# 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 2007

The board of directors (the "**Board**") of Pacific Online Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2007, together with the comparative figures for the year ended 31 December 2006, as follows:

### CONSOLIDATED INCOME STATEMENT

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Revenue** | 3 | **236,830** | 170,973 |
| Cost of revenue | 4 | **(66,110)** | (46,212) |
| **Gross profit** | | **170,720** | 124,761 |
| Selling and marketing costs | 4 | **(32,256)** | (26,685) |
| Administrative expenses | 4 | **(21,362)** | (13,370) |
| Product development expenses | 4 | **(2,931)** | (3,742) |
| **Operating profit** | | **114,171** | 80,964 |
| Finance income | 5 | **2,482** | 1,071 |
| Finance costs | 5 | **(8,197)** | — |
| Finance (costs)/income — net | 5 | **(5,715)** | 1,071 |
| **Profit before income tax** | | **108,456** | 82,035 |
| Income tax expense | 6 | **(17,425)** | (14,836) |
| **Profit for the year** | | **91,031** | 67,199 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **91,031** | 67,199 |
| **Dividends** | 7 | **70,965** | 92,400 |

| | Note | Year ended 31 December **2007** *RMB'000* | 2006 *RMB'000* |
|---|---|---|---|
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | | | |
| — basic *(RMB)* | 8 | **11.86 cents** | 8.84 cents |
| — diluted *(RMB)* | 8 | **11.83 cents** | 8.84 cents |

## CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **11,350** | 10,982 |
| Intangible assets | | **1,585** | 1,299 |
| Deferred income tax assets | | **2,668** | 2,723 |
| | | **15,603** | 15,004 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **77,701** | 38,155 |
| Short-term bank deposits with original terms of over three months | | **18,000** | 7,500 |
| Cash and cash equivalents | | **621,057** | 113,437 |
| | | **716,758** | 159,092 |
| **Total assets** | | **732,361** | 174,096 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity holders of the Company** | | | |
| Shares capital | | **8,986** | 9 |
| Reserves | | **565,227** | 18,535 |
| Retained earnings | | | |
| — Proposed final dividends | | **70,965** | 92,400 |
| — Others | | **20,003** | 406 |
| **Total equity** | | **665,181** | 111,350 |
| **Current liabilities** | | | |
| Accruals and other payables | 10 | **29,251** | 23,613 |
| Prepaid advertising subscriptions from customers | | **26,946** | 28,780 |
| Current income tax liabilities | | **10,983** | 10,353 |
| **Total current liabilities** | | **67,180** | 62,746 |
| **Total equity and liabilities** | | **732,361** | 174,096 |
| **Net current assets** | | **649,578** | 96,346 |
| **Total assets less current liabilities** | | **665,181** | 111,350 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to the equity holders of the Company | | | |
|---|---|---|---|---|
| | **Share capital** | **Reserves** | **Retained earnings** | **Total equity** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2006** | 9 | 535 | 60,881 | 61,425 |
| Profit for the year | — | — | 67,199 | 67,199 |
| Contribution by the then equity holder of a subsidiary | — | 15,000 | — | 15,000 |
| Appropriations to reserves | | 3,000 | (3,000) | — |
| Dividends paid by a subsidiary to its then equity holders | — | — | (32,274) | (32,274) |
| **Balance at 31 December 2006** | 9 | 18,535 | 92,806 | 111,350 |
| Profit for the year | — | — | 91,031 | 91,031 |
| Dividends paid by a subsidiary to its then equity holders | — | — | (92,400) | (92,400) |
| Disposal of subsidiaries | — | (531) | 531 | — |
| Employees' share option benefits | — | 754 | — | 754 |
| Issue of shares | 1,797 | 591,282 | — | 593,079 |
| Share issuance costs | — | (38,633) | — | (38,633) |
| Capitalisation of share premium | 7,180 | (7,180) | — | — |
| Appropriations to reserves | — | 1,000 | (1,000) | — |
| **Balance at 31 December 2007** | 8,986 | 565,227 | 90,968 | 665,181 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Net cash generated from operating activities | **76,679** | 85,895 |
| Net cash used in investing activities | **(15,091)** | (10,013) |
| Net cash generated from/(used in) financing activities | **451,880** | (32,274) |
| **Net increase in cash and cash equivalents** | **513,468** | 43,608 |
| Cash and cash equivalents at beginning of year | **113,437** | 69,829 |
| Exchange losses on cash and bank | **(5,848)** | — |
| **Cash and cash equivalents at end of the year** | **621,057** | 113,437 |

## NOTES TO THE FINANCIAL STATEMENTS

*(All amounts are stated in Renminbi (RMB) unless otherwise stated)*

### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

**Company background**

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 of Hong Kong Limited ("SEHK") since 18 December 2007 (the "Listing Date"). The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

**(a) Group reorganisation**

After the completion of group reorganisation ("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 ("Takehigh") through a share swap and became the holding company of the companies now comprising the Group.

On the Listing Date, the Company issued 190,000,000 shares of HK$0.01 each through the initial public offering of shares of the Company (the "IPO") on the Main Board of SEHK at HK$3.30 per share.

**(b) Basis of presentation**

The consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated financial statements include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since 1 January 2006, or since their respective dates of incorporation/establishment. For companies acquired from (or disposed to) a third party during the period, they would be included in (excluded from) the consolidated financial statements of the Group from the date of that acquisition (disposal).

Except for the Reorganisation which is accounted as a common control combination; the purchase method of accounting is used to account for the acquisition of additional equity interests in subsidiaries by the Group from third parties during the year ended 31 December 2007 and 2006.

All significant intercompany transactions and balances within the Group are eliminated upon consolidation.

## 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.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

### (a) Standards, amendment and interpretations effective in 2007

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK(IFRIC) — Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

- HK(IFRIC) — Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

### (b) Interpretations to existing standards effective in 2007 but not relevant to the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) — Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'; and

- HK(IFRIC) — Int 9, 'Re-assessment of embedded derivatives'.

**(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods, but the Group has not early adopted them:

- HKFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009), replaces HKAS 14 and aligns segment reporting with requirements of the US standard SFAS 131, 'Disclosure about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management is currently assessing the impact of HKFRS 8.

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009), requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Group will apply HKAS 1 (Revised) from 1 January 2009 and certain presentation of financial statements will be revised to follow the standards required by the revision.

- HK(IFRIC) — Int 11, 'HKFRS 2 — Group and treasury share transactions' (effective for annual periods beginning on or after 1 March 2007), provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and Group companies. The Group will assess the impact and apply the interpretation for the annual periods beginning 1 January 2008 where applicable.

**(d) Amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations**

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but management does not expect them to be relevant for the Group's operations:

- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).

- HK(IFRIC) — Int 12, 'Service concession arrangements' (effective from 1 January 2008).

- HK(IFRIC) — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).

- HK(IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).

## 3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in one business segment, the provision of internet advertising services for different commodities. All of the Group's revenue is made to customers in the PRC. Therefore, no business segment or geographical segment is presented.

## 4. EXPENSES BY NATURE

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Employee benefit expenses | **52,036** | 40,590 |
| Business tax | **21,828** | 14,936 |
| Sales commission | **12,938** | 6,151 |
| Rental expenses | **10,837** | 8,525 |
| Advertising expenses | **7,782** | 6,437 |
| Depreciation and amortisation expenses | **4,006** | 3,211 |
| Auditors' remuneration | **3,050** | 255 |
| Conference and office expenses | **2,660** | 1,860 |
| Travelling expenses | **2,256** | 1,270 |
| Professional fees | **967** | 712 |
| Technical consultancy fees | **591** | 1,221 |
| Provision for impairment of receivables | **417** | 979 |
| Utilities and energy costs | **253** | 266 |
| Other expenses | **3,038** | 3,596 |
| Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses | **122,659** | 90,009 |

## 5. FINANCE INCOME AND COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Finance costs | | |
| — Net foreign exchange losses | **(8,197)** | — |
| Finance income | | |
| — Interest income on subscription proceeds | **203** | — |
| — Interest income on short-term bank deposits | **2,279** | 1,071 |
| Finance income | **2,482** | 1,071 |
| Finance (costs)/income — net | **(5,715)** | 1,071 |

## 6. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| PRC Enterprise income tax ("EIT") | **17,370** | 15,078 |
| Deferred taxation | **55** | (242) |
| | **17,425** | 14,836 |

The Group is not subject to Hong Kong or Cayman Islands profits tax as it has no assessable income arising in or derived from Hong Kong or Cayman Islands during the year ended 31 December 2007.

Provision for EIT is calculated based on the statutory income tax rate of 33% (including State EIT at 30% and local EIT at 3%), after taking into account the relevant applicable tax concessions mentioned below, on the assessable income of each of the PRC subsidiaries of the Group during the year ended 31 December 2007 as determined in accordance with the relevant PRC income tax rules and regulations.

According to the old PRC income tax law, the High/New Technology enterprises ("HNTE") were entitled to a 15% preferential income tax rate. This beneficial treatment is subject to annual review and approval by the relevant tax authorities in the PRC. Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司) ("GZP Computer") was recognised as HNTE in 2006 and 2007, while 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") was recognised as HNTE in 2007. Accordingly, the applicable EIT rates for GZP Computer was 15% for the year ended 31 December 2007 (2006: 15%), and 15% for GDP Internet (2006: 33%), respectively.

On 16 March 2007, the National People's Congress approved the new EIT Law, which is effective from 1 January 2008. Under the new EIT Law, the applicable EIT rate of subsidiaries established in the PRC will be changed from 33% to 25% from 1 January 2008.

According to the new EIT law, enterprises that have applied and been granted the HNTE status will be able to enjoy a reduced tax rate of 15%. However, as of 31 December 2007, the detailed implementation rules relating to obtaining the HNTE status have not been published. Consequently, when recognizing deferred taxes as at 31 December 2007, GZP Computer and GDP Internet applied a tax rate of 25% on their temporary differences. The directors are of the view that GZP Computer and GDP Internet will be granted the HNTE status and will apply for the status as soon as the criteria and process becomes clear. If it had been granted HNTE status as at 31 December 2007, deferred taxes would have been recognized at a rate of 15% and deferred tax assets and income tax benefit would have been decreased by RMB583,000 accordingly.

## 7. DIVIDENDS

The Company was newly incorporated on 27 August 2007. No dividend has been paid or declared by the Company during the year ended 31 December 2006.

Dividends disclosed during the year ended 31 December 2006 represented the dividends declared by Takehigh, a subsidiary of the Company, to its then equity holders throughout the year ended 31 December 2006.

The dividends paid by Takehigh to its then equity holders in 2007 and 2006 were RMB92,400,000 and RMB32,274,000, respectively. The directors recommend the payment of a final dividend of RMB7.47 cents per ordinary share, totalling RMB70,965,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 19 May 2008. These financial statements do not reflect this dividend payable.

| | **Year ended 31 December** | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend of RMB7.47 cents (2006: Not Applicable) per ordinary share | **70,965** | 92,400 |

## 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:

| | Year ended 31 December 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company *(RMB'000)* | **91,031** | 67,199 |
| Weighted average number of ordinary shares in issue *(thousand shares)* | **767,288** | 760,000 |
| Basic earnings per share *(RMB)* | **11.86 cents** | 8.84 cents |

In determining the weighted average number of ordinary shares in issue for the year ended 31 December 2006, total of 760,000,000 ordinary shares were deemed to be in issue since 1 January 2006.

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. A calculation is made in order 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.

| | Year ended 31 December 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company *(RMB'000)* | **91,031** | 67,199 |
| Weighted average number of ordinary shares in issue *(thousand shares)* | **767,288** | 760,000 |
| Adjustments for – share options *(thousand shares)* | **2,268** | — |
| Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)* | **769,556** | 760,000 |
| Diluted earnings per share *(RMB)* | **11.83 cents** | 8.84 cents |

## 9. TRADE AND OTHER RECEIVABLES

| | As of 31 December 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Trade receivables (a) | **51,739** | 23,812 |
| Less: provision for impairment of receivables | **(2,077)** | (2,377) |
| | **49,662** | 21,435 |
| Due from BNP Paribas Capital (Asia Pacific) Limited ("BNP Paribas") (b) | **25,166** | — |
| Due from related parties (c) | **242** | 15,552 |
| Other receivables (d) | **2,631** | 1,168 |
| | **77,701** | 38,155 |
| Denominated in | | |
| — RMB | **52,535** | 22,603 |
| — HK$ | **25,166** | 15,552 |
| | **77,701** | 38,155 |

### (a) Trade receivables

Credit terms granted to customers by the Group are generally within six months. The ageing analysis of trade receivables at balance sheet date is as follows:

| | As of 31 December 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Current to 6 months | **44,375** | 18,872 |
| 6 months to 1 year | **3,563** | 2,555 |
| 1 year to 2 years | **2,363** | 1,052 |
| Over 2 years | **1,438** | 1,333 |
| | **51,739** | 23,812 |

As at 31 December 2007, trade receivables of RMB2,077,000 (2006: RMB2,377,000) had been impaired and were fully provided for. The individually impaired receivables mainly relate to smaller customers which were in financial difficulties. The ageing analysis of these non-recoverable receivables, which had been subject to full bad debt provision, is as follows:

| | As of 31 December 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Current to 6 months | **255** | 66 |
| 6 months to 1 year | **21** | 135 |
| 1 year to 2 years | **469** | 843 |
| Over 2 years | **1,332** | 1,333 |
| | **2,077** | 2,377 |

As at 31 December 2007, trade receivables of RMB5,535,000 (2006: RMB2,290,000) were past due but not impaired. These relate to a number of customers with no history of credit default and they are in continuous trading with the Group. The ageing analysis of these trade receivables is as follows:

| | As of 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Current to 6 months | **2,495** | 1,676 |
| 6 months to 1 year | **1,040** | 405 |
| 1 year to 2 years | **1,894** | 209 |
| Over 2 years | **106** | — |
| | **5,535** | 2,290 |

Movements of provision for impairment of trade receivables are as follows:

| | As of 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **2,377** | 1,398 |
| Provision for receivable impairment | **417** | 979 |
| Receivables written off during the year | **(717)** | — |
| At 31 December | **2,077** | 2,377 |

The origination and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

**(b) Due from BNP Paribas**

The amount represents a portion of the listing proceeds due from BNP Paribas, who was the sponsor of the IPO. The amount had been fully received by the Group subsequent to 31 December 2007.

**(c) Due from related parties**

The outstanding balance as at 31 December 2006 mainly represents an amount due from a related party at approximately RMB15,000,000. The amount had been fully received by the Group during 2007.

**(d) Other receivables**

Other receivables of the Group mainly represent petty cash advance made to employees, prepaid operating rental and telecommunication fees and interest receivables from bank deposits.

Other receivables did not contain impaired assets.

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

### 10. ACCRUALS AND OTHER PAYABLES

| | As of 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Salary payables | **9,223** | 8,649 |
| Accrued expenses (a) | **13,740** | 5,998 |
| Other payables (b) | **6,288** | 7,962 |
| Due to related parties | **—** | 1,004 |
| | **29,251** | 23,613 |

(a) Accrued expenses mainly represent accrued sales commission fees payable to advertising agencies.

(b) Other payables mainly represent business tax and other levies payable.

## BUSINESS OUTLOOK

The internet industry has shown tremendous growth in 2007. According to China Internet Network Information Center ("CNNIC"), the number of internet users in China increased by 53% to reach 210 million in 2007, trailing only that of the US, which has 215 million internet users. This high growth rate in internet users in 2007 was especially impressive considering the high base and growth rate of 23% established in 2006. With the increased user base established in 2006, one might conclude that the growth rate would decelerate. Instead, the growth rate accelerated in 2007 and this leads us to believe that the internet use in China has reached a fast expansion phase.

Historically, the cost of accessing the internet, such as cost of purchasing a computer and broadband cost, has prohibited the growth potential of internet usage. With the economic expansion of China in recent years, and with GDP growth in excess of 10% from 2004 on, the disposable income of Chinese consumers has steadily improved. This has allowed internet to become more accessible to the general mass. According to CNNIC, among the new internet users in 2007, about 40% come from the rural areas. This demonstrates that internet is no longer limited to the Chinese consumers in the coastal areas. In addition, the broadband penetration increased from 64% in 2006 to 78% in 2007, and internet penetration rate has increased dramatically from 10.5% in 2006 to 16% in 2007. Despite its fast growth, the current internet penetration in China still lags behind world average of 19.1%. This demonstrates the potential for growth of internet usage in China.

Against this backdrop, 2007 was a year of solid growth for the Company. We increased our advertising revenue by 38% from RMB171.0 million for the year ended 31 December 2006 to RMB236.8 million for the year ended 31 December 2007. We continued to extend our leadership position both in the IT and auto category. According to iResearch, IT and auto are the two leading industries in terms of internet advertising. Our younger portals, such as PCgames and PClady, experienced tremendous growth both in terms of revenue and viewership. PCkids, which we launched in October of 2007, also showed early promise.

Revenue for PConline, the Group's IT portal, increased by 22% from RMB131.3 million for the year ended 31 December 2006 to RMB159.7 million for the year ended 31 December 2007. The market competition for IT/consumer electronics products is intense and product cycles are shortened to capture the fast changing needs of consumers. This competition among the brand manufacturers benefits leading media companies like us as the brand manufacturers advertise to build brand awareness and promote their products. In addition, our specialized and tailored content attracts the type of targeted customers that these IT/consumer electronics brand manufacturers crave. To broaden our reach, we extended our city coverage to 16 with the addition of Fujian, Xian, Liaoning, Hunan and Wuhan in 2007 to capture the increasingly affluent Chinese consumers in these areas.

Revenue for PCauto, the Group's automobile portal, increased by 102% from RMB33.5 million for the year ended 31 December 2006 to RMB67.7 million for the year ended 31 December 2007. China has become an increasingly important source of revenue for both domestic and multi-national automobile manufacturers. In 2007, the sale of automobiles in China increased in excess of 20%. With the automobile market growing rapidly in China and competition intensifying, it is becoming increasingly important for the automobile makers to advertise and promote their products. According to iResearch, automobile has become the largest internet advertiser by industry. We are able to leverage PCauto's leading position and capitalize on this increase in internet advertising spending. To broaden our reach, we extended our city coverage to 14 with the additions of Jiangsu, Wuhan, Chongqing, Henan and Sichuan in 2007 to capture the increasingly affluent Chinese consumers in these areas.

Our younger portals, such as PCgames, PClady, and PCkids, also experienced tremendous growth. All reached record traffic in 2007 and, correspondingly, revenue more than doubled from 2006 level. Even though overall contribution has been minimal given their small base, we are optimistic our younger portals can continue to sustain its growth and become our growth engine in the future.

Our IPO at the end of 2007 has raised our profile both with the internet viewers and advertising customers. In addition, being listed enables us to use equity-based compensation to attract and retain talented staff. To remain competitive, we will continue to invest in research and development, as well as to strengthen our editorial content and to improve our products and features to meet the fast changing needs of our viewers. Concurrently, we will aggressively look for acquisition targets that offer synergy with our operation and complement our portfolio. We will pay particular attention to valuation as well as our ability to integrate the personnel into our operation.

All of our IPO proceeds are held in deposits denominated in HK$ as at 31 December 2007. As RMB is not a freely exchangeable currency, we can not directly convert a significant amount of our proceeds into RMB. As a result, we will experience a foreign currency exchange loss in the event that RMB appreciates against the HK$. For the year ended 31 December 2007, we suffered a foreign currency exchange loss of RMB8.2 million due to appreciation of RMB against Hong Kong dollar. While we still topped our profit forecast stated in the Prospectus, our operating results would have far exceeded our target without this finance charge that we have limited influence upon. As at 31 December 2007, we had not utilized any proceeds from IPO.

The Board has recommended the payment of a dividend of RMB70,965,000, equivalent to RMB7.47 cents per share and a payout ratio of 78%. With our recent IPO at the end of December and our continued expansion of business, the Group has enough resources to pursue business and acquisition opportunities. Future dividend payout, however, will depend on factors such as our future earnings, financial condition, cash requirement and availability. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Looking ahead to 2008, with the increase of internet users in China as well as the acceptance of the internet as an effective advertising platform, we believe the general market conditions will be favorable for the further development of internet advertising. As a recognized leader, we are well positioned to capitalize on the opportunities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue and Segment Information

The Group is principally engaged in one business segment, the provision of internet advertising services for different commodities. All of the Group's revenue are made to customers in the PRC. Therefore, no business segment or geographical segment is presented.

Revenue recognised during the year ended 31 December 2007 was as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| Internet advertising services | | |
| — for computer and other IT-related products | **159,731** | 131,316 |
| — for automobile products | **67,681** | 33,526 |
| — for other products | **9,418** | 4,829 |
| | **236,830** | 169,671 |
| Network service income | **—** | 1,302 |
| | **236,830** | 170,973 |

### Revenue

Revenue increased by 38% from RMB171.0 million for the year ended 31 December 2006 to RMB236.8 million for the year ended 31 December 2007. Revenue for PConline, the Group's IT portal, increased by 22% from RMB131.3 million for the year ended 31 December 2006 to RMB159.7 million for the year ended 31 December 2007. Revenue for PCauto, the Group's automobile portal, increased by 102% from RMB33.5 million for the year ended 31 December 2006 to RMB67.7 million for the year ended 31 December 2007. Revenue for the Group's other operations, such as its game, lady, kids portal and others, increased by 95%. Revenue from PConline and PCauto accounted for 96% of total revenue. The increase in revenue reflects the growth in traffic and popularity of the Group's portals and advertisers' increasing acceptance of the internet as an effective platform to promote and market their products and image.

**Cost of Revenue**

Cost of Revenue increased by 43% from RMB46.2 million for the year ended 31 December 2006 to RMB66.1 million for the year ended 31 December 2007. The increase in Cost of Revenue can be attributed to increase in sales commission paid to advertising agencies as incentive to bring in larger advertising contracts. Staff cost also increased primarily due to headcount increase to meet business expansion. In addition, with the five portals gaining popularity among internet users, telecommunication expenses increased as the Group added bandwidth capacity and servers to meet the demand for higher traffic to the five portals.

**Selling and Marketing Costs**

Selling and Marketing Costs increased by 21% from RMB26.7 million for the year ended 31 December 2006 to RMB32.3 million for the year ended 31 December 2007. The increase can be primarily attributed to increase in staff cost for the sales department to accommodate a larger client base and to better serve our clients. Marketing and promotional expenses also increased to strengthen the brand aware of the five portals among internet users as well as brand advertisers.

**Administrative Expenses**

Administrative Expenses increased by 60% from RMB13.4 million for the year ended 31 December 2006 to RMB21.4 million for the year ended 31 December 2007. The increase can be primarily attributed to increase in staff cost for the technical department as additional staff are required to support the increasing complexity of the internet platform. In addition, several expense items were newly introduced in 2007, such as the pre-IPO share option scheme that was granted to the staff in middle of November 2007, and various additional costs associated with being a listed company.

**Product Development Expenses**

Product Development Expenses decreased by 22% from RMB3.7 million for the year ended 31 December 2006 to RMB2.9 million for the year ended 31 December 2007. The decrease can be primarily attributed to termination of consultancy fee paid to a related party in the second half of 2007. In addition, the staff cost of the software development team was quite stable.

**Finance Income and Costs**

The Group suffered a net finance loss of RMB5.7 million for the year ended 31 December 2007, compared with a net finance income of RMB1.1 million for the year ended 31 December 2006. The net finance loss can be primarily attributed to net foreign exchange of RMB8.2 million. The Group reports in RMB as its functional currency, however, the proceeds received from IPO was denominated in HK$. As RMB appreciates against HK$, the Group recorded a foreign exchange loss associated with the depreciation of its HK$ denominated IPO proceeds.

**Income Tax Expense**

Income Tax Expense increased by 18% from RMB14.8 million for the year ended 31 December 2006 to RMB17.4 million for the year ended 31 December 2007. The effective tax rate decreased from 18% for the year ended 31 December 2006 to 16% for the year ended 31 December 2007. The decrease in effective tax rate was primarily due to granting of HNTE preferential tax treatment to GDP Internet, one of our PRC subsidiaries. The HNTE status allows income tax to be treated at a statutory rate of 15%.

**Profit for the Year**

Profit for the Year increased by 35% from RMB67.2 million for the year ended 31 December 2006 to RMB91.0 million for the year ended 31 December 2007. The net margin was 39% for the year ended 31 December 2006 compared to 38% for the year ended 31 December 2007.

**Liquidity and Financial Resources**

As at 31 December 2007, we had the financial resources in the form of short term bank deposits and cash amounted to RMB639 million (2006: RMB121 million). A large portion of our financial assets are held in HK$ and we had no other interest-bearing borrowings as at 31 December 2007.

**Capital Expenditures**

In the year ended 31 December 2007, our capital expenditures consisted of additions to computers and servers, fixed assets and intangible assets amounted to RMB4.8 million. In the year ended 31 December 2006, our capital expenditures consisted of similar items amounted to RMB6 million.

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on 18 December 2007. The net proceeds from the Company's issue of new shares (after deducting the underwriting commission and estimated expenses payable by the Group in relation to the listing of the Company) amounted to approximately HK$586 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" contained in the Prospectus.

## OTHER INFORMATION

**Employee and Remuneration Policies**

As at 31 December 2007, the Group had 559 employees (2006: 447), increased by 25% over 2006. The increase in staff level represented the expansion of the Group's operations in 2007. 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 dividend of RMB7.47 cents per ordinary share for the year ended 31 December 2007 to shareholders whose names appear on the Company's Register of Members on Monday, 19 May 2008 (the "Proposed Final Dividend"). Subject to the approval of the Company's shareholders at the Company's forthcoming Annual General Meeting to be held on Monday, 19 May 2008, the Proposed Final Dividend will be paid to the Company's shareholders on or around 30 May 2008.

**Closure of Register of Members**

The Register of Members of the Company will be closed from Thursday, 15 May 2008 to Monday, 19 May 2008 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend and for attending and voting at the forthcoming Annual General Meeting of the Company to be held on Monday, 19 May 2008, unregistered holders of shares of the Company should ensure that all transfers of shares accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 14 May 2008.

**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 period from the Listing Date to 31 December 2007.

**Audit Committee**

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2007.

**Remuneration Committee**

The Remuneration Committee of the Company consists of three independent non-executive directors of the Company. The primary duty is to determine the remuneration of directors and senior management of the Group according to the operating performance, financial position and business plan of the Group.

**Corporate Governance**

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of shareholders and enhancing corporate value. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), except for the following deviations:

*Code Provision A.2.1*
This code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, Mr Lam Wai Yan is both the Chairman and the Chief Executive Officer of the Company. As Mr Lam is a co-founder of the Group and has extensive experiences in the internet industry, the Board believes that it is in the best interest of the Group to have Mr Lam taking up both roles for continuous effective management and business development of the Group.

*Code Provision A.5.4*
This code provision stipulates that the Board should establish written guidelines on no less exacting terms than the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules for relevant employees, who are likely to be in possession of unpublished price-sensitive information of the Company and its securities, in respect of their dealings in the securities of the Company. To conform with the said code provision, the Company has adopted such written guidelines at its Board meeting held on 28 March 2008.

**Publication of the Results Announcement**

This annual results announcement is available for reviewing on the websites of SEHK at http://www.hkexnews.hk and the Company at http://corp.pconline.com.cn.

**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 shareholders for their continuous support in our Group.

On behalf of the Board
**Lam Wai Yan**
*Chairman*

Hong Kong, 28 March 2008

As at the date of this announcement, the directors of the Company are:

*Executive Directors:*
Mr Lam Wai Yan *(Chairman and Chief Executive Officer)*
Mr Ho Kam Wah
Mr Wang Da-Shin, Jeff
Ms Zhang Cong Min
Mr Tsung Shih Kin, Samuel

*Independent Non-executive Directors:*
Mr Tsui Yiu Wa, Alec
Mr Thaddeus Thomas Beczak
Mr Louie Ming