PACIFIC ONLINE LIMITED
太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Pacific Online Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December **2017** *RMB'000*	2016 *RMB'000*
Revenue	3	**963,599**	974,261
Cost of revenue	4	**(404,411)**	(365,011)
Gross profit		**559,188**	609,250
Selling and marketing costs	4	**(271,588)**	(270,900)
Administrative expenses	4	**(95,603)**	(101,526)
Product development expenses	4	**(75,217)**	(77,983)
Other income	5	**10,306**	10,419
Operating profit		**127,086**	169,260
Finance income		**4,605**	10,889
Finance cost		**(2,972)**	—
Finance income — net	6	**1,633**	10,889
Share of net losses of an associate accounted for using the equity method		**(796)**	—
Profit before income tax		**127,923**	180,149
Income tax expense	7	**(22,606)**	(28,953)
Profit for the year		**105,317**	151,196
Attributable to:			
— Equity holders of the Company		**105,317**	151,196
Earnings per share for profit attributable to equity holders of the Company for the year			
— Basic *(RMB)*	8	**9.29 cents**	13.36 cents
— Diluted *(RMB)*	8	**9.28 cents**	13.34 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**105,317**	151,196
Items that may be reclassified to profit or loss		
Change in value of investment in equity fund	**1,362**	2,153
Other comprehensive income for the year, net of tax	**1,362**	2,153
Total comprehensive income for the year	**106,679**	153,349
Attributable to:		
— Equity holders of the Company	**106,679**	153,349

CONSOLIDATED BALANCE SHEET
As at 31 December 2017

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayment		**16,020**	16,344
Property and equipment		**236,079**	248,557
Intangible assets		**8,826**	9,292
Deferred income tax assets		**47,185**	31,987
Investment in an associate		**14,204**	—
Investment in equity fund	11	**36,544**	35,182
		358,858	341,362
Current assets			
Trade and other receivables and prepayments	10	**593,310**	601,002
Held-to-maturity financial assets	12	**—**	28,193
Short-term bank deposits with original terms of over three months		**2,519**	3,677
Cash and cash equivalents		**442,561**	392,316
		1,038,390	1,025,188
Total assets		**1,397,248**	1,366,550
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary shares		**10,491**	10,477
Reserves		**969,918**	1,001,534
Total equity		**980,409**	1,012,011
LIABILITIES			
Current liabilities			
Accruals and other payables	13	**288,260**	259,547
Prepaid advertising subscriptions from customers		**61,106**	28,861
Current income tax liabilities		**67,473**	66,131
Total liabilities		**416,839**	354,539
Total equity and liabilities		**1,397,248**	1,366,550

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

		Attributable to equity holders of the Company		
	Note	**Ordinary shares** *RMB'000*	**Reserves** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2016		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	9	—	(157,619)	(157,619)
Employees share option schemes — proceeds from shares issued		9	1,582	1,591
Balance at 31 December 2016		10,477	1,001,534	1,012,011
Comprehensive income				
Profit for the year		—	**105,317**	**105,317**
Other comprehensive income		—	**1,362**	**1,362**
Total comprehensive income		—	**106,679**	**106,679**
Transactions with shareholders				
Cash dividends relating to 2016, paid in 2017	9	—	**(128,653)**	**(128,653)**
Share award scheme — purchase of shares held for share award scheme		—	**(11,525)**	**(11,525)**
Employees share option schemes — proceeds from shares issued		**14**	**1,883**	**1,897**
Balance at 31 December 2017		**10,491**	**969,918**	**980,409**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	**Year ended 31 December** **2017** ***RMB'000***	2016 *RMB'000*
Cash flows from operating activities			
Cash generated from operations		**193,943**	163,308
Income tax paid		**(36,462)**	(37,155)
Net cash generated from operating activities		**157,481**	126,153
Cash flows from investing activities			
Purchase of property and equipment		**(4,128)**	(6,280)
Disposals of property and equipment		**332**	196
Purchase of intangible assets		**(6)**	(958)
Capital injection into an associate		**(15,000)**	—
Proceeds from business disposal		**1,300**	3,625
Redemption of held-to-maturity financial assets	12	**28,000**	21,000
Purchase of certificates of deposit		**—**	(20,137)
Maturity of certificates of deposit		**15,000**	5,000
Loan to a key management personnel		**—**	(2,564)
Repayment of loan from a key management personnel		**2,693**	—
Placement of short-term bank deposits with original terms of over three months		**(5,019)**	(66,137)
Receipt from maturity of short-term bank deposits with original terms of over three months		**6,177**	65,070
Interest received		**4,668**	7,831
Net cash generated from investing activities		**34,017**	6,646
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme		**(11,525)**	—
Cash dividends paid	9	**(128,653)**	(157,619)
Proceeds from issuance of ordinary shares		**1,897**	1,591
Net cash used in financing activities		**(138,281)**	(156,028)
Net increase/(decrease) in cash and cash equivalents		**53,217**	(23,229)
Cash and cash equivalents at beginning of year		**392,316**	410,849
Exchange (losses)/gains on cash and cash equivalents		**(2,972)**	4,696
Cash and cash equivalents at end of year		**442,561**	392,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated on 27 August 2007 as an exempted company with limited liability under the Company Law, Cap.22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

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

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

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

These consolidated financial statements have been approved for issue by the Board on 29 March 2018.

2. BASIS OF PREPARATION

(i) Compliance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

They have been prepared under the historical cost convention, except for investment in equity fund — measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Amendments to HKFRS 7 "Statement of cash flows: additional disclosure to evaluate changes in liabilities arising from financing activities"
- Amendment to HKFRS 12 "Disclosure of interest in other entities: clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information"
- Amendments to HKAS 12 "Income taxes: clarify how to account for deferred tax assets related to debt instruments measured at fair value"

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

(iv) New standards and amendments to standards and interpretations not yet adopted

The following new standards and amendments to standards have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018 or when the entity first applies HKFRS 9
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendment to HKAS 40	Transfers of investment property	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

(a) HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

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 and financial liabilities at amortised costs as determined under HKAS 39, which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to 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 satisfy the conditions for classification as at fair value through other comprehensive income and hence this is expected to be no change to the classification and measurement for it. However, gains or losses realised on the sale of financial assets at fair value through other comprehensive income will no longer be transferred to profit or loss, but instead, reclassified from other reserve to retained earnings.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts.

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

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial assets and liabilities particularly in the year of the adoption of the new standard.

Date of adoption

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated by that moment.

(b) HKFRS 15 Revenue from Contracts with Customers

Nature of change

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

The directors of the Company are now assessing the impact of HKFRS 15 to the Group's revenue recognition and do not expect there will be significant changes to the Group's existing revenue recognition policy.

Date of adoption

HKFRS15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(c) HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

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 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. The new standard will 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 directors consider that the adoption of the new standard will not have material impact on the financial position and financial performance of the Group because the Group's total non-cancellable operating lease commitments as at 31 December 2017 amounted to RMB2,146,000, most of which are short-term leases, and will be exempted from reporting obligation under HKFRS 16.

Date of adoption

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3. SEGMENT INFORMATION

The Group is principally engaged in the provision of internet advertising services for different commodities. The chief operating decision-makers review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these internal reports.

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

The chief operating decision-makers assess the performance of the operating segments based on the revenues generated. The reportable operating segments are grouped into PCauto, PConline, PClady and others. The Group 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 Group does not report a measure of profit or total assets for each reportable segment.

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

There were no inter-segment sales for the year ended 31 December 2017 (2016: same). The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated income statement.

	PCauto	**PConline**	**PClady**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2017					
Revenue	**698,502**	**145,611**	**19,215**	**100,271**	**963,599**
For the year ended 31 December 2016					
Revenue	647,880	169,550	61,972	94,859	974,261

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2017, all revenues of the Group were derived from external customers and they were all generated from the PRC (2016: same).

As at 31 December 2017, other than club membership included in the intangible assets and investment in equity fund, majority of other non-current assets of the Group were located in the PRC (2016: same).

For the year ended 31 December 2017, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (2016: same).

4. EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Employee benefit expenses	**284,359**	299,144
Advertising expenses	**144,587**	139,793
Service commission to advertising agencies	**139,114**	144,009
Outsourcing production cost	**112,404**	64,607
Other taxes and surcharge	**38,617**	36,240
Travelling and entertainment expenses	**25,498**	27,011
Impairment charge of receivables	**25,320**	21,777
Depreciation and amortisation expenses		
— Depreciation of property and equipment	**16,102**	17,007
— Amortisation of intangible assets	**472**	1,301
— Amortisation of lease prepayment	**324**	324
Technology service fees	**21,757**	17,399
Bandwidth and server custody fees	**18,614**	18,346
Rental expenses	**6,623**	6,924
Auditors' remuneration		
— Audit services	**3,625**	3,609
— Non-audit services	**459**	516
Professional fees	**845**	1,755
Impairment charge of intangible assets	**—**	1,900
Impairment charge of inventories	**—**	1,456
Cost of goods consumed	**—**	1,958
Other expenses	**8,099**	10,344
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	**846,819**	815,420

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 2017 (2016: same).

5. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Government grants *(i)*	**9,563**	8,575
Investment income on held-to-maturity financial assets	**421**	1,165
Dividend income on investment in equity fund	**322**	679
	10,306	10,419

(i) There are no unfulfilled conditions or other contingencies attaching to these grants.

6. FINANCE INCOME — NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
— Interest income	**4,605**	6,141
— Net foreign exchange gains	**—**	4,748
	4,605	10,889
Finance cost		
— Net foreign exchange losses	**(2,972)**	—
Finance income — net	**1,633**	10,889

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC current tax	**37,804**	36,466
Deferred taxation	**(15,198)**	(7,513)
	22,606	28,953

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 2017 (2016: same).

Current taxation primarily represented the provision for PRC Corporate Income Tax ("CIT") for subsidiaries operating in the PRC. These subsidiaries are subject to CIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Corporate Income Tax Law ("CIT Law"), the CIT rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the CIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTE"). Guangzhou Pacific Computer Information Consulting Co., Ltd. ("GZP Computer") and Guangdong Pacific Internet Information Service Co., Ltd. ("GDP Internet"), the principal operating subsidiaries of the Company, were formally designated as HNTE in 2014 and successfully renewed the certificate of HNTE in 2017, therefore the applicable income tax rate is 15% for the three years from 2017 to 2019. Moreover, Guangzhou Fengwang Technology Co., Ltd. ("GZ Fengwang"), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2016 and the applicable income tax rate is 15% for the three years from 2016 to 2018. Assuming that there is no change to the relevant laws and regulations, the directors consider that these three subsidiaries will continue to be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax. All the other PRC entities of the Group are subject to CIT at a rate of 25% in accordance with CIT Law.

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax expense	**127,923**	180,149
Tax calculated at the statutory tax rate of 25% (2016: 25%)	**31,981**	45,038
Tax effects of		
— Tax concessions available to certain PRC subsidiaries *(a)*	**(17,440)**	(21,532)
— Income not subject to tax	**(489)**	(2,716)
— Expenses not deductible for tax purposes *(b)*	**4,958**	3,315
— Unrecognised tax losses	**2,415**	2,803
— Additional deduction on product development expenses	**(5,169)**	(5,892)
— 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 to be remitted by PRC subsidiaries	**6,350**	6,800
Income tax expense	**22,606**	28,953

(a) The preferential tax treatments relating to HNTE were enjoyed by GZP Computer, GDP Internet and GZ Fengwang for the year ended 31 December 2017 (2016: same).

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

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (excluding the ordinary shares purchased by the Group and held for the Share Award Scheme).

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**105,317**	151,196
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,134,072**	1,131,661
Basic earnings per share *(RMB)*	**9.29 cents**	13.36 cents

(b) Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**105,317**	151,196
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,134,325**	1,133,175
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,134,072**	1,131,661
— Adjustment for share options and awarded shares *(thousand shares)*	**253**	1,514
Diluted earnings per share *(RMB)*	**9.28 cents**	13.34 cents

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2016 of RMB11.35 cents per ordinary share (final dividend in respect of the year ended 31 December 2015: RMB13.93 cents per ordinary share) was approved by the shareholders at the annual general meeting in May 2017. Such final dividend for 2016 totaling RMB128,653,000 (final dividend for 2015: RMB157,619,000) was paid in 2017, which has already excluded the dividend related to the ordinary shares held for the Share Award Scheme of RMB4,000 (2016: RMB5,000).

The directors recommended the payment of a final dividend of RMB11.35 cents per ordinary share in cash for the year ended 31 December 2017, totalling RMB128,715,000 based on the ordinary shares in issue as of 31 December 2017. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held on 18 May 2018. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables, net of impairment provision *(a)*	**565,643**	564,355
Other receivables *(b)*	**13,887**	29,456
Prepayments	**13,780**	7,191
	593,310	601,002
Trade and other receivables are denominated in		
— RMB	**579,530**	590,633
— HKD	**—**	3,178
	579,530	593,811

(a) Trade receivables, net of impairment provision

Credit terms granted to customers by the Group are generally within a period of six months to one year. The ageing analysis of the trade receivables (net of impairment provision of RMB69,602,000 (2016: RMB51,183,000)) was as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current to 6 months	**360,048**	392,715
6 months to 1 year	**143,787**	143,770
1 year to 2 years	**61,808**	27,870
	565,643	564,355

As of 31 December 2017, trade receivables of RMB36,856,000 (31 December 2016: RMB66,504,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables was as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current to 6 months	**5,930**	8,998
6 months to 1 year	**21,704**	29,636
1 year to 2 years	**9,222**	27,870
	36,856	66,504

(b) Other receivables

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Input value added tax to be deducted	**5,743**	4,090
Advance to employees	**2,929**	2,485
Certificates of deposit	**—**	15,517
Loan to a key management personnel	**—**	2,684
Others	**5,215**	4,680
	13,887	29,456

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.

11. INVESTMENT IN EQUITY FUND

	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**35,182**	33,029
Changes in fair value	**1,362**	2,153
At end of the year	**36,544**	35,182

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 recent trading price of the shares of the unlisted entities invested by the Fund.

12. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**28,193**	49,471
Amortised interest *(Note 5)*	**421**	1,165
Interest received	**(614)**	(1,443)
Redemption	**(28,000)**	(21,000)
At end of the year	**—**	28,193

13. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries payable	**47,771**	49,364
Accrued expenses *(a)*	**217,951**	179,751
Other tax payable	**8,862**	16,567
Other payables *(b)*	**13,676**	13,865
	288,260	259,547

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2017, the Group earned RMB963.6 million in revenue. During the reporting period, the Company streamlined its organizational structure and optimized staffing. Staff numbers have decreased by 10.4% when compared with the same period last year. By adjusting our business model and team structures, the Group has improved its overall business and operations efficiency while simultaneously promoting and developing several new products.

PCauto has increased its revenue by 7.8% when compared with the same period last year and now accounts for 72.5% of the Group's total revenue. PCauto's new 2017 product layout has already achieved results on all fronts. At the dealership level, PCauto has continued to strengthen the business philosophy of its "Auto Merchant+" platform. PCauto has been working tirelessly to create a comprehensive product portfolio for our auto dealer customers, with the main goal being to improve to business of 4S stores through highly efficient products. One such product, our mobile APP "Pocket Auto Salesman", has grown rapidly in the last year. "Pocket Auto Salesman" has attracted industry attention as it now covers more than 6,000 4S stores and sees about 20,000 sales login every day. Our comprehensive service platform for car owners, "Cool Auto Butler", and its partnership with AliPay allows for easier interactions between car owners and car dealers. It has also helped to divert more potential consumers to 4S stores. The great services "Auto Merchant+" provides has resulted in more dealers joining our platform and has brought in a stable and reliable cash flow for PCauto. We expect PCauto's revenue to continue to grow in the year ahead.

PConline's 2018 collaboration with Baidu in its IT sector development focused on using informational streaming videos to achieve effective brand information communication and commercial value. Additionally, the IT content partnership between PConline and JD.com has continued to steadily advance and has been using targeted content to meet users' needs and influence their purchasing decisions. We expect 2018 to be a year of rapid growth in content-driven e-commerce.

PCbaby and PChouse have seen a revenue increase of 5.7% from last year. PCbaby will continue to benefit from the increase in childbirth and the increase in parental spending on infants and children as a result of China's Two-Child Policy. In 2018, PChouse will create a brand ecology that better connects with consumers, designers, and brands through new APP upgrades and national design competitions. In the future, we expect that many more home furnishing and household product brands will use PChouse as a platform to market their products. PClady underwent a difficult restructuring process in 2017. The new business model has obvious advantages in terms of operating costs and better fits the business logic of the new media era.

In 2017, the Company altered its business model, streamlined its overall structure, and made the necessary personnel adjustments. We believe that these changes will reflect positively in the Company's future revenue. Looking forward through 2018, we believe the Company will enter a new growth cycle and be of more value to our customers, shareholders, and employees.

Revenue

Revenue decreased 1.1% from RMB974.3 million for the year ended 31 December 2016 to RMB963.6 million for the year ended 31 December 2017.

Revenue for PCauto, the Group's automobile portal, increased 7.8% from RMB647.9 million for the year ended 31 December 2016 to RMB698.5 million during the year ended 31 December 2017. The increase in revenue for PCauto was primarily due to increased spending from both auto manufacturers and dealership customers. As a percentage of revenue, PCauto accounted for 66.5% during the year ended 31 December 2016 and 72.5% during the year ended 31 December 2017.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 14.1% from RMB169.6 million during the year ended 31 December 2016 to RMB145.6 million during the year ended 31 December 2017. The decrease was due to decline in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 17.4% during the year ended 31 December 2016 and 15.1% during the year ended 31 December 2017.

Revenue for PClady, the Group's lady and fashion portal, decreased 69.0% from RMB62.0 million during the year ended 31 December 2016 to RMB19.2 million during the year ended 31 December 2017. The decrease was mainly due to a major restructuring of the teams and repositioning of strategies. As a percentage of revenue, PClady accounted for 6.4% during the year ended 31 December 2016 and 2.0% during the year ended 31 December 2017.

Revenue from other operations, including PCbaby and PChouse portals, increased by 5.7% from RMB94.9 million during the year ended 31 December 2016 to RMB100.3 million during the year ended 31 December 2017. The increase was mainly due to the booming of property sector and home decoration market. As a percentage of revenue, revenue from other operations accounted for 9.7% during the year ended 31 December 2016 and 10.4% during the year ended 31 December 2017.

Cost of Revenue

Cost of revenue increased 10.8% from RMB365.0 million during the year ended 31 December 2016 to RMB404.4 million during the year ended 31 December 2017. Gross profit margin was 62.5% during the year ended 31 December 2016 and 58.0% during the year ended 31 December 2017. The increase in cost of revenue was mainly due to increase in outsourcing production costs.

Selling and Marketing Costs

Selling and marketing costs increased 0.3% from RMB270.9 million during the year ended 31 December 2016 to RMB271.6 million during the year ended 31 December 2017. The increase in advertising expenses was largely offset by the decrease in employee benefit expenses.

Administrative Expenses

Administrative expenses decreased by 5.8% from RMB101.5 million during the year ended 31 December 2016 to RMB95.6 million during the year ended 31 December 2017, mainly due to less rental and depreciation expenses during the year.

Product Development Expenses

Product development expenses decreased by 3.5% from RMB78.0 million during the year ended 31 December 2016 to RMB75.2 million during the year ended 31 December 2017. The decrease was due to decrease in the number of product development staff and other related expenses.

Other Income

Other income was RMB10.3 million during the year ended 31 December 2017 and RMB10.4 million during the year ended 31 December 2016. The group had less investment income on held-to-maturity financial assets but it received more government grants during the year.

Finance Income and Cost

Net finance income decreased 85.0% from RMB10.9 million during the year ended 31 December 2016 to RMB1.6 million during the year ended 31 December 2017. The decrease was mainly due to the loss in foreign exchange in 2017 and gain in foreign exchange in 2016.

Income Tax Expense

Income tax expense decreased 21.9% from RMB29.0 million during the year ended 31 December 2016 to RMB22.6 million during the year ended 31 December 2017.

Net Profit

Net profit decreased 30.3% from RMB151.2 million during the year ended 31 December 2016 to RMB105.3 million during the year ended 31 December 2017.

Liquidity and Financial Resources

As of 31 December 2017, the Group had short-term deposits and cash totaling RMB445.1 million, compared with RMB396.0 million as of 31 December 2016.

In 2017, net cash generated from operating activities was RMB157.5 million, net cash generated from investing activities was RMB34.0 million, net cash used in financing activities was RMB138.3 million, with a net increase in cash and cash equivalents of RMB53.2 million for year 2017.

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 year 2016.

The Company had no external debt as of 31 December 2016 and 31 December 2017.

Bank Borrowings

As of both 31 December 2017 and 31 December 2016, the Group did not have any bank borrowings and therefore, its gearing ratio, representing the ratio of total bank borrowings to shareholders' equity, was nil for both years.

Material Acquisitions and Disposals

During the year ended 31 December 2017, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2017, the Group had no bank deposits or other assets pledged to secure its banking facilities.

Foreign Exchange Risk

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

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2017, the Group had 1,369 employees (2016: 1,528). The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

Proposed Final Dividend

The Board has recommended the payment of a final cash dividend of RMB11.35 cents per ordinary share for the year ended 31 December 2017 (the "Proposed Final Dividend"), which compares with RMB11.35 cents in 2016. The final dividend is subject to the shareholders' approval at the Company's forthcoming annual general meeting to be held on Friday, 18 May 2018 (the "2018 AGM"). The Proposed Final Dividend will be paid in cash on Friday, 8 June 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 30 May 2018.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 2018 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, 14 May 2018.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Monday, 28 May 2018 to Wednesday, 30 May 2018, 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 Friday, 25 May 2018.

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 2017.

Audit Committee

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, namely Mr. Tsui Yiu Wa, Alec (Chairman of the Audit Committee), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2017.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 2017, except that there is no separation of the role of chairman and chief executive as stipulated in the code provision A.2.1. Dr. Lam Wai Yan currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. As Dr. Lam is a co-founder of the Group and has extensive experiences in the internet industry, the Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

Appreciation

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

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

Hong Kong, 29 March 2018

As at the date of this announcement, the Board comprises 4 executive directors, namely, Dr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Ta-Hsing and Ms. Zhang Cong Min; and 3 independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins.