PConline.com.cn

Pacific Online Limited
太平洋網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

ANNUAL REPORT 2007

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wong Huk Yung, Hudson *(CPA)*

AUTHORISED REPRESENTATIVES

Mr. Wang Da-Shin, Jeff
Mr. Wong Huk Yung, Hudson *(CPA)*

COMPLIANCE ADVISER

Evolution Watterson Securities Limited

AUDIT COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Louie Ming

REMUNERATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Louie Ming

PRINCIPAL BANKERS

Wing Hang Bank
China Merchants Bank
China Construction Bank
BNP Paribas

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

11/F, Pacific Electronics & Technology Plaza
1–7 Shipai West Road
Tianhe
Guangzhou, 510630
PRC

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.pcgames.com.cn
www.pclady.com.cn
www.pckids.com.cn

WEBSITE ADDRESS

corp.pconline.com.cn

STOCK CODE

543

CHAIRMAN'S STATEMENT

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

CHAIRMAN'S STATEMENT

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.

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.

Lam Wai Yan
Chairman

Hong Kong, 28 March 2008

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 was 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 High/New Technology Enterprises ("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 RMB6.1 million.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS

Executive Directors

Lam Wai Yan ("**Mr. Lam**"), aged 56, is an executive director, the Chairman and the Chief Executive Officer of the Company and a director of certain subsidiaries of the Company. Besides, he is a director of Pac Tech Investment Co. Ltd., a substantial shareholder of the Company. Mr. Lam obtained a bachelor's degree in Science from the University of Texas, EL PASO, in 1975. He has extensive local and overseas general management experience and has more than 10 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 Credit Lyonnais Securities (Asia) Limited from 1990 to 1991. Mr. 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.

Ho Kam Wah ("**Mr. Ho**"), aged 56, is an executive director of the Company and a director of certain subsidiaries of the Company. Besides, he is a director 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 10 years in the IT industry.

Wang Da-Shin, Jeff ("**Mr. Wang**"), aged 34, is an executive director and the Chief Financial Officer 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 since 2005. He is currently a supervisor to the board of directors of United Microelectronics Corporation, which is listed on the New York Stock Exchange and on the Taiwan Stock Exchange.

Zhang Cong Min ("**Ms. Zhang**"), aged 40, is an executive director and the Chief Operating Officer of the Company. Ms. Zhang 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. She is also a standing member of the Political Consultation Committee of Tianhe District, Guangzhou (中國廣州天河區政治協商會議委員會) since September 2006. Ms. Zhang joined the Group in January 2003. Before Ms. Zhang joined the Group, she 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 10 years of experience in operation management and the IT industry. She has held various management positions in the Group.

Tsung Shih Kin, Samuel ("**Mr. Tsung**"), aged 57, is an executive director and the Chief Technical Officer of the Company. He joined the Group in 2003. Mr. Tsung obtained a bachelor's degree in Electrical Engineering from the University of Texas, Austin, in 1975. He has over 30 years of progressive IT industry experience in Canada, Hong Kong and China. Mr. Tsung is in charge of commercial application of information technology and development of Internet and e-commerce capabilities. Prior to joining the Group, Mr. Tsung held several key senior management positions in the IT service industry. He had worked in Canada for 18 years and served as a manager of application development for the Ministry of Agriculture & Food in Ontario, Canada until 1996.

Independent Non-Executive Director

Tsui Yiu Wa, Alec ("**Mr. Tsui**"), aged 58, is an independent non-executive director and the chairman of both the audit committee and remuneration 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 Institute since 1998.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Mr. Tsui has extensive experience over 10 years 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 Institute from 2001 to 2004. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. In addition, Mr. Tsui is currently an independent non-executive director of the following listed companies:

Name of listed companies

Industrial and Commercial Bank of China (Asia) Limited
Vertex Group Limited
China Chengtong Development Group Limited
COSCO International Holdings Limited
China Power International Development Limited
Synergis Holdings Limited
China BlueChemical Ltd.
Greentown China Holdings Limited
China Huiyuan Juice Group Limited
Melco PBL Entertainment (Macau) Limited
ATA Inc.

The above listed companies operate their businesses in different fields, including banking services, technology media and telecommunication, investment holdings, shipping, trading, construction & operation of power plant, property management services, nitrogenous fertilizer producers, property development, and developing and operating gaming casinos and entertainment resort facilities.

Thaddeus Thomas Beczak ("Mr. Beczak"), aged 57, is an independent non-executive director and a member of both the audit committee and remuneration 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 Services at Georgetown University. Mr. Beczak is currently the chairman of Latitude Capital Group. He is also involved as a non-executive director of a number of non-listed companies and an independent non-executive director of the following listed companies:

Name of listed companies

Arnhold Holdings Limited
Phoenix Satellite Television Holdings Limited
Advanced Semiconductor Manufacturing Corporation Limited
Nam Tai Electronic & Electrical Products Limited

From June 2004 until March 2008, Mr. Beczak was the Senior Advisor at Nomura International (Hong Kong) Limited and was also the chairman of Nomura Asia Holdings N.V. from April 2006 until March 2008. From November 1997 until December 2002, Mr. Beczak was the chairman of the Listing Committee of the Hong Kong Stock Exchange and a member of Board of Directors of the Hong Kong Stock Exchange from 1998 until 2001. He was a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong from 2001 until 2007 and was also a member of the Advisory Committee of the China Securities Regulatory Commission. 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 Group Limited and publisher of South China Morning Post Publishers Limited, deputy chairman of Shangri-La Asia Limited, deputy chairman of Kuok Philippines Properties, a director of China World Trade Center Limited and a director of Kerry Properties Limited. Prior to joining the

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Kerry Group, Mr. Beczak was the managing director 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. Beczak has over 20 years of experience in Asia.

Louie Ming ("Mr. Louie"), aged 61, is an independent non-executive director and a member of both the audit committee and remuneration committee of the Company. He joined the Group in November 2007. Mr. Louie graduated from Polytechnic University of New York (BSEE) and obtained a master's degree from Princeton University and a master's degree in Business Administration from Drexel University. He has been the managing director of Dynasty Capital Services LLC (Consulting) since January 2002 and is currently a director of Mindspeed Technologies Inc., a world leader in communications integrated circuits listed on NASDAQ. He co-founded and has served as the managing director of Mobile Radius, Inc., since March 2002. From October 2003 to May 2005, Mr. Louie served as the China president of GSM Association, whose members include more than 650 wireless communication operators (including Vodafone, China Mobile, NTT DoCoMo and T-mobile) and more than 200 manufacturers (such as Nokia, Siemens, Ericsson, Microsoft and Intel). As president, Mr. Louie reported to a global board of directors representing, among others, Hutchison Whampoa Group, T-Mobile and SingTel Mobile. During his presidency, Mr. Louie established the strategic alliance between previously conflicting standards involving WCDMA/GSM and TD-SCDMA, successfully coordinating the interests of the Asian, European and U.S. members. Mr. Louie also served as Qualcomm's president of greater China (world's largest mobile communications market) from May 2000 to October 2001 and as vice president, business development of Globalstar Communications Limited from January 1989 to May 2000.

SENIOR MANAGEMENT

Lu Wu Qing ("Ms. Lu"), aged 39, is the 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 Zhongshan University (中山大學) in 1990.

Wong Huk Yung Hudson ("Mr. Wong"), aged 42, is the company secretary, qualified accountant 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.

Fan Zeng Chun ("Ms. Fan"), aged 37, is the accounting director of the Group and 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 (浙江冶金經濟專科學校) with a Certificate of Industrial Economics (經濟系工業經濟專業專科).

Yip Wing Kong Oliver ("Mr. Yip"), aged 33, is technology development director and joined the Group in 2003. Mr. Yip is a Sun Certified Enterprise Architect. He has more than 10 years of experience in IT and Internet services. Mr. Yip is responsible for strategic planning and development of website system architecture. Prior to joining the Group, Mr. Yip held key technical positions in a Hong Kong based IT service company and an online brokerage company. Mr. Yip was a senior software engineer at Lotus Development Corporation in the United States for three years until 1999. Mr. Yip graduated from the Massachusetts Institute of Technology with a bachelor's degree in Electrical Engineering and Computer Science in 1996 and a master's degree in Electrical Engineering and Computer Science in 1996.

DIRECTORS' REPORT

The board of directors (the "Board") is pleased to present their annual report and the audited consolidated financial statements of Pacific Online Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2007.

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 of Hong Kong Limited (the "Stock Exchange") since 18 December 2007 (the "Listing Date"). 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 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30.

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 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.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and assets less liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the Prospectus, is set out on page 72 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 7 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year set out in note 14 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	50,000,000 shares and no further option could be granted under the Pre-IPO Share Option Plan.	95,000,000 shares, being 10% of the issued share capital as at the date of this annual report.

DIRECTORS' REPORT

<table>
<tr><th></th><th>Details</th><th>Pre-IPO Share Option Plan</th><th>Post-IPO Share Option Plan</th></tr>
<tr><td>4.</td><td>Maximum entitlement of each participant</td><td>Determined by the Board.</td><td>Where any grant or further grant of options to a participant would each participant result in the total number of shares issued and to be issued upon exercise of all the options 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 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 HK$5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.</td></tr>
<tr><td>5.</td><td>Period within which the securities must be taken up under an option</td><td>An option may be exercised during a period to be determined and notified by the directors 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.</td><td>An option may be exercised at any time during a period to be determined and notified by the directors 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.</td></tr>
<tr><td>6.</td><td>Minimum period for which an option must be held before it can be exercised</td><td>The minimum period for which an option granted must be held before it can be exercised is as follow:-<table><tr><th>Minimum Period</th><th>Number of options exercisable</th></tr><tr><td>24 months from the date of grant</td><td>1st phase options, being one-third of the total number of options granted</td></tr><tr><td>36 months from the date of grant</td><td>2nd phase options, being a further one-third of the total number of options granted</td></tr><tr><td>48 months from the date of grant</td><td>3rd phase options, being a further one-third of the total number of options granted</td></tr></table></td><td>There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.</td></tr>
</table>

DIRECTORS' REPORT

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
7.	Acceptance of offer	Options granted must be taken up within 14 days of the date of offer, upon payment of HK$1 per grant.	Options granted must be taken up within 28 days of the date of offer, upon payment of HK$1 per grant.
8.	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 immediately preceding the date of offer of the grant of options; and (iii) the nominal value of an ordinary share.
9.	Remaining life of the scheme	Expired on the date prior to the bulk printing of the Prospectus.	It will remain in force for a period of 10 years, commencing on 23 November 2007.

Movements of the Share Options Schemes of the Company are as follows:-

(a) Pre-IPO Share Option Plan

				Number of share options			
Category	Date of grant	Exercise period*	Exercise price HK$	As at 1 January 2007	Granted during the year	Exercised/lapsed/ cancelled during the year	As at 31 December 2007
Director							
Ms. Zhong Cong Min	23 November 2007	23 November 2009 to 22 November 2017	1.52	–	5,292,000	–	5,292,000
	23 November 2007	23 November 2010 to 22 November 2017	1.97	–	5,292,000	–	5,292,000
	23 November 2007	23 November 2011 to 22 November 2017	2.27	–	5,292,000	–	5,292,000
				–	15,876,000	–	15,876,000
Mr. Tsung Shih Kin, Samuel	23 November 2007	23 November 2009 to 22 November 2017	1.52	–	1,004,333	–	1,004,333
	23 November 2007	23 November 2010 to 22 November 2017	1.97	–	1,004,333	–	1,004,333
	23 November 2007	23 November 2011 to 22 November 2017	2.27	–	1,004,334	–	1,004,334
				–	3,013,000	–	3,013,000
				—	18,889,000	—	18,889,000
Employees	23 November 2007	23 November 2009 to 22 November 2017	1.52	–	10,346,641	–	10,346,641
	23 November 2007	23 November 2010 to 22 November 2017	1.97	–	10,346,641	–	10,346,641
	23 November 2007	23 November 2011 to 22 November 2017	2.27	–	10,346,718	–	10,346,718
				–	31,040,000	–	31,040,000
Total				–	49,929,000	–	49,929,000

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

DIRECTORS' REPORT

(b) Post-IPO Share Option Plan

Since the adoption of the Post-IPO Share Option Plan and up to 31 December 2007, no options had been granted.

Further details of share options of the Company are set out in note 15 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 period from the Listing Date to 31 December 2007.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 15 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB629.1 million as at 31 December 2007.

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 22% of the total sales for the year and sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 71% of the total purchases for the year and purchase from the largest supplier included therein amounted to 33%.

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

EMPLOYEE AND REMUNERATION POLICIES

As at 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 operation in 2007. The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company as at the date of this report were as follows:

Executive Directors:	
Mr. Lam Wai Yan	
(Chairman and Chief Executive Officer)	(appointed on 27 August 2007)
Mr. Ho Kam Wah	(appointed on 28 August 2007)
Mr. Wang Da-Shin, Jeff	(appointed on 28 August 2007)
Ms. Zhang Cong Min	(appointed on 28 August 2007)
Mr. Tsung Shih Kin, Samuel	(appointed on 28 August 2007)
Independent Non-executive Directors:	
Mr. Tsui Yiu Wa, Alec	(appointed on 23 November 2007)
Mr. Thaddeus Thomas Beczak	(appointed on 23 November 2007)
Mr. Louie Ming	(appointed on 23 November 2007)

In accordance with Article 86(3) of the Company's articles of association, all the existing directors of the Company will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Louie Ming pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers the independent non-executive directors to be independent as at the date of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company entered into a service agreement with the Company on 23 November 2007 for an initial term of three years commencing from the Listing Date unless and until terminated by either party giving to the other not less than three months' prior notice in writing. The Company has issued a letter of appointment to each of independent non-executive directors of the Company for a term of three years commencing from 23 November 2007.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming Annual General Meeting of the Company 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 CONTRACTS

No contract of significance in relation to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2007, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

DIRECTORS' REPORT

(1) Interests in shares of the Company

Name of director	Long/Short position	Capacity	Number of shares	Percentage of the Company's issued share capital
Mr. Lam Wai Yan	Long	Interests held by a controlled corporation	256,576,000 (Note 1)	27.01%
Mr. Ho Kam Wah	Long	Interests held by a controlled corporation	86,016,000 (Note 2)	9.05%

Notes:

(1) These shares were beneficially owned by Pac Tech Investment Co. Ltd., a controlled corporation of Mr. Lam Wai Yan.

(2) These shares were beneficially owned by Treasure Field Holdings Limited, the entire issued share capital of which was owned as to 80% by Mr. Ho Kam Wah and 20% by his spouse, Ms. Yeung Yuk Chun.

(2) Interests in shares of associated corporation — GZ Yingxin Computer Technology Exchange Co., Ltd. ("GZ Yingxin")

Name of director	Long/Short position	Capacity	Number of shares in GZ Yingxin	Percentage of GZ Yingxin's issued share capital
Ms. Zhang Cong Min	Long	Beneficial owner	2,280,000	40%

(3) Interests in underlying shares of the Company — physically settled unlisted equity derivatives

Name of director	Long/Short position	Capacity	Number of underlying shares in respect the share options granted	Percentage of the underlying shares over the Company's issued share capital
Ms. Zhang Cong Min	Long	Beneficial owner	15,876,000	1.67%
Mr. Tsung Shih Kin, Samuel	Long	Beneficial owner	3,013,000	0.32%

Note: Details of the above share options as required by the Listing Rules have been disclosed in above section headed "Share Option Schemes" and note 15 to the consolidated financial statements.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2007, 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; nor had there been any grant or exercise of rights during the year ended 31 December 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 15 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 2007, 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	Percentage of the Company's issued share capital
Pac Tech Investment Co. Ltd.	Long	Beneficial owner	256,576,000 (Note 1)	27.01%
Ms. Ma Muk Lan	Long	Interests of spouse	256,576,000 (Note 2)	27.01%
Gallop Assets Management Limited	Long	Beneficial owner	225,024,000 (Note 3)	23.69%
Mr. Wang Ko Chiang	Long	Interests held by a controlled corporation	225,024,000 (Note 3)	23.69%
Mrs. Wang Tang Shi Ming	Long	Interests of spouse	225,024,000 (Note 4)	23.69%
Treasure Field Holdings Limited	Long	Beneficial owner	86,016,000 (Note 5)	9.05%
Ms. Yeung Yuk Chun	Long	Interests of spouse	86,016,000 (Note 6)	9.05%
BNP Paribas S.A.	Long	Interests of controlled corporations	85,500,000 (Note 7)	9.00%

Notes:

(1) The interests of Pac Tech Investment Co. Ltd. was also disclosed as the interests of Mr. Lam Wai Yan in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporation". Pursuant to the stock borrowing agreement as detailed in the Prospectus, an aggregate of 42,750,000 shares of the Company were lent by Pac Tech Investment Co. Ltd..

(2) Ms. Ma Muk Lan was deemed to be interested in 256,576,000 shares of the Company through the interests of her spouse, Mr. Lam Wai Yan.

(3) These shares were beneficially owned by Gallop Assets Management Limited, a controlled corporation of Mr. Wang Ko Chiang.

DIRECTORS' REPORT

(4) Mrs. Wang Tang Shi Ming was deemed to be interested in 225,024,000 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 corporation".

(6) Ms. Yeung Yuk Chun was deemed to be interested in 86,016,000 shares of the Company through the interests of her spouse, Mr. Ho Kam Wah.

(7) These shares were held through the wholly controlled corporations of BNP Paribas S.A.. Out of these shares, 42,750,000 shares related to derivative interests of the Company.

Save as disclosed above, as at 31 December 2007, no person, other than the directors who interests are set out in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporation", 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 under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2007, 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

Save as disclosed in note 30 to the consolidated financial statements, during the year under review, the Group also had continuing connected transactions in the form of structure contracts (the "Structure Contracts Transactions").

The Group conducts its online advertising business through GZ Yingxin and Guangdong Pacific Internet Information Service Co., Ltd. ("GDP Internet") under the structure contracts entered into with the Company's wholly-owned subsidiary, Guangzhou Pacific Computer Information Consulting Co., Ltd. Ms. Zhang Cong Min, an executive director of the Company, holds a 40% equity interest in GZ Yingxin. As such, GZ Yingxin is an associate of Ms. Zhang under the Listing Rules and therefore a connected person of the Company. The structure contracts are fundamental to the Group's legal structure and business operations. The Directors believe that the nature of the Group structure whereby the Group's financial results of GZ Yingxin and GDP Internet are consolidated with the Group's financial statements as if they were subsidiaries of the Company and the economic benefits of their business flow to the Company. The transactions (technical support and information consulting) under structure contracts carried out during the year ended 31 December 2007 was approximately RMB25,083,000 and the amounts have been eliminated in the consolidated financial statements of the Company and its subsidiaries.

DIRECTORS' REPORT

The independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2007 and confirmed as follows:

(I) The continuing transactions as disclosed in note 30 to the consolidated financial statements (the "Transactions") 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; 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 and its shareholders as a whole.

(II) The Structure Contracts 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 no dividends have been made by GZ Yingxin to the GZ Yingxin's shareholders; and any new structural contractual arrangements entered into, renewed and/or "cloned" during the year ended 31 December 2007 are fair and reasonable so far as the Company is concerned and in the interests of the Company and its shareholders as a whole.

We have also engaged the Company's auditor to perform certain fact finding procedures on the Transactions and the Structure Contracts Transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported its factual findings on the selected samples based on the agreed upon procedures to the Board.

The auditor has reported to the Board that:

a) The Transactions have been approved by the Board;

b) The Transactions and the Structure Contracts Transactions have been entered into in accordance with the relevant agreements governing such transactions;

c) The amounts of the Transactions have not exceeded the relevant caps; and

d) No dividends or other distributions had been made by GZ Yingxin to its legal equity owners during the year ended 31 December 2007.

AUDITOR

A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Messrs. PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
Lam Wai Yan
CHAIRMAN

28 March 2008

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES

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 Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") sets out the principles of good corporate governance and two levels of corporate governance practices, being (i) the code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and (ii) the recommended best practices, for guidance only, which listed issuers are encouraged to comply with.

The Company has complied with the code provisions set out in the CG Code throughout the period from the date of listing of the Company's shares on the Stock Exchange on 18 December 2007 (the "**Listing Date**") to 31 December 2007 save for (i) the Code Provision A.2.1 which requires that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual; and (ii) the Code Provision A.5.4 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 (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Code Provision A.5.4 has subsequently been complied with by the Company. The details of the above deviation and subsequent compliance are explained below.

To comply with the increasingly tightened regulatory requirements, the Company will review its corporate governance practices from time to time in order to meet the rising expectations of shareholders and investors. The key corporate governance principles and practices of the Company are summarized as follows:

A. BOARD OF DIRECTORS

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors take decisions objectively in the interests of the Company.

The day-to-day management, administration and operations of the Group are delegated to the Executive Committee and senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Every director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

CORPORATE GOVERNANCE REPORT

(2) Board Composition

The Board comprises the following directors:

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 *(Chairman of the Audit Committee and the Remuneration Committee)*
Mr. Thaddeus Thomas Beczak *(Member of the Audit Committee and the Remuneration Committee)*
Mr. Louie Ming *(Member of the Audit Committee and the Remuneration Committee)*

None of the members of the Board is related to one another.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Coming from diverse business and professional backgrounds, the Board members possess a balance of skills and expertise appropriate for the requirements of the business 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 Profile" in this annual report.

During the period from the Listing Date to 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one independent non-executive director, being Mr. Tsui Yiu Wa, Alec, possessing appropriate professional qualifications and accounting and related financial management expertise.

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.

The independent non-executive director brings a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

(3) Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Lam Wai Yan is both the Chairman and 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.

CORPORATE GOVERNANCE REPORT

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.

(4) Appointment and Re-election of Directors

Each of the executive directors of the Company is engaged on a service contract with the Company for a term of 3 years which will continue unless and until terminated by either party by not less than 3 months' written notice. Each of the independent non-executive directors of the Company is appointed for a term of 3 years.

In accordance with the articles of association of the Company, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment, and any new director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall submit himself/herself for re-election by shareholders.

Pursuant to the aforesaid, Mr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Da-Shin, Jeff, Ms. Zhang Cong Min, Mr. Tsung Shih Kin, Samuel, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Louie Ming, having been appointed as directors of the Company during the year, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board recommended the re-appointment of these eight retiring directors standing for re-election at the forthcoming annual general meeting. The Company's circular, sent together with this annual report, contains detailed information of such directors.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment, re-appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Company has adopted Directors' Nomination Procedures as a written guideline in providing a formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Up to the date of this annual report, the Board met once, with the presence of Mr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Da-Shin, Jeff, Ms. Zhong Cong Min, Mr. Tsung Shih Kin, Samuel, Mr. Tsui Yiu Wa, Alec and Mr. Louie Ming, for (i) reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Company; (ii) recommending the re-appointment of the retiring directors at the forthcoming annual general meeting of the Company; and (iii) assessment of the independence of the independent non-executive directors of the Company.

CORPORATE GOVERNANCE REPORT

(5) Induction and Continuing Development for Directors

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

Continuing briefings and professional development to directors will be arranged whenever necessary.

(6) Board Meetings

Draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Chief Financial Officer, Qualified Accountant and Company Secretary normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's articles of association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

No Board meeting was held during the period from the Listing Date to 31 December 2007. Board meetings for year 2008 have been scheduled to take place at least four times at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board shall meet more frequently as and when required.

(7) Model Code for Securities Transactions

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the period from the Listing Date to 31 December 2007.

CORPORATE GOVERNANCE REPORT

Code provision A.5.4 of the CG Code stipulates that the Board should establish written guidelines on no less exacting terms than the Model Code 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 aforesaid code provision, the Company has adopted such written guidelines at its Board meeting held on 28 March 2008.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In order to increase the efficiency for the business decision, the Board established an Executive Committee with written terms of reference. The Executive Committee comprises all the executive directors of the Company. The principal duties of the Executive Committee include monitoring the execution of the Company's strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the day-to-day management and operations of the Company.

The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

The Board has the full support of the senior management to discharge its responsibilities.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out in note 21 to the consolidated financial statements.

Remuneration Committee

The Company established its Remuneration Committee with written terms of reference. The Remuneration Committee comprises 3 independent non-executive directors, namely Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Louie Ming.

The duties of the Remuneration Committee are mainly to (i) make recommendations to directors on the policy and structure of all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determine the terms of the specific remuneration packages of the executive directors and the senior management; and (iii) review and approve the performance-based remuneration tied to corporate goals and objectives achieved by the directors from time to time.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and senior managements and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

Up to the date of this annual report, the Remuneration Committee met once, with the presence of Mr. Tsui Yiu Wa, Alec and Mr. Louie Ming, for reviewing the remuneration packages of the directors of the Company.

D. ACCOUNTABILITY AND AUDIT

(1) Directors' Responsibilities for Financial Reporting

The directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put 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.

(2) Internal Controls

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year under review, the Board, with the support of the Audit Committee, has reviewed the effectiveness of the internal control system of the Group. The Board will continue to review and evaluate the control process, identify and manage potential risks on a regular basis and consider measures to address the identified risks.

(3) Audit Committee

The Company established an Audit Committee with written terms of reference. The Audit Committee comprises three independent non-executive directors, namely Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Louie Ming, with one independent non-executive director (Mr. Tsui Yiu Wa, Alec) possessing the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

CORPORATE GOVERNANCE REPORT

The duties of the Audit Committee are mainly to (i) review the material investment, capital operation and material financial systems of the Group; (ii) review the accounting policy, financial position and financial reporting procedures of the Group; (iii) communicate with external auditors; (iv) assess the performance of internal financial and audit personnel; and (v) assess the internal control of the Group.

During the period from the Listing Date to the date of this annual report, the Audit Committee met once, with the presence of Mr. Tsui Yiu Wa, Alec, Mr. Thaddens Thomas Beczak and Mr. Louie Ming, for reviewing the Group's annual results and annual report for the year ended 31 December 2007, the financial reporting and compliance procedures and the Company's internal control matters and considering the re-appointment of the external auditor. The external auditor was invited to attend to the above meeting to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

(4) External Auditor and Auditors' Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out under "Independent Auditor's Report" in this annual report.

The remuneration paid to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to RMB2,650,000 and RMB400,000 respectively.

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company 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 corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective Committees, are available to answer questions at the shareholders' meeting.

As a channel to promote effective communication, the Group maintains a website at "http://corp.pconline.com.cn" where information on the Company's announcements, business developments and operations, financial information and other information are posted. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

F. SHAREHOLDERS' RIGHT

To safeguard the shareholders' interests and rights, separate resolutions will be proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the articles of association of the Company. Details of such rights to demand a poll will be included in all circulars to shareholders and will be explained during the proceedings of meetings.

Where poll voting is conducted at a shareholders' meeting, the poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF PACIFIC ONLINE LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Pacific Online Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 71, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2008

CONSOLIDATED BALANCE SHEET

	Note	31 December 2007 RMB'000	31 December 2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**11,350**	10,982
Intangible assets	8	**1,585**	1,299
Investment in an associated company	10	**—**	—
Deferred income tax assets	11	**2,668**	2,723
		15,603	15,004
Current assets			
Trade and other receivables	12	**77,701**	38,155
Short-term bank deposits with original terms of over three months	13	**18,000**	7,500
Cash and cash equivalents	13	**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	14	**8,986**	9
Reserves	15	**565,227**	18,535
Retained earnings	16		
— Proposed final dividends	24	**70,965**	92,400
— Others		**20,003**	406
Total equity		**665,181**	111,350
Current liabilities			
Accruals and other payables	17	**29,251**	23,613
Prepaid advertising subscriptions from customers	18	**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

Lam Wai Yan
Director

Wang Da-Shin, Jeff
Director

The notes on pages 33 to 71 are an integral part of these consolidated financial statements.

BALANCE SHEET

	Note	31 December 2007 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	9	88,286
Current assets		
Trade and other receivables	12	25,799
Cash and cash equivalents	13	539,754
		565,553
Total assets		653,839
EQUITY		
Capital and reserves attributable to the equity holders of the Company		
Shares capital	14	8,986
Reserves	15	634,500
Retained earnings	16	
— Proposed final dividends	24	70,965
— Others		(76,370)
Total equity		638,081
Current liabilities		
Accruals and other payables	17	15,758
Total current liabilities		15,758
Total equity and liabilities		653,839
Net current assets		549,795
Total assets less current liabilities		638,081

Note: No 2006 comparative figures are available as the Company had not been incorporated as at 31 December 2006.

Lam Wai Yan
Director

Wang Da-Shin, Jeff
Director

The notes on pages 33 to 71 are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2007	2006
	Note	**RMB'000**	RMB'000
Revenue	6	**236,830**	170,973
Cost of revenue	19	**(66,110)**	(46,212)
Gross profit		**170,720**	124,761
Selling and marketing costs	19	**(32,256)**	(26,685)
Administrative expenses	19	**(21,362)**	(13,370)
Product development expenses	19	**(2,931)**	(3,742)
Operating profit		**114,171**	80,964
Finance income	22	**2,482**	1,071
Finance costs	22	**(8,197)**	—
Finance (costs)/income – net	22	**(5,715)**	1,071
Share of (loss)/profit of an associated company	10	**—**	—
Profit before income tax		**108,456**	82,035
Income tax expense	23	**(17,425)**	(14,836)
Profit for the year		**91,031**	67,199
Attributable to:			
Equity holders of the Company		**91,031**	67,199
Dividends	24	**70,965**	92,400
Earnings per share for profit attributable to the equity holders of the Company during the year			
— basic (RMB)	25	**11.86 cents**	8.84 cents
— diluted (RMB)	25	**11.83 cents**	8.84 cents

The notes on pages 33 to 71 are an integral part of these consolidated financial statements.

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
	Note	Note (14)	Note (15)	Note (16)	
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	24	—	—	(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	24	—	—	(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

The notes on pages 33 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
		2007	2006
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Net cash generated from operations	26	**93,419**	96,906
Income tax paid		**(16,740)**	(11,011)
Net cash generated from operating activities		**76,679**	85,895
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	29	**(599)**	—
Purchase of property, plant and equipment		**(3,546)**	(5,038)
Purchase of intangible assets		**(1,265)**	(1,046)
Increase in short-term bank deposits with original terms of over three months		**(10,500)**	(5,000)
Interest received		**2,482**	1,071
Disposal of subsidiaries	28	**(1,663)**	—
Net cash used in investing activities		**(15,091)**	(10,013)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**582,913**	—
Share issuance costs		**(38,633)**	—
Net proceeds from issuance of ordinary shares		**544,280**	—
Dividends paid		**(92,400)**	(32,274)
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	13	**113,437**	69,829
Exchange losses on cash and bank		**(5,848)**	—
Cash and cash equivalents at end of the year	13	**621,057**	113,437

The notes on pages 33 to 71 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION AND GROUP REORGANISATION

(a) General information

Pacific Online Limited (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. Pursuant to the Group reorganisation (the "Reorganisation") as set out in Note 1(c), the Company became the 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 address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, 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"). Details of the principal subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

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 of the Company on 28 March 2008.

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

The operations of Takehigh Industrial Limited ("Takehigh"), the Company's subsidiary, were initially conducted through Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦諮詢有限公司, "GZP Computer") a sino-foreign equity joint venture incorporated on 7 November 1997 which is controlled by Mr. Wang Ko Chiang, Mr. Lam Wai Yan and Mr. Ho Kam Wah, the substantial shareholders and founders of Takehigh (collectively, the "Controlling Shareholders"). In addition, certain subsidiary companies were also incorporated by Takehigh in Hong Kong and in the PRC from 2003 to year ended 31 December 2007. Please refer to Note 9 for details. Takehigh and its subsidiaries are collectively referred to as the "Takehigh Group".

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which include online advertising through the internet, as such 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 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.

— *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, 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") which were previously controlled by the Controlling Shareholders, were transferred to GZ Yingxin to the effect that GZ Yingxin became the holding company of GDP Internet while it in turn holds all the interests in GZP Advertising. Such transfer arrangements were completed in August 2007.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION AND GROUP REORGANISATION (Continued)

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

— *Structure Contracts arrangements made between GZ Yingxin and its subsidiaries*

In addition to GZ Yingxin, Structure Contracts have also been executed among GZP Computer of the Takehigh Group, GDP Internet and the 3 Registered Owners. Through these contractual arrangements, the decision-making rights and operating and financing activities of GZ Yingxin and GDP Internet are ultimately controlled by Takehigh. Takehigh and GZP Computer are also entitled to substantially all the operating profits and residual benefits generated by GZ Yingxin and GDP Internet 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 the Takehigh Group's 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 flow derived from the operations of GDP Internet 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.

(c) Group reorganisation

For the preparation of the listing of shares of the Company on SEHK, the following reorganisation was carried out:

(a) On 18 January 2007, Shanghai Huanyu Pacific Network and Technology Consulting Co., Ltd. (上海環宇太平洋網絡科技諮詢有限公司, "Shanghai Huanyu") was established as a limited company under the laws of the PRC. Upon its incorporation, the registered capital of Shanghai Huanyu was RMB1,000,000 which was owned as to 50% by Shanghai Pacific Electronic Consulting Co., Ltd. (上海太平洋電子諮詢有限公司, "SPE Consulting") and 50% by Shanghai Huanyu Pacific Digital Consulting Co., Ltd. (上海環宇太平洋數碼諮詢有限公司, "SHPD Consulting") respectively.

In January 2007, SPE Consulting and SHPD Consulting transferred their entire 100% equity interest in Shanghai Huanyu to GZ Yingxin at an aggregate consideration of RMB1,000,000.

In April 2007, GZ Yingxin transferred its 100% equity interest in Shanghai Huanyu to Shanghai Huanyu Pacific Digital Market Management Co., Ltd. ("SHPDM Management"), a related party, at a consideration of RMB1,000,000.

By a share transfer agreement dated 2 August 2007, GDP Internet acquired 100% equity interest in Shanghai Huanyu from SHPDM Management at a consideration of RMB1,000,000.

(b) By a share transfer agreement dated 13 August 2007, Takehigh acquired the remaining 1% equity interest in GZP Computer from GDP Internet at a consideration of RMB20,000. As a result, GZP Computer became a wholly-own subsidiary of Takehigh.

(c) In August 2006, GDP Internet transferred its 41% equity interest in GZP Advertising to GZP Computer at a consideration of RMB205,000. Thereafter, the registered capital of GZP Advertising was owned as to 90% by GZP Computer and 10% by GDP Internet, respectively.

By a share transfer agreement dated 13 August 2007, GZP Computer transferred its 90% equity interest in GZP Advertising to GDP Internet at a consideration of RMB450,000. As a result, GZP Advertising became a wholly-owned subsidiary of GDP Internet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION AND GROUP REORGANISATION (Continued)

(c) Group reorganisation (Continued)

(d) On 29 December 2006, Shanghai Pan-Pacific Information Technology Co., Ltd. (上海環宇太平洋信息科技有限公司, "Shanghai Pan-Pacific") was established as a limited company under the laws of the PRC. Upon its incorporation, the registered capital of Shanghai Pan-Pacific was US$140,000 (equivalent to approximately RMB1,050,000) which was owned as to 1% by Guangzhou Intellisoft Co., Ltd. (廣州英智軟件有限公司, "GZ Intellisoft") and 99% by E-perfect International Limited ("E-perfect"), respectively.

In January 2007, E-perfect transferred its 74% equity interest in Shanghai Pan-Pacific to GZ Intellisoft at a consideration of US$138,600 (equivalent to approximately RMB1,039,500), and as a result of this, Shanghai Pan-Pacific was owned as to 75% by GZ Intellisoft and 25% by E-perfect, respectively.

By a share transfer agreement dated 13 August 2007, E-perfect and GZ Intellisoft transferred their altogether 100% equity interest in Shanghai Pan-Pacific to Pacific E-Commerce Limited ("Pacific E-Commerce") at a total consideration of US$140,000 (approximately RMB1,050,000). As a result, Shanghai Pan-Pacific became a wholly-owned subsidiary of Pacific E-Commerce.

(e) In December 2006, GZP Computer transferred its 50% equity interest in GDP Internet to GZ Yingxin at a consideration of RMB11,000,000 and as a result of this, GDP Internet became a wholly owned subsidiary of GZ Yingxin.

(f) In December 2006, Guangzhou Inqi Electronics Technology Co., Ltd., Guangzhou Inzhuo Software Co., Ltd., Shanghai Yingyue Information Technology Consulting Co., Ltd., Shanghai Yingqi Information Technology Consulting Co., Ltd., Shanghai Yingming Information Technology Consulting Co., Ltd. Shanghai Intending Information Technology Consulting Co., Ltd. and Shanghai Yingkang Information Technology Consulting Co., Ltd. were set up by GZ Intellisoft, a wholly owned subsidiary of Great China Worldwide Technology Limited ("Great China"), and E-perfect. On 7 September 2007, Takehigh transferred its 100% equity interest in Great China and E-perfect respectively, together with their entire 100% interests in the above subsidiaries to Perfect Tone Limited ("Perfect Tone"), a related company, at a total consideration of HK$3,907,100 (approximately RMB3,711,500).

(g) On 7 September 2007, Takehigh transferred 14.29% equity interest in Pacific Digital (International) Limited ("Pacific Digital"), an associate, to Kexim Co., Ltd. ("Kexim"), a related company, in consideration of HK$35,018 (approximately RMB33,267).

(h) On 7 September 2007, Takehigh transferred 14.29% equity interest in Pacific Digital to South China Resources Development Consultants Limited ("South China"), a related company, at a consideration of HK$35,018 (approximately RMB33,267).

(i) On 7 September 2007, Takehigh transferred its 100% equity interest in Sunny Smart International Limited ("Sunny Smart") to Perfect Tone at a consideration of HK$2.

(j) On 9 January 2006, Mr. Lam Wai Yan and Mr. Ho Kam Wah transferred 100% equity interest in Pacific E-Commerce to Takehigh in consideration of HK$2. On 7 September 2007, Takehigh transferred its 100% equity interest in Pacific E-Commerce to the Company at a consideration of HK$2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION AND GROUP REORGANISATION (Continued)

(c) Group reorganisation (Continued)

(k) On 27 August 2007, the Company was incorporated with authorized share capital of HK$1,000,000,000 divided into 100,000,000,000 shares of HK$0.01 each, and one subscriber share of HK$0.01 each was issued and allotted.

On 27 August 2007, the one subscriber share of the Company was transferred to Pac Tech Investment Co., Ltd. ("Pac Tech"), a related company, at a consideration of HK$0.01.

On 28 August 2007, the Company issued and allotted 11,874 shares on a prorata basis to all then equity holders of Takehigh (taking account of one subscriber share already transferred to Pac Tech) in consideration of HK$0.01 per share issued and allotted.

On 12 November 2007, the Company, all then equity holders of Takehigh and Takehigh entered into a share swap agreement whereby all then equity holders of Takehigh transferred 100% equity interest in Takehigh to the Company in consideration and exchange of the Company issuing and allotting an aggregate 938,125 shares on a prorata basis to each of the said equity holders of Takehigh.

On 18 December 2007, the Company issued 190,000,000 shares of HK$0.01 each through the initial public offering of shares of the Company on the Main Board of SEHK (the "IPO") at HK$3.30 per share.

2. BASIS OF PRESENTATION

Application of merger accounting for common control combinations

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 "HKICPA").

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

The restructuring of the Group was accounted for with the basis set out above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. 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.

The preparation of the 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

(a) Standards, amendment and interpretations to existing standards 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 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; and

- 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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; and

- 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); and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The directors of the Company have concluded that it is appropriate to include GZ Yingxin and its two subsidiaries, including GDP Internet and GZP Advertising (collectively the "GZ Yingxin Group") in its consolidated financial statements, notwithstanding the lack of share ownership, because in substance the contractual arrangements described in Note 1(b) above give Takehigh control over GZ Yingxin and GDP Internet by way of controlling the operational and financial decisions of the GZ Yingxin Group.

Except for the Reorganisation as set out in Note 1(c), the purchase method of accounting is used to account for the acquisition of other subsidiaries of the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company 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 the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.6). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 CONSOLIDATION (Continued)

(b) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in the reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the consolidated income statements.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Foreign currency translation

(i) 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 Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currency translation (Continued)

(iii) 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 exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

3.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 income statement during the financial period in which they are incurred.

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

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 3.6).

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.

3.5 Intangible assets

Acquired computer software licenses 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 2 to 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Impairment of investments in subsidiaries, an associated company and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets 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 (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.7 Financial assets — trade and other receivables

The Group's financial assets comprise trade and other receivables.

Trade and other receivable are recognised initially at fair value, generally equivalent to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'administrative expenses'. When a trade receivable is non-recoverable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the consolidated income statement.

3.8 Cash and cash equivalents

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

3.9 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.

3.10 Accruals and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Current and deferred 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 location where the company and its subsidiaries and associated companies 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, an associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.12 Employee benefits

(i) *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.

(ii) *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Employee benefits (Continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

3.13 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. 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 specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. 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.

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

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3.14 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 income statement on a straight-line basis over the period of the lease.

3.15 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 equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign currency exchange 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, which is the Group's functional currency. As at 31 December 2007, the non-RMB assets of the Group are mainly cash proceeds from the listing of shares of the Company on SEHK in December 2007. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk. At 31 December 2007, the exchange rate of RMB to HK$ was 1:1.0679. If RMB had strengthened by 0.5% against the HK$ with all other variables held constant, post tax profit for the year would have been RMB2,878,000 (2006: RMB83,000) lower, mainly as a result of foreign exchange losses on HK$ denominated cash at bank and other receivables as at 31 December 2007.

(ii) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, short-term bank deposits with original terms of over three months and trade and other receivables represent the Group's maximum exposure in relation to financial assets. The Group has policies that limit the amount of credit exposure to any customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

(iii) Liquidity risk

The Group aims to finance its operations with its own capital and earnings and did not have any borrowings or credit facilities committed/utilised during the years ended 31 December 2007. Management considers that the Group does not have significant liquidity risk. As at the balance sheet date, the other payables of the Group were all due for settlement contractually within one year.

(b) Capital risk management

The Group regards the equity attributable to the Company's equity holders as its capital. The Group's objectives when managing capital are to finance its operations with its owned capital and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders.

Where the capital level exceeds the working capital requirement, the Group may adjust the amount of dividends payable to the shareholders of the Company in order to reduce the working capital level.

(c) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, bank deposits in approved financial institutions and trade and other receivables; and financial liabilities including other payables, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. 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 of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables 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 carrying value of trade and other receivables and impairment charges in the period in which such estimate has been changed.

(b) Recognition of deferred tax assets

Certain intragroup software sales are transacted within the Group and the related costs of self-developed software are eliminated upon consolidation. The costs of the self-developed software purchased by a subsidiary, GDP Internet, from other subsidiaries of the Group, GZ Intellisoft and GZP Computer, are amortised over their contracted useful lives (the "Amortisation") in its local statutory financial statements.

The Amortisation is treated as a deductible expense in ascertaining the assessable profits of GDP Internet for profits tax assessment in the PRC and a temporary difference between the accounting base at the Group level and the tax base at GDP Internet level originated. As a result, the Group has recognised deferred tax assets relating to such intragroup software sales. As at 31 December 2007, the carrying amount of the deferred tax assets was approximately RMB1,902,000 (2006: RMB2,129,000). The directors consider that there would be adequate taxable profits to be generated by GDP Internet in the future in order to utilise such tax benefits recognised.

6. 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 generated from customers in the PRC. Therefore, no business segment or geographical segment is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

7. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Computers and servers	Motor vehicles	Furniture, fittings and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006				
Cost	11,707	425	2,622	14,754
Accumulated depreciation	(5,002)	(120)	(1,219)	(6,341)
Net book amount	6,705	305	1,403	8,413
Year ended 31 December 2006				
Opening net book amount	6,705	305	1,403	8,413
Additions	4,255	—	783	5,038
Disposals	(8)	—	(19)	(27)
Depreciation (Note 19)	(1,936)	(77)	(429)	(2,442)
Closing net book amount	9,016	228	1,738	10,982
At 31 December 2006				
Cost	15,949	425	3,253	19,627
Accumulated depreciation	(6,933)	(197)	(1,515)	(8,645)
Net book amount	9,016	228	1,738	10,982
Year ended 31 December 2007				
Opening net book amount	9,016	228	1,738	10,982
Additions	2,594	—	952	3,546
Disposals	(19)	—	(132)	(151)
Depreciation (Note 19)	(2,483)	(69)	(475)	(3,027)
Closing net book amount	9,108	159	2,083	11,350
At 31 December 2007				
Cost	18,352	425	3,678	22,455
Accumulated depreciation	(9,244)	(266)	(1,595)	(11,105)
Net book amount	9,108	159	2,083	11,350

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

7. PROPERTY, PLANT AND EQUIPMENT — GROUP (Continued)

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

	2007 RMB'000	2006 RMB'000
Cost of revenue	2,515	2,013
Selling and marketing expenses	111	58
Administrative expenses	401	371
	3,027	2,442

8. INTANGIBLE ASSETS — GROUP

Intangible assets represent externally acquired computer software. Movements in intangible assets are as follows:

	2007 RMB'000	2006 RMB'000
Cost	6,927	5,898
Accumulated amortisation	(5,342)	(4,599)
Net book amount	1,585	1,299
Opening net book amount	1,299	1,022
Additions	1,265	1,046
Amortisation	(979)	(769)
Closing net book amount	1,585	1,299

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

	2007 RMB'000	2006 RMB'000
Cost of revenue	905	717
Selling and marketing expenses	57	43
Administrative expenses	17	9
	979	769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2007 RMB'000
Investments, at cost:	
Unlisted shares	88,286

The following is a list of the principal subsidiaries at 31 December 2007:

Name	Place and date of incorporation and kind of legal entity	Particulars of issued share capital or registered capital	Interest held	Principal activities and place of operation
Takehigh	Hong Kong, 27 May 1993, limited liability company	HK$11,875	*100%	Investment holding in Hong Kong
Pacific E-Commerce	Hong Kong, 10 October 2003, limited liability company	HK$2	*100%	Investment holding in Hong Kong
GZP Computer	The PRC, 7 November 1997, foreign investment enterprise	RMB2,000,000	100%	Information technology and software development and provision of computer information consultancy services in the PRC
GZ Yingxin (a)	The PRC, 25 November 2003, limited liability company	RMB5,700,000	100%	Provision of computer technology services in the PRC
GDP Internet (a)	The PRC, 27 November 2002, limited liability company	RMB5,500,000	100%	Provision of online advertising services in the PRC
GZP Advertising (a)	The PRC, 24 March 1998, limited liability company	RMB500,000	100%	Provision of advertising services in the PRC
Shanghai Pan-Pacific	The PRC, 29 December 2006, foreign investment enterprise	USD$140,000	100%	Not yet commence formal operations
Shanghai Huanyu (a)	The PRC,18 January 2007, limited liability company	RMB1,000,000	100%	E-commerce

* Shares held directly by the Company.

(a) GZ Yingxin, GDP Internet, GZP Advertising and Shanghai Huanyu (acquired by GDP Internet in August 2007) are non-legally owned subsidiaries. They are owned by three PRC citizens. The Group obtains control of GZ Yingxin and GDP Internet (which in turn holds 100% interest in GZP Advertising and Shanghai Huanyu) by way of certain contractual arrangements and are entitled to substantially all of the operating profits and residual benefits generated by GZ Yingxin, GDP Internet, GZP Advertising and Shanghai Huanyu (Note 1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. INVESTMENT IN AN ASSOCIATED COMPANY — GROUP

The Group previously held a 28.6% equity interest in an associated company, Pacific Digital, which was incorporated on 21 March 2003 in Hong Kong as a limited liability company. The principal activity of Pacific Digital was provision of management services to the office of the Group in Hong Kong. The cost of investment in this associated company was HK$2 as at 31 December 2006, and the share of losses of this associated company had been recognised to the extent of the investment cost of the Group.

The Group disposed of its interests in Pacific Digital on 7 September 2007 to Kexim and South China (Note 1(c)), both are related parties of the Group, at a cash consideration of HK$70,000, resulting in no substantial gains or losses.

11. DEFERRED INCOME TAX ASSETS — GROUP

	2007 RMB'000	2006 RMB'000
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	**548**	619
— Deferred tax asset to be recovered within 12 months	**2,120**	2,104
	2,668	2,723

The movements in deferred tax assets during the years are as follows:

	Deferred tax assets			
	Intra-group software sales (a)	**Provision for impairment of trade receivables**	**Provision for tax losses (b)**	**Total**
At 1 January 2006	2,131	350	—	2,481
Charged/(credited) to the income statement	(2)	244	—	242
At 31 December 2006	2,129	594	—	2,723
Charged/(credited) to the income statement	(227)	(75)	247	(55)
At 31 December 2007	1,902	519	247	2,668

(a) The deferred tax assets recognised relate to the temporary differences arising from certain intra-group software sales transactions (Note 5). The credits to the consolidated income statement represent originating temporary differences arising from these software sales while the charge to consolidated income statement represents the reversal of the temporary differences as a result of the amortisation of the costs of these related software.

(b) The Group had carry-forward tax losses of approximately RMB987,000 (2006: Nil) as at 31 December 2007. Deferred income tax assets arising from all tax losses had been recognised as at 31 December 2007 as the realisation of the related benefit through the future taxable profits is probable. These tax losses have expiry periods of 5 years.

At the respective balance sheet date, there were no material unprovided deferred income tax liabilities.

As mentioned in Note 23, the Enterprise Income Tax ("EIT') rate will be changed from 33% to 25% from 1 January 2008. The Group has already accounted for this change in future tax rate when determining the deferred tax assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. TRADE AND OTHER RECEIVABLES

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Trade receivables (a)	**51,739**	23,812	**—**
Less: provision for impairment of receivables	**(2,077)**	(2,377)	**—**
	49,662	21,435	**—**
Amount due from BNP Paribas Capital (Asia Pacific) Limited ("BNP Paribas Capital") (b)	**25,166**	—	**25,166**
Amount due from related parties ((c) and Note 30(d))	**242**	15,552	**—**
Other receivables (d)	**2,631**	1,168	**633**
	77,701	38,155	**25,799**
Denominated in			
— RMB	**52,535**	22,603	**633**
— HK$	**25,166**	15,552	**25,166**
	77,701	38,155	**25,799**

(a) Trade receivables — Group

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:

	Group	
	2007	2006
	RMB'000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables — Group (Continued)

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:

	Group	
	2007	2006
	RMB'000	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:

	Group	
	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:

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**2,377**	1,398
Provision for receivable impairment (Note 19)	**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. TRADE AND OTHER RECEIVABLES (Continued)

(b) Amount due from BNP Paribas Capital — Group and Company

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

(c) Amount due from related parties — Group

The outstanding balance as at 31 December 2006 mainly represented an amount due from a related party at approximately of RMB15,000,000 (Note 15(d)). The amount had been fully received by the Group during 2007.

(d) Other receivables — Group and Company

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

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

	Group		Company
	2007 RMB'000	2006 RMB'000	2007 RMB'000
Cash at bank and in hand	53,103	51,437	—
Short-term bank deposits	585,954	69,500	539,754
	639,057	120,937	539,754
Less: short-term bank deposits with original terms of over three months	(18,000)	(7,500)	—
Cash and cash equivalents	621,057	113,437	539,754

An analysis of the cash and cash equivalent balance as at 31 December 2007 denominated in RMB and HK$ is as follows:

	Group		Company
	2007 RMB'000	2006 RMB'000	2007 RMB'000
— RMB	88,350	119,406	—
— HK$	550,707	1,531	539,754
	639,057	120,937	539,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS WITH ORIGINAL TERMS OF OVER THREE MONTHS (Continued)

As at 31 December 2007, the maximum exposure of cash and cash equivalents and short-term bank deposits with original terms of over three months to credit risk of the Group and the Company was RMB638,834,000 (2006: RMB120,898,000) and RMB539,754,000, respectively.

The weighted average effective interest rate on short-term bank deposits with original terms of over three months of the Group was 3.54% as at 31 December 2007 (2006: 2.07%). The weighted average effective interest rate of the remaining short-term bank deposits of the Group was 3.35% as at 31 December 2007 (2006: 1.73%).

The table below shows the bank deposits balance of the major counterparties of the Group as at 31 December 2007.

	2007	2006
	RMB'000	RMB'000
Counterparties		
Listed banks		
— China Merchants Bank	**20,536**	43,545
— Bank of China	**33,195**	22,968
— China Construction Bank	**1,587**	2,613
— Wing Hang Bank	**10,953**	1,531
— BNP Paribas	**539,754**	—
— Industrial and Commercial Bank of China	**142**	56
Total listed banks	**606,167**	70,713
Non-listed banks		
— Guangzhou Commercial Bank	**31,230**	50,135
— Bank of Shanghai	**1,437**	50
Total non-listed banks	**32,667**	50,185
	638,834	120,898

The remaining balance of the cash and cash equivalents as at 31 December 2007 represents cash on hand (2006: same).

Management did not expect any losses from non-performance by these counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. SHARE CAPITAL

	Authorised share capital		
	Number of shares '000	HK$'000	RMB'000
Upon incorporation of the Company on 27 August 2007 and as at 31 December 2007 (a)	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares '000	HK$'000	RMB'000
Issued on 27 August 2007 (a)	—	—	—
Increase on 28 August 2007 (b)	12	—	—
Issue pursuant to the share swap agreement (c)	938	9	9
Issue of shares (d)	190,000	1,900	1,797
Capitalisation of share premium (e)	759,050	7,591	7,180
As at 31 December 2007	950,000	9,500	8,986

The following changes in the Company's authorised and issued share capital took place during the period from 27 August 2007 (date of incorporation) to 31 December 2007:

(a) Upon incorporation of the Company, its authorised share capital was HK$1,000,000,000 (approximately RMB969,200,000), divided into 100,000,000,000 shares of HK$0.01 each. On 27 August 2007, the Company issued one ordinary share of HK$0.01 credited as fully paid at par to the subscriber.

(b) On 27 August 2007, the subscriber share was transferred to Pac Tech in consideration of HK$0.01. On 28 August 2007, an aggregate of 11,874 shares were allotted and issued on a pro-rata basis in accordance with the portion of the then equity holders of Takehigh (taking account of the transfer of the subscriber share) to all then equity holders of Takehigh in consideration of HK$0.01 per each share.

(c) On 12 November 2007, the Company, all then equity holders of Takehigh and Takehigh entered into a share swap agreement, under which all then equity holders of Takehigh transferred their 100% equity interest in Takehigh to the Company in consideration and exchange of the Company issuing and allotting an aggregate 938,125 shares on a pro-rata basis in accordance with the portion of the then equity holders of Takehigh to each of the then equity holders of Takehigh, and as a result of which Takehigh became a wholly-owned subsidiary of the Company.

(d) On 18 December 2007, the Company issued 190,000,000 shares of HK$0.01 each through the IPO (the "New Issue") at a consideration of HK$3.30 per share, totalling approximately HK$627,000,000 (approximately RMB593,079,000). The share issue costs were approximately HK$41,000,000 (approximately RMB39,000,000).

(e) Immediately after the completion of the New Issue, share premium of HK$7,591,000 (approximately RMB7,180,000) was capitalised and applied in paying up in full at par 759,050,000 shares issued to the shareholders whose names were on the register of members of the Company on 23 November 2007.

As disclosed in Note 2, the consolidated financial statements have been prepared under the merger accounting method. Accordingly, the share capital of approximately RMB9,000 issued as described in note (c) above is deemed to have been in issue throughout the accounting periods presented in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RESERVES

Group

	Share premium RMB'000	Merger reserve RMB'000 note (a)	Share options reserves RMB'000 note (b)	Statutory reserve funds RMB'000 note (c)	Total RMB'000
Balance at 1 January 2006	—	4	—	531	535
Contribution by the then equity holder of a subsidiary (note (d))	15,000	—	—	—	15,000
Appropriations	—	—	—	3,000	3,000
Balance at 31 December 2006	15,000	4	—	3,531	18,535
Disposal of subsidiaries	—	—	—	(531)	(531)
Employee share option benefits	—	—	754	—	754
Issue of shares pursuant to the New Issue (Note 14(d))	591,282	—	—	—	591,282
Share issuance costs	(38,633)	—	—	—	(38,633)
Capitalisation of share premium	(7,180)	—	—	—	(7,180)
Appropriations	—	—	—	1,000	1,000
Balance at 31 December 2007	560,469	4	754	4,000	565,227

Company

	Share premium RMB'000	Share option reserves RMB'000 note (b)	Contributed surplus RMB'000 note (f)	Total RMB'000
Issue of share pursuant to the New Issue (Note 14(d))	591,282	—	—	591,282
Share issue costs	(38,633)	—	—	(38,633)
Capitalisation of share premium	(7,180)	—	—	(7,180)
Share option reserves	—	754	—	754
Effect of reorganisation	—	—	88,277	88,277
Balance at 31 December 2007	545,469	754	88,277	634,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RESERVES (Continued)

(a) Merger reserve

The difference between the nominal value of the share capital issued by the Company as described in Note 14 (c) and the nominal values of the share capital of Takehigh was recorded as merger reserve.

(b) Share options reserves

Pre-IPO Share Option Plan

On 23 November 2007, the Company granted share options to directors and selected employees under a Pre-IPO Share Option Plan, under which the option holders are entitled to acquire an aggregate of 49,929,000 shares of the Company. All the options under the Pre-IPO Share Option Plan will not be exercisable within the first 24 months after the date of grant. 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.

Options granted under the Pre-IPO Share Option Plan can only be exercised in the following manner:

	Exercise Period	**Subscription Price** HK$	**Share options outstanding (in thousands) as at 31 December 2007**
1st phase options	From 23 November 2009 to 22 November 2017	1.52	16,643
2nd phase options	From 23 November 2010 to 22 November 2017	1.97	16,643
3rd phase options	From 23 November 2011 to 22 November 2017	2.27	16,643
			49,929

During the year ended 31 December 2007, no share options were exercised, lapsed or cancelled by the directors or employees.

The fair value of options granted during the year determined using the Binomial valuation model was approximately RMB20 million. RMB754,000 had been taken to share option reserve as at 31 December 2007.

The significant inputs into the model were the expected Price to Earnings ratio of 20, at the grant date, the exercise price shown above, volatility of 43.01%, dividend yield of 2.5% and on annual risk-free interest rate of 4.489%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. See Note 20 for the total expense recognized in the consolidated income statement for share options granted to directors and employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RESERVES (Continued)

(b) Share options reserves (Continued)

Post IPO Share Option Plan (Continued)

Pursuant to a shareholders' resolution passed on 23 November 2007, the Company also adopted a Post IPO Share Option Plan (the "Scheme") for the primary purpose of providing incentives and/or reward to directors, employees, consultants and advisers of the Group (collectively referred as "Eligible Person"). Under the Scheme, the Board of Directors of the Company may grant options to Eligible Person to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to in aggregate exceed 95,000,000 shares of the Company, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which 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 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 or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable upon the grant of an option. 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 share for the five business dates immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Since the adoption of the Scheme and up to 31 December 2007, no options had been granted.

(c) Statutory reserve fund

The Company's subsidiaries in the PRC are required to transfer 10% of their profit after income tax as set out in their financial statements prepared based on PRC accounting standards and systems to the statutory surplus reserve until the balance reaches 50% of their respective registered capital, where further transfers will be at the discretion of directors of these companies. The statutory surplus reserve can only be used to make up prior year losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of their registered capital amount. As the statutory surplus reserves of certain PRC subsidiaries of the Company have reached 50% of these subsidiaries' respective registered capital, these subsidiaries did not transfer profit to the statutory surplus reserves in the year ended 31 December 2007.

(d) On 27 March 2006, Takehigh issued 375 shares with par value of HK$1 per share to Pac Tech, at a consideration of RMB15,000,000. The difference between the consideration received and the par value of those shares of approximately RMB15,000,000 was recorded as share premium of the Group. The amount had been fully settled during 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RESERVES (Continued)

(e) Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheet.

The consolidated balance sheet as at 31 December 2007:

	The Company RMB'000	The Subsidiaries RMB'000	Adjustment RMB'000 (Note)	Consolidated RMB'000
Investment in the Subsidiaries	88,286	—	(88,286)	—
Intra-group balances	(15,720)	15,720	—	—
Other assets	565,515	99,666	—	665,181
Net assets	638,081	115,386		665,181
Share capital	8,986	13	(13)	8,986
Share premium	545,469	15,000	—	560,469
Contributed surplus	88,277	—	(88,277)	—
Merger reserve	—	—	4	4
Statutory reserve	—	4,000	—	4,000
Share option reserves	754	—	—	754
Retained earnings	(5,405)	96,373	—	90,968
	638,081	115,386		665,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RESERVES (Continued)

(e) Accounting adjustments under common control combination (Continued)

The consolidated balance sheet as at 31 December 2006:

	The Company RMB'000	The Subsidiaries RMB'000	Adjustment RMB'000 (Note)	Consolidated RMB'000
Investment in the Subsidiaries	9	—	(9)	—
Other assets	—	111,350	—	111,350
Net assets	9	111,350		111,350
Share capital	9	13	(13)	9
Share premium	—	15,000	—	15,000
Merger reserve	—	—	4	4
Statutory reserve	—	3,531	—	3,531
Retained earnings	—	92,806	—	92,806
	9	111,350		111,350

Note: The adjustment is to eliminate the share capital of the combining entities against the investment cost. The difference of approximately RMB4,000 (2006: approximately RMB4,000) was captured in merger reserve in the consolidated financial statements.

No adjustments are required to be made to the net assets and net profit or loss of any entities or businesses under common control combination, because consistent accounting policies have been applied before and after the combination.

(f) The contributed surplus of the Company arose when the Company issued shares in exchange for the equity interests of subsidiaries being acquired in connection with the Reorganisation of the Group prior to its listing on the SEHK, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

16. RETAINED EARNINGS

	Group		Company
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**
At 1 January	**92,806**	60,881	**—**
Profit/(loss) for the year	**91,031**	67,199	**(5,405)**
Dividends paid by a subsidiary to its then equity holders	**(92,400)**	(32,274)	**—**
Disposal of subsidiaries	**531**	—	
Appropriations to reserves (Note 15(c))	**(1,000)**	(3,000)	**—**
At 31 December	**90,968**	92,806	**(5,405)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. ACCRUALS AND OTHER PAYABLES

	Group		Company
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Salary payables	**9,223**	8,649	**38**
Accrued expenses (a)	**13,740**	5,998	**—**
Other payables (b)	**6,288**	7,962	**—**
Amount due to subsidiaries (c)	**—**	—	**15,720**
Amount due to related parties (Note 30(d))	**—**	1,004	**—**
	29,251	23,613	**15,758**

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

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

(c) The amounts due to subsidiaries are unsecured, interest free and are repayable on demand.

18. PREPAID ADVERTISING SUBSCRIPTIONS FROM CUSTOMERS — GROUP

Prepaid advertising subscriptions from customers represent subscription fees paid by customers in advance for online advertising services not yet rendered by the Group as at 31 December 2007 (2006: same). Upon commencement of the delivery of services, the balances are then transferred to revenue based on the time period of the respective advertisement displayed by the Group.

19. EXPENSES BY NATURE

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

	2007	2006
	RMB'000	RMB'000
Employee benefit expenses (Note 20)	**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 (Notes 7 and 8)	**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 (Note 30(b)(ii))	**591**	1,221
Provision for impairment of receivables (Note 12)	**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. EMPLOYEE BENEFIT EXPENSES

	2007 **RMB'000**	2006 RMB'000
Wages, salaries and bonuses	**44,438**	35,234
Share options granted to directors and employees (Note 15 (b))	**754**	—
Social security contributions	**2,111**	1,124
Contributions to pension schemes (a)	**3,267**	3,007
Contributions to housing fund	**1,466**	1,225
	52,036	40,590

(a) Pensions scheme — defined contribution plans

The 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 10% to 22% of the basic salaries of employees during the year ended 31 December 2007.

The Group has arranged for its Hong Kong employees to join the 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 HK$1,000 per month and thereafter contributions are voluntary. For the year ended 31 December 2007, no contributions were forfeited.

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.

21. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of director	**Fees** RMB'000	**Salary** RMB'000	**Discretionary bonuses** RMB'000	**Other benefits and allowances** RMB'000	**Share options scheme** RMB'000	**Contributions to retirement scheme** RMB'000	**Total** RMB'000
Mr. Lam Wai Yan	—	—	—	—	—	—	—
Mr. Tsung Shih Kin Samuel	—	697	—	—	46	6	749
Mr. Wang Da-Shin Jeff	—	14	—	—	—	1	15
Mr. Ho Kam Wah	—	—	—	—	—	—	—
Ms. Zhang Cong Min	—	362	—	—	240	14	616
Mr. Tsui Yiu Wa Alec	12	—	—	—	—	—	12
Mr. Thaddeus Thomas Beczak	12	—	—	—	—	—	12
Mr. Louie Ming	12	—	—	—	—	—	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' emoluments (Continued)

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits and allowances	Share options scheme	Contributions to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lam Wai Yan	—	—	1,004	—	—	—	1,004
Mr. Tsung Shih Kin Samuel	—	370	—	—	—	—	370
Mr. Wang Da-Shin Jeff	—	—	—	—	—	—	—
Mr. Ho Kam Wah	—	—	—	—	—	—	—
Ms. Zhang Cong Min	—	—	—	—	—	—	—

(b) Five highest paid individuals

During the year ended 31 December 2007, the five individuals whose emoluments are the highest in the Group include two directors (2006: two), whose emoluments are reflected in note (a) above. The emoluments for the remaining individuals during the year ended 31 December 2007 are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,079	1,156
Share option schemes	42	—
Contributions to retirement schemes	17	12
	2,138	1,168

The emoluments payable to these individuals during the year ended 31 December 2007 and fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
RMB nil to RMB936,000 (equivalent to HK$1,000,000)	3	3

(c) During the year ended 31 December 2007, none (2006: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. FINANCE INCOME AND COSTS

	2007 RMB'000	2006 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
	2,482	1,071
Finance (costs)/income — net	**(5,715)**	1,071

23. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
PRC 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. GZP Computer was recognised as HNTE in 2006 and 2007, while 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 become 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 33% in the PRC as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax	**108,456**	82,035
Tax rate calculated at the statutory tax rate of 33%	**35,790**	27,072
Effect of tax concessions available to subsidiaries	**(19,879)**	(13,873)
Effect of the change in the tax rate	**823**	—
Effect of different tax rates applicable to subsidiaries in Hong Kong	**—**	475
Income not subject to tax	**(4,219)**	(43)
Expenses not deductible for tax purposes	**4,910**	653
Tax losses for which no deferred income tax asset was recognised	**—**	552
Tax charge	**17,425**	14,836

The weighted average applicable tax rate was 16% (2006: 18%). The decrease is caused by a change in the preferential applicable tax rate of the Group's subsidiaries.

24. 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 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. 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,

	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.

	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 share)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. CASH GENERATED FROM OPERATIONS

	2007 RMB'000	2006 RMB'000
Profit before income tax	108,456	82,035
Adjustments for:		
— financial costs/(income) — net	5,715	(1,071)
— depreciation (Note 7)	3,027	2,442
— loss on disposal of property, plant and equipment	151	27
— amortisation of intangible assets (Note 8)	979	769
— provision for impairment of receivables (Note 12)	417	979
— share-based payment	754	—
	119,499	85,181
Changes in working capital:		
— trade and other receivables	(29,778)	(6,880)
— accruals and other payables	5,532	10,892
— prepaid advertising subscriptions from customers	(1,834)	7,713
Net cash inflow	93,419	96,906

27. COMMITMENTS

(a) The Group did not have any material capital commitments at the respective balance sheet date.

(b) Operating lease commitments

	2007 RMB'000	2006 RMB'000
Office buildings	4,343	2,068

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 RMB'000	2006 RMB'000
Not later than 1 year	2,398	778
Later than 1 year and not later than 5 years	1,945	623
Later than 5 years	—	667
	4,343	2,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. DISPOSAL OF INTEREST OF SUBSIDIARIES

(a) In April 2007, the Group disposed of its whole equity interest in Shanghai Huanyu to SHPDM Management, a related party at a cash consideration of approximately RMB1,000,000, determined with reference to the net asset value of the entity as of 31 March 2007, and resulted in no substantial gains or losses.

(b) On 7 September 2007, the Group disposed of its equity interests in the following subsidiaries to Perfect Tone, a company controlled by Mr. Wang Ko Chiang, one of the Controlling Shareholders, at an aggregate consideration of HK$3,907,000 (approximately RMB3,712,000), which was determined with reference made to the net asset value of these entities as at 31 July 2007:

Company name	Country/place and date of incorporation	Issued/registered and fully paid up capital	Indirect effective interest held	Principal activities and place of operation
E-perfect	Hong Kong, 1 March 2002	HK$10,000	100%	Investment holding in Hong Kong
Great China	Hong Kong, 3 June 2002	HK$10,000	100%	Investment holding in Hong Kong
Sunny Smart	Hong Kong, 27 July 2006	HK$2	100%	Dormant
GZ Intellisoft	The PRC, 10 April 2003	HK$1,000,000	100%	Software development in the PRC
Guangzhou Inqi Electronics Technology Co., Ltd. (廣州英啟電子科技有限公司)	The PRC, 29 December 2006	RMB150,000	100%	Not yet started formal operations
Guangzhou Inzhuo Software Co., Ltd. (廣州英卓軟件有限公司)	The PRC, 29 December 2006	RMB150,000	100%	Not yet started formal operations
Shanghai Yingyue Information Technology Consulting Co., Ltd. (上海英越信息技術諮詢有限公司)	The PRC, 29 December 2006	US$21,000	100%	Not yet started formal operations
Shanghai Yingqi Information Technology Consulting Co., Ltd. (上海英琪信息技術諮詢有限公司)	The PRC, 29 December 2006	US$21,000	100%	Not yet started formal operations
Shanghai Yingming Information Technology Consulting Co., Ltd (上海英銘信息技術諮詢有限公司)	The PRC, 29 December 2006	US$21,000	100%	Not yet started formal operations
Shanghai Intending Information Technology Consulting Co., Ltd. (上海英坦丁信息技術諮詢有限公司)	The PRC, 29 December 2006	US$21,000	100%	Not yet started formal operations
Shanghai Yingkang Information Technology Consulting Co., Ltd. (上海英康信息技術諮詢有限公司)	The PRC, 29 December 2006	US$21,000	100%	Not yet started formal operations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. DISPOSAL OF INTEREST OF SUBSIDIARIES (Continued)

(b) (Continued)

An analysis of the consolidated assets and liabilities of these companies as at dates of disposal is as follows:

	RMB'000
Non current assets	
Property, plant and equipment	35
Current assets	
Other receivables	545
Cash and cash equivalents	6,375
	6,955
Current liabilities	
Other payables	2,022
Current income tax liabilities	221
	2,243
Net assets disposed	4,712
Disposal considerations settled in cash	4,712
Cash and cash equivalents in subsidiaries disposed	(6,375)
Cash outflow on disposal	(1,663)

29. BUSINESS COMBINATIONS

On 18 January 2007, the Group acquired 100% equity interests of Shanghai Huanyu from SPE Consulting and SHPD Consulting (both are related parties of the Group), immediately after the establishment of Shanghai Huanyu at an aggregate consideration of RMB1,000,000. The amount forms the paid up capital of Shanghai Huanyu.

Save as disclosed in Note 28(a), after the Group disposed of its entire equity interest in Shanghai Huanyu to SHPDM Management in April 2007, the Group re-acquired the 100% equity interests of Shanghai Huanyu from SHPDM Management at the same consideration of RMB1,000,000 on 2 August 2007.

Details of net assets acquired as at the acquisition dates are as follows:

	Fair value RMB'000	**Acquiree's carrying amount** RMB'000
Cash and cash equivalents	1,401	1,401
Other receivables	599	599
Net assets	2,000	2,000
Purchase consideration settled in cash		(2,000)
Cash and cash equivalents in the subsidiaries acquired		1,401
Cash outflow on acquisition		(599)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

30. SIGNIFICANT 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. Lam Wai Yan	Substantial shareholder and executive director
Mr. Ho Kam Wah	Substantial shareholder and executive director
Mr. Wang Ko Chiang	Substantial shareholder
E-perfect	Controlled by Mr. Wang Ko Chiang
Perfect Tone	Controlled by Mr. Wang Ko Chiang
South China	Controlled by Mr. Wang Ko Chiang
Kexim	Controlled by Mr. Wang Ko Chiang
Kexim Development Co., Ltd. ("Kexim Development")	Controlled by Mr. Wang Ko Chiang
Pac Tech	Controlled by Mr. Lam Wai Yan
Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司,"GPET Mall")	Controlled by Mr. Wang Ko Chiang
SHPDM Management	Controlled by Mr. Wang Ko Chiang
SPE Consulting	Controlled by Mr. Wang Ko Chiang
SHPD Consulting	Controlled by Mr. Wang Ko Chiang
Beijing University Pacific Electronic Technology Co., Ltd. (北京北大太平洋電子科技有限公司, "BUPE Technology")	Controlled by Mr. Wang Ko Chiang
Shanghai Huanyu Pacific Digital Technology Co., Ltd. (上海環宇太平洋數碼科技有限公司, "SHPD Technology")	Controlled by Mr. Wang Ko Chiang
Tristar Partners Limited ("Tristar Partners")	Controlled by Mr. Tsung Shih Kin Samuel, executive director

(b) Related party transactions

Save as disclosed in Notes 10, 28 and 29, the Group had the following related party transactions during the year ended 31 December 2007:

	2007 RMB'000	2006 RMB'000
Continuing:		
(i) Rental expenses for office and advertising bill board paid/payable:		
Kexim	**73**	—
GPET Mall	**2,506**	2,361
SHPD Consulting	**1,005**	227
SPE Consulting	**113**	—
SHPD Technology	**293**	—
BUPE Technology	**227**	201
	4,217	2,789
Discontinued:		
(ii) Technical consultancy fees:		
Tristar Partners	**591**	1,221
(iii) Network service income from:		
GPET Mall	**—**	720
SPE Consulting	**—**	312
BUPE Technology	**—**	270
	—	1,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

30. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions (Continued)

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

(c) Key management compensation

The remuneration of directors who are also identified as members of key management during the year ended 31 December 2007 is set out in Note 21.

(d) Balances with related parties

	2007 RMB'000	2006 RMB'000
Included in trade and other receivables:		
Pac Tech	—	15,000
GPET Mall	242	203
Kexim	—	116
Kexim Development	—	233
	242	15,552
Included in other payables:		
Mr. Lam Wai Yan	—	1,004

Balances with related parties were unsecured and non-interest bearing, and had no fixed repayment terms.

31. EVENTS AFTER THE BALANCE SHEET DATE

There were no other significant post balance sheet events up to the date of approval of these financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four 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	**2007**	2006	2005	2004
Turnover	**236,830**	170,973	114,341	81,332
Profit before income tax	**108,456**	82,035	52,277	36,323
Income tax	**(17,425)**	(14,836)	(6,285)	(4,069)
Profit for the year	**91,031**	67,199	45,992	32,254
Attributable to:				
Equity holders of the Company	**91,031**	67,199	45,992	32,254
Dividend	**70,965**	92,400	56,530	20,323
ASSETS, LIABILITIES AND ASSETS LESS LIABILITIES				
Total assets	**732,361**	174,096	101,499	61,658
Total liabilities	**67,180**	62,746	40,074	21,969
Total assets less liabilities	**665,181**	111,350	61,425	39,689

The historical financial information of the Group for the year ended 31 December 2004 and 31 December 2005 was extracted from the Prospectus of the Company.

No financial information of the Group for the year ended 31 December 2003 has been published.