited ("SCRD Consultants")	Controlled by Mr. Wang

28. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

The Group undertook the following related party transactions during the year ended 31 December 2016:

	2016 RMB'000	2015 RMB'000
Rental expenses for office and advertising bill boards:		
Kexim	1,209	2,142
SCRD Consultants	35	264
Property Management for office:		
Beijing Pacific Times Property Management Co., Ltd.	160	158
	1,404	2,564

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

(c) Key management compensation

Key management includes directors, the CEO and other senior executives. The aggregate compensation paid/payable to key management for employee services excluding the directors and the CEO whose details have been reflected in Note 7 is as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, housing allowances and benefits in kind	8,146	6,970
Contributions to pension schemes	142	174
Share based compensation expenses	—	171
	8,288	7,315

(d) 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 19.

No provision is considered necessary regarding the loan to a key management personnel as at 31 December 2016.

29. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Intangible assets		8,793	8,793
Interests in subsidiaries		285,105	285,105
Dividend due from subsidiaries		105,000	193,000
Held-to-maturity financial assets		—	28,207
		398,898	515,105
Current assets			
Prepayments		154	196
Amounts due from subsidiaries		60,255	31,327
Other receivables		15,517	—
Dividend due from subsidiaries		507,000	543,000
Held-to-maturity financial assets		28,193	21,264
Cash and cash equivalents		74,763	22,887
		685,882	618,674
Total assets		1,084,780	1,133,779
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares		10,477	10,468
Reserves	(a)	1,063,653	1,113,111
Total equity		1,074,130	1,123,579
Current liabilities			
Accruals and other payables		2,045	1,595
Amounts due to subsidiaries		8,605	8,605
Total current liabilities		10,650	10,200
Total equity and liabilities		1,084,780	1,133,779

29. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Share premium RMB'000	Capital redemption reserve RMB'000	Share-based compensation reserve RMB'000	Contributed surplus RMB'000	Shares held for Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	313,343	306	45,201	88,277	(4,087)	606,723	1,049,763
Share Award Scheme							
— purchase of shares	—	—	—	—	(1,224)	—	(1,224)
— value of employee services	—	—	1,619	—	—	—	1,619
— vesting of Awarded Shares	(6,087)	—	—	—	6,087	—	—
— transfer upon vesting of Awarded Shares	15,476	—	(15,476)	—	—	—	—
Employees share option schemes							
— proceeds from shares issued	26,660	—	—	—	—	—	26,660
— transfer upon exercise of share options	27,164	—	(27,164)	—	—	—	—
Profit for the year	—	—	—	—	—	191,310	191,310
Cash dividends relating to 2014, paid in 2015	—	—	—	—	—	(155,017)	(155,017)
At 31 December 2015	376,556	306	4,180	88,277	776	643,016	1,113,111
Employees share option schemes							
— proceeds from shares issued	**1,582**	**—**	**—**	**—**	**—**	**—**	**1,582**
— transfer upon exercise of share options	**1,614**	**—**	**(1,614)**	**—**	**—**	**—**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**106,579**	**106,579**
Cash dividends relating to 2015, paid in 2016	**—**	**—**	**—**	**—**	**—**	**(157,619)**	**(157,619)**
At 31 December 2016	**379,752**	**306**	**2,566**	**88,277**	**776**	**591,976**	**1,063,653**

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
RESULTS	**2016**	2015	2014	2013	2012
Revenue	**974,261**	1,096,356	987,526	847,923	715,636
Profit before income tax	**180,149**	227,928	283,418	323,008	296,429
Income tax expense	**(28,953)**	(48,097)	(62,191)	(69,374)	(59,958)
Profit for the year	**151,196**	179,831	221,227	253,634	236,471
Attributable to:					
Equity holders of the Company	**151,196**	179,831	221,227	253,634	236,471
ASSETS, LIABILITIES AND ASSETS LESS LIABILITIES					
Total assets	**1,366,550**	1,388,905	1,285,391	1,116,163	948,766
Total liabilities	**354,539**	374,215	326,801	229,030	166,219
Total assets less liabilities	**1,012,011**	1,014,690	958,590	887,133	782,547