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 2008

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

Mr. Wong Huk Yung, Hudson

AUTHORISED REPRESENTATIVES

Mr. Wang Da-Shin, Jeff
Mr. Wong Huk Yung, Hudson

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 Fulcrum Group (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
Wanchai
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

We continued to grow at a steady pace in the year under review. Revenue of the Group increased by 37% from RMB236.8 million to RMB324.6 million. Gross profit margin was maintained at a stable level of 73%, as compared to 72% in the previous year. Operating profit increased by 20% from RMB114.2 million to RMB137.5 million.

Our audited profit attributable to equity holders for the year ended 31 December 2008 experienced a moderate decrease from RMB91.0 million to RMB88.3 million, primarily due to a foreign currency exchange loss of RMB36.8 million arising from appreciation of RMB against HK$/USD in respect of our IPO proceeds held in deposits denominated in HK$/USD.

Revenue for PConline, the Group's IT portal, increased by 24% from RMB159.7 million to RMB198.1 million for the year ended 31 December 2008. The performance remained strong with PConline as we have successfully consolidated our role as the leading specialized content portal in China through the improved quality and extended depth of the information we offer on a broad range of products and brands.

Revenue for PCauto, the Group's automobile portal, increased by 59% from RMB67.7 million to RMB107.6 million for the year ended 31 December 2008. The automobile market has experienced rapid growth in China. PCauto is a recognized leader among automobile advertising portal and we are able to leverage PCauto's leading position and capitalize on this increase in internet advertising spending.

The performance of our younger portals, such as PCgames, PClady and PCkids, was encouraging in 2008. Revenue increased by more than 100% and they will no doubt remain as one of our main driving forces.

As of 31 December 2008, we had not utilized any proceeds from our listing and they are being held in deposits denominated in HK$/USD. We had refrained from carrying out any aggressive acquisitions or investments in view of the volatile economic environment in the previous year. However, we are still prudently looking for acquisition opportunities that offer synergy with our operation and complement our portfolio.

The Board has recommended the payment of a final dividend of RMB64.7 million, equivalent to RMB7 cents per share and a payout ratio of 73%. Future dividend payout, however, will depend on factors such as our future earnings, financial condition, cash requirement and availability. Any future declaration of dividends or distributions may or may not reflect our historical declarations of dividends or distribution and will be at the absolute discretion of the Board.

Currently, the Group is in sound financial position. As of 31 December 2008, we had a net cash of approximately RMB623.6 million with no external debt. In view of the strong internally generated cash flow of our business, the Company proposes to change the intended use of part of the IPO proceeds originally allocated for our business expansions and general working capital as detailed in the Company's another announcement made on 30 March 2009 and to distribute a special dividend of RMB249.4 million, equivalent to RMB27 cents per share, subject to the approval by the shareholders at the forthcoming annual general meeting.

CHAIRMAN'S STATEMENT

For 2009, we expect the internet advertising business in China to remain challenging. We will continue to develop and launch new portal initiatives and to enrich our portal contents. The Group's sales and marketing teams across various regional offices will expand to match our growth. With strong market recognition, we are well positioned to capitalize on the business opportunities.

APPRECIATION

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

Lam Wai Yan
Chairman

Hong Kong, 30 March 2009

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

Revenue generated during the year ended 31 December 2008 was as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Internet advertising services		
— for computer and other IT-related products	**198,108**	159,731
— for automobile products	**107,554**	67,681
— for other products	**18,946**	9,418
	324,608	236,830

REVENUE

Revenue increased by 37% from RMB236.8 million for the year ended 31 December 2007 to RMB324.6 million for the year ended 31 December 2008. Revenue for PConline, the Group's IT portal, increased by 24% from RMB159.7 million for the year ended 31 December 2007 to RMB198.1 million for the year ended 31 December 2008. Revenue for PCauto, the Group's automobile portal, increased by 59% from RMB67.7 million for the year ended 31 December 2007 to RMB107.6 million for the year ended 31 December 2008. Revenue for the Group's other operations, such as its game, lady, kids portal and others, increased by 101%. Revenue from PConline and PCauto accounted for 94% 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 33% from RMB66.1 million for the year ended 31 December 2007 to RMB88.2 million for the year ended 31 December 2008. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND MARKETING COSTS

Selling and Marketing Costs increased by 46% from RMB32.3 million for the year ended 31 December 2007 to RMB47.0 million for the year ended 31 December 2008. 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 awareness of the five portals among internet users as well as brand advertisers.

ADMINISTRATIVE EXPENSES

Administrative Expenses increased by 77% from RMB21.4 million for the year ended 31 December 2007 to RMB37.9 million for the year ended 31 December 2008. The increase was mainly due to expenses related to the Pre-IPO Share Option Scheme and expenses associated with being listed such as compliance costs and professional fees. These expenses items were not fully presented during the same period last year.

PRODUCT DEVELOPMENT EXPENSES

Product Development Expenses increased by 383% from RMB2.9 million for the year ended 31 December 2007 to RMB14.0 million for the year ended 31 December 2008. The increase can be primarily attributed to increase in staff cost as we set up a new research and development centre in Beijing as well as additional expenses associated with development of various Web2.0 products.

FINANCE INCOME AND COST

The Group suffered a net finance loss of RMB19.9 million for the year ended 31 December 2008, compared with a net finance cost of RMB5.7 million for the year ended 31 December 2007. The net finance loss was primarily attributed to net foreign exchange losses of RMB36.8 million. The Group reports in RMB as its functional currency, however, the proceeds received from IPO was denominated in HK$/USD. As RMB has appreciated against HK$/USD during 2008, the Group recorded a foreign exchange loss associated with the depreciation of its HK$/USD denominated IPO proceeds.

INCOME TAX EXPENSE

Income Tax Expense increased by 68% from RMB17.4 million for the year ended 31 December 2007 to RMB29.2 million for the year ended 31 December 2008. The effective tax rate increased from 16% for the year ended 31 December 2007 to 25% for the year ended 31 December 2008. The increase was mainly due to exchange losses of the Company which were not deductible for tax purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT FOR THE YEAR

Profit for the Year decreased by 3% from RMB91.0 million for the year ended 31 December 2007 to RMB88.3 million for the year ended 31 December 2008. The net margin was 38% for the year ended 31 December 2007 compared to 27% for the year ended 31 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, we had the financial resources in the form of short-term bank deposits and cash amounting to RMB623.6 million (2007: RMB639.1 million). A large portion of our financial assets are held in HK$/USD and we had no other interest-bearing borrowings as at 31 December 2008.

CAPITAL EXPENDITURES

In the year ended 31 December 2008, our capital expenditures consisting of additions to computers and servers and intangible assets amounted to RMB6.5 million. In the year ended 31 December 2007, our capital expenditures consisted of similar items amounted to RMB4.8 million.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS

Executive Directors

Lam Wai Yan ("**Mr. Lam**"), aged 57, is an executive director, the Chairman and the Chief Executive Officer of the Company and a director of certain subsidiaries of the Company. He is also a director and the controlling shareholder 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. He is also a director and the controlling shareholder of Treasure Field Holdings Limited, a substantial shareholder of the Company. Mr. Ho obtained a bachelor's degree in Science from Illinois State University in 1976. He is principally involved in strategic planning and assisting in overall management and business development of the Group. Mr. Ho co-founded the Group and has played a major role in developing the businesses of the Group since 1997 and has an extensive management experience over 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. 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. The annual salary of Mr. Wang has been adjusted from HK$400,000 to HK$848,000 during the year ended 31 December 2008. This change is disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Zhang Cong Min ("**Ms. Zhang**"), aged 41, is an executive director and the Chief Operating Officer of the Company and a director of certain subsidiaries 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. The annual salary of Ms. Zhang has been adjusted from RMB866,000 to RMB912,000 during the year ended 31 December 2008. This change is disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Tsung Shih Kin, Samuel ("**Mr. Tsung**"), aged 58, 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. The annual salary of Mr. Tsung has been adjusted from RMB957,480 to RMB1,008,480 during the year ended 31 December 2008. This change is disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Independent Non-Executive Directors

Tsui Yiu Wa, Alec ("**Mr. Tsui**"), aged 59, 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. Mr. Tsui has over 20 years' extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission of Hong Kong prior to joining the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and becoming the chief executive in 1997. He was also the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui is currently an independent non-executive director of the following listed companies after his resignation as an independent non-executive director of Synergis Holdings Limited in September 2008:-

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
China BlueChemical Ltd.
Greentown China Holdings Limited
China Huiyuan Juice Group Limited
Melco Crown Entertainment Limited
(name changed from Melco PBL Entertainment (Macau) Limited on 27 May 2008)
ATA Inc.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Thaddeus Thomas Beczak ("**Mr. Beczak**"), aged 58, 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 of 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 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 62, 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

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 40, 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 43, is the company secretary and financial controller of the Group and joined the Group in 2005. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wong was a qualified accountant working for international accounting firms and a Hong Kong listed company. He obtained a bachelor's degree in Economics and Accounting from University of Reading.

Fan Zeng Chun ("**Ms. Fan"**), aged 38, 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 34, is technology development director of the Group 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 the 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 2008.

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 8 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 2008 are set out in the consolidated income statement on page 40.

The Board has recommended the payment of a final dividend of RMB7 cents per ordinary share and a special dividend of RMB27 cents per ordinary share for the year ended 31 December 2008 to shareholders whose names appear on the Company's Register of Members on Friday, 15 May 2009 (the "Proposed Final and Special Dividend"). Subject to the approval of the Company's shareholders at the Company's forthcoming Annual General Meeting to be held on Friday, 15 May 2009, the Proposed Final and Special Dividend will be paid to the Company's shareholders on or around Friday, 22 May 2009.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 13 May 2009 to Friday, 15 May 2009 (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 and Special Dividend and for attending and voting at the Annual General Meeting of the Company to be held on Friday, 15 May 2009, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12 May 2009.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and assets less liabilities of the Group for the last five financial years, as extracted from the audited financial statements and the Prospectus, is set out on page 86 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 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year set out in note 13 to the consolidated financial statements.

DIRECTORS' REPORT

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 Listing Date and 10.3% of the issued share capital as at the date of this annual report respectively.
4.	Maximum entitlement of each participant	Determined by the Board.	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.

DIRECTORS' REPORT

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
5.	Period within which the securities must be taken up under an option	An option may be exercised during a period to be determined and notified by the 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.	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.
6.	Minimum period for which an option must be held before it can be exercised	The minimum period for which an option granted must be held before it can be exercised is as follow: Minimum Period — Number of options exercisable 24 months from the date of grant — 1st phase options, being one-third of the total number of options granted 36 months from the date of grant — 2nd phase options, being a further one-third of the total number of options granted 48 months from the date of grant — 3rd phase options, being a further one-third of the total number of options granted	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
7.	Acceptance of offer	Options granted must be taken up within 14 days 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.

DIRECTORS' REPORT

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

(a) Pre-IPO Share Option Plan

Category	Date of grant	Exercise period*	Exercise price HK$	Number of share options: As at 1 January 2008	Granted during the period	Exercised/ cancelled during the period	Lapsed during the period	As at 31 December 2008
Director								
Ms. Zhang 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	10,349,000	—	—	(1,242,000)	9,107,000
	23 November 2007	23 November 2010 to 22 November 2017	1.97	10,349,000	—	—	(1,242,000)	9,107,000
	23 November 2007	23 November 2011 to 22 November 2017	2.27	10,342,000	—	—	(1,239,000)	9,103,000
				31,040,000	—	—	(3,723,000)	27,317,000
Total				49,929,000	—	—	(3,723,000)	46,206,000

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

(b) Post-IPO Share Option Plan

Since the adoption of the Post-IPO Share Option Plan and up to 31 December 2008, no options had been granted.

Further details of share options of the Company are set out in note 14 to the consolidated financial statements.

DIRECTORS' REPORT

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

The Company repurchased its 26,290,000 listed shares on the Stock Exchange during the year ended 31 December 2008. Such shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

Details of the repurchases are summarized as follows:

Month of repurchases	Total number of shares repurchased	Repurchase price per share Highest HK$	Repurchase price per share Lowest HK$	Aggregate price paid (excluding transaction costs) HK$
July, 2008	23,674,000	1.55	1.44	35,667,780
August, 2008	50,000	1.44	1.44	72,000
September, 2008	2,566,000	1.50	0.90	2,639,420
	26,290,000			38,379,200

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate obtained from shareholders at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 14 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DIRECTORS' REPORT

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 RMB679.3 million as at 31 December 2008.

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 19% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for 72% 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 31 December 2008, the Group had 674 employees (2007: 559), increased by 21% over 2007. The increase in staff level represented the expansion of the Group's operations in 2008. The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

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)
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

DIRECTORS' REPORT

In accordance with Article 87(1) of the Company's articles of association, Mr. Wang Da-Shin, Jeff, Ms. Zhang Cong Min and Mr. Tsung Shih Kin, Samuel 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' REPORT

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

As at 31 December 2008, 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:

(1) Interests in shares of the Company

Name of director	Long/ Short position	Capacity	Number of shares	Note	Percentage of the Company's issued share capital
Mr. Lam Wai Yan	Long	Interests held by a controlled corporation	256,576,000	(1)	27.77%
	Long	Interests held jointly with another person	5,373,000	—	0.58%
			261,949,000	—	28.35%
Mr. Ho Kam Wah	Long	Interests held by a controlled corporation	86,016,000	(2)	9.31%
	Long	Beneficial owner	850,000	—	0.09%
	Long	Interests of spouse	1,102,000	(3)	0.12%
			87,968,000	—	9.52%
Mr. Tsung Shih Kin, Samuel	Long	Beneficial owner	200,000	—	0.02%

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.

(3) Mr. Ho Kam Wah was deemed to be interested in 1,102,000 shares of the Company through the interests of 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	1.71%
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 14 to the consolidated financial statements.

Save as disclosed above, as at 31 December 2008, 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 2008.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 14 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 2008, the following persons (other than the directors and chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/ Short position	Capacity	Number of ordinary shares in the Company	Note	Percentage of the Company's issued share capital
Pac Tech Investment Co. Ltd.	Long	Beneficial owner	256,576,000	(1)	27.77%
Ms. Ma Muk Lan	Long	Interests of spouse	256,576,000	(2)	27.77%
	Long	Interests held jointly with another person	5,373,000	—	0.58%
			261,949,000	—	28.35%
Gallop Assets Management Limited	Long	Beneficial owner	225,024,000	(3)	24.36%
Mr. Wang Ko Chiang	Long	Interests held by a controlled corporation	225,024,000	(3)	24.36%
	Long	Beneficial owner	23,136,000	—	2.50%
			248,160,000	—	26.86%
Mrs. Wang Tang Shi Ming	Long	Interests of spouse	248,160,000	(4)	26.86%
Treasure Field Holdings Limited	Long	Beneficial owner	86,016,000	(5)	9.31%
Ms. Yeung Yuk Chun	Long	Interests of spouse	86,866,000	(6)	9.40%
	Long	Beneficial owner	1,102,000	—	0.12%
			87,968,000	—	9.52%

DIRECTORS' REPORT

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".

(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.

(4) Mrs. Wang Tang Shi Ming was deemed to be interested in 248,160,000 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 86,866,000 shares of the Company through the interests of her spouse, Mr. Ho Kam Wah.

Save as disclosed above, as at 31 December 2008, 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 2008, 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.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Save as disclosed in note 26 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, Guangdong Pacific Internet Information Service Co., Ltd. ("GDP Internet") and the subsidiaries of GDP Internet under the structure contracts entered into with the Company's wholly-owned subsidiary, Guangzhou Pacific Computer Information Consulting Co., Ltd.. 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, GDP Internet and the subsidiaries of 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, information consulting and technical services) under structure contracts carried out during the year ended 31 December 2008 was approximately RMB151,008,000 and the amounts have been eliminated in the consolidated financial statements of the Company and its subsidiaries.

The independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2008 and confirmed as follows:

(I) The continuing transactions as disclosed in note 26 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 2008 are fair and reasonable so far as the Company is concerned and in the interests of the Company and its shareholders as a whole.

DIRECTORS' REPORT

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 and the Structure Contracts 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 2008.

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

30 March 2009

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 2008.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board.

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

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2008 with the exception of 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. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviations are summarized below.

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

A. THE BOARD

A.1 Responsibilities and Delegation

The overall management and control of Company business are vested in its Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Company's financial performance on behalf of shareholders. Directors of the Board carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

Directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

CORPORATE GOVERNANCE REPORT

The Board reserves for its decision 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 (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are in charge by the executive directors and senior management of the Company under the leadership of the Chief Executive Officer. The Board has delegated a schedule of responsibilities to these officers for the implementation of Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain Board approval.

A.2 Board Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

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 disclosed in all corporate communications issued by the Company from time to time. The biographical details of the directors and the relationships among the members of the Board are disclosed under "Directors' and Senior Management's Profile" in this annual report.

All directors, including independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2008, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise. The Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors. Through active participation in Boards 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.

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

A.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 the Chairman of the Board and Chief Executive Officer of the Company. As Mr. Lam is a co-founder of the Group and has extensive experience 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.

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.

A.4 Appointment, Re-election and Removal 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. The Company has issued respective letters of appointment to its independent non-executive directors specifying their term of appointment. Each of the independent non-executive directors is appointed for a term of 3 years.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association (the "Articles of Association"). 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 submit himself/herself for re-election by shareholders at the next following annual general meeting.

Pursuant to the aforesaid, Mr. Wang Da-Shin, Jeff, Ms. Zhang Cong Min and Mr. Tsung Shih Kin, Samuel shall retire and, being eligible, offer themselves for re-election by the shareholders at the 2009 annual general meeting of the Company. The Board recommends their re-appointment. 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 and succession planning of directors and assessing the independence of independent non-executive directors.

In addition, the Company has adopted Directors Nomination Procedures as written guidelines in providing 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 as necessary.

During the year ended 31 December 2008, the Board met once, with the presence of 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 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 of the business of the Company; (ii) recommending the re-appointment of those directors standing for re-election at the 2008 annual general meeting of the Company; and (iii) assessing the independence of the independent non-executive directors of the Company.

A.5 Induction and Continuing Development of Directors

All the directors of the Company received an induction on appointment to ensure appropriate understanding of the business and operation of the Group and full awareness of director responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is normally supplemented with visits to the Group's key business sites and/or meetings with the senior management of the Company.

CORPORATE GOVERNANCE REPORT

Directors of the Company are continually updated on legal and regulatory developments and changes in the business and the market to facilitate the discharge of their responsibilities. Additional briefings and professional development for directors will be arranged as necessary.

A.6 BOARD MEETINGS

A.6.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with directors in advance to facilitate attendance. In addition, notice of at least 14 days is given of a regular Board meeting. For other Board meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice of meeting in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

Board papers together with all appropriate, complete and reliable information are sent to directors at least 3 days before each Board meeting to keep the directors apprised of the latest developments and financial position of the Group 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 Chairman and other relevant senior management normally attend regular Board meetings and, where 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 Group.

The Company Secretary is responsible to keep minutes of all Board 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.

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. The Articles of Association contain 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.

CORPORATE GOVERNANCE REPORT

A.6.2 Directors' Attendance Records at Board Meetings

The Board has met regularly during the year ended 31 December 2008 at approximately quarterly intervals for reviewing and discussing the financial and operating performance of the Group, acquisitions and investments and other related matters. Directors' attendance records at Board meetings during the year ended 31 December 2008 are set out below:

Name of Director	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Lam Wai Yan	4/4
Mr. Ho Kam Wah	4/4
Mr. Wang Da-Shin, Jeff	4/4
Ms. Zhang Cong Min	4/4
Mr. Tsung Shih Kin, Samuel	4/4
Independent Non-executive Directors	
Mr. Tsui Yiu Wa, Alec	4/4
Mr. Thaddeus Thomas Beczak	3/4
Mr. Louie Ming	4/4

A.7 Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of the Company's directors and all of them have confirmed that they have complied with the required standards set out in the Model Code throughout the period from 1 January 2008 to the date of this report.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for relevant employees, who are likely to be in possession of unpublished price-sensitive information in relation to the Company and its securities, in respect of their dealings in the securities of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

B. BOARD COMMITTEES

The Board has established two Board committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are available to shareholders upon request. All Board committees report to the Board on their decisions or recommendations.

CORPORATE GOVERNANCE REPORT

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

B.1 Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Louie Ming.

The duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and the establishment of a formal and transparent procedure for developing such remuneration policy and structure; (ii) make recommendations on the remuneration packages of executive directors and senior management; and (iii) review and approve performance-based remuneration by reference to corporate goals and objectives.

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 consults with the Chairman of the Board/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

Details of the remuneration of each director of the Company for the year ended 31 December 2008 are set out in note 19 to the financial statements contained in this annual report.

During the year ended 31 December 2008, the Remuneration Committee met twice for reviewing and making recommendations on (i) the remuneration package of the directors of the Company; and (ii) the payment of discretionary bonus to the directors of the Company.

The attendance records of members at the Remuneration Committee meeting during the year are set out below:

Name of Remuneration Committee Member	**Attendance/ Number of Meetings**
Mr. Tsui Yiu Wa, Alec *(Chairman)*	2/2
Mr. Thaddeus Thomas Beczak	1/2
Mr. Louie Ming	2/2

CORPORATE GOVERNANCE REPORT

B.2 Audit Committee

The Audit Committee comprises a total of three members, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Louie Ming, all of which are independent non-executive directors. Mr. Tsui Yiu Wa, Alec is the Chairman of the Audit Committee and possesses relevant accounting and financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The duties of the Audit Committee are mainly to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditor; and (iv) review the Company's financial controls, internal control and risk management systems.

During the year ended 31 December 2008, the Audit Committee met four times together with the senior management and performed the following major tasks:

— Review and discussion of the financial statements, results announcement and report for year ended 31 December 2007 and for the six months ended 30 June 2008, the accounting principles and practices adopted by the Group and the relevant audit findings; and

— Recommendation of the appointment of a professional accounting firm to perform the internal audit function and consider the terms and conditions of such appointment.

The external auditor was invited to attend two of the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

The attendance records of members at the Audit Committee meetings during the year are set out below:

Name of Audit Committee Member	Attendance/ Number of Meetings
Mr. Tsui Yiu Wa, Alec *(Chairman)*	4/4
Mr. Thaddeus Thomas Beczak	4/4
Mr. Louie Ming	4/4

CORPORATE GOVERNANCE REPORT

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

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 management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2008.

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.

D. INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Group. The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

E. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities in respect of the Company's financial statements for the year ended 31 December 2008 is set out in the section headed "Independent Auditor's Report" in this annual report.

A summary of audit and non-audit services provided by the external auditor for the year ended 31 December 2008 and their corresponding remuneration is as follows:

Nature of services	**Amount** (RMB)
Audit services	2,680,000
Non-audit services	800,000

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Group's information will enable shareholders and investors to make the best investment decision and to have better understanding of the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's existing and potential investors.

The Company maintains a website at "http://corp.pconline.com.cn" as a communication platform for shareholders and investors, where information and updates on the Group's business developments and operations, financial information and other information are available for public access. Shareholders and investors may write directly to the Company's principal place of business in Hong Kong at portion of Unit 807, Tower 2, Lippo Centre, 89 Queensway, Hong Kong. Enquiries are dealt with in an informative and timely manner.

The Board considers that general meetings of the Company are key opportunities for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen and/or other members of the Audit Committee and Remuneration Committee will normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised.

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

G. SHAREHOLDER RIGHTS

As one of the measures to safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Articles of Association contain rights of shareholder(s) to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in the requisition.

Upon the implementation of the amendments of the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholder meetings will be voted by poll. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://corp.pconline.com.cn) immediately after the relevant general meetings.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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 38 to 85, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

INDEPENDENT AUDITOR'S REPORT

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 2008 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, 30 March 2009

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	13,540	11,350
Intangible assets	7	947	1,585
Deferred income tax assets	9	2,785	2,668
		17,272	15,603
Current assets			
Derivative financial instrument	10	1,640	—
Trade and other receivables	11	99,726	77,701
Restricted cash	12	10,252	—
Short-term bank deposits with original terms of over three months	12	30,509	18,000
Cash and cash equivalents	12	582,854	621,057
		724,981	716,758
Total assets		742,253	732,361
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	13	8,737	8,986
Reserves	14		
— Proposed special dividend	23	249,402	—
— Others		301,270	565,227
Retained earnings	15		
— Proposed final dividend	23	64,660	70,965
— Others		31,412	20,003
Total equity		655,481	665,181
Current liabilities			
Accruals and other payables	16	40,848	29,251
Prepaid advertising subscriptions from customers	17	23,322	26,946
Current income tax liabilities		22,602	10,983
Total current liabilities		86,772	67,180
Total equity and liabilities		742,253	732,361
Net current assets		638,209	649,578
Total assets less current liabilities		655,481	665,181

Lam Wai Yan
Director

Wang Da-Shin, Jeff
Director

The notes on pages 43 to 85 are an integral part of these consolidated financial statements.

BALANCE SHEET

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8	95,815	88,286
Current assets			
Derivative financial instrument	10	1,640	—
Trade and other receivables	11	112,845	25,799
Restricted cash	12	10,252	—
Cash and cash equivalents	12	476,397	539,754
		601,134	565,553
Total assets		696,949	653,839
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	13	8,737	8,986
Reserves	14		
— Proposed special dividend	23	249,402	—
— Others		358,580	634,500
Retained earnings/(Accumulated losses)	15		
— Proposed final dividend	23	64,660	70,965
— Others		6,657	(76,370)
Total equity		688,036	638,081
Current liabilities			
Accruals and other payables	16	8,913	15,758
Total current liabilities		8,913	15,758
Total equity and liabilities		696,949	653,839
Net current assets		592,221	549,795
Total assets less current liabilities		688,036	638,081

Lam Wai Yan
Director

Wang Da-Shin, Jeff
Director

The notes on pages 43 to 85 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2008	2007
	Note	RMB'000	RMB'000
Revenue	5	**324,608**	236,830
Cost of revenue	18	**(88,180)**	(66,110)
Gross profit		**236,428**	170,720
Selling and marketing costs	18	**(46,983)**	(32,256)
Administrative expenses	18	**(37,940)**	(21,362)
Product development expenses	18	**(14,048)**	(2,931)
Operating profit		**137,457**	114,171
Finance income	20	**16,885**	2,482
Finance cost	20	**(36,819)**	(8,197)
Finance cost — net	20	**(19,934)**	(5,715)
Profit before income tax		**117,523**	108,456
Income tax expense	21	**(29,242)**	(17,425)
Profit for the year		**88,281**	91,031
Attributable to:			
Equity holders of the Company		**88,281**	91,031
Earnings per share for profit attributable to the equity holders of the Company during the year			
— basic (RMB)	22	**9.405 cents**	11.864 cents
— diluted (RMB)	22	**9.403 cents**	11.829 cents
Dividends (excluding special dividend)	23	**64,660**	70,965

The notes on pages 43 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the equity holders of the Company			
		Ordinary shares	Reserves	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000
	Note	Note 13	Note 14	Note 15	
Balance at 1 January 2007		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	23	—	—	(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
Profit for the year		—	—	88,281	88,281
Dividends paid	23	—	—	(70,965)	(70,965)
Employees' share option benefits		—	6,776	—	6,776
Repurchase of shares of the Company		(249)	(33,294)	(249)	(33,792)
Appropriations to reserves		—	11,963	(11,963)	—
Balance at 31 December 2008		8,737	550,672	96,072	655,481

The notes on pages 43 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	24	117,600	93,419
Income tax paid		(17,740)	(16,740)
Net cash generated from operating activities		99,860	76,679
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		—	(599)
Purchase of property, plant and equipment		(6,107)	(3,546)
Purchase of intangible assets		(433)	(1,265)
Increase in short-term bank deposits with original terms of over three months and restricted cash		(22,761)	(10,500)
Interest received		13,807	2,482
Disposal of subsidiaries		—	(1,663)
Net cash used in investing activities		(15,494)	(15,091)
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
Repurchase of shares of the Company		(33,792)	—
Dividends paid		(70,965)	(92,400)
Net cash (used in)/generated from financing activities		(104,757)	451,880
Net (decrease)/increase in cash and cash equivalents		(20,391)	513,468
Cash and cash equivalents at beginning of year	12	621,057	113,437
Exchange losses on cash and cash equivalents		(17,812)	(5,848)
Cash and cash equivalents at end of the year	12	582,854	621,057

The notes on pages 43 to 85 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

(a) General information

Pacific Online Limited (the "Company") was incorporated on 27 August 2007 as an exempted company with limited liability under the Company Law, Cap.22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is 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").

On 12 November 2007, the Company acquired all equity interests in Takehigh Industrial Limited ("Takehigh") from all then equity holders of Takehigh through a share swap (the "Reorganisation") and consequently became the holding company of the subsidiaries. The Reorganisation has been accounted for 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 ("HKICPA"), and accordingly the consolidated financial statements of the Group for the year ended 31 December 2007 presented the results of the Group as if the Group resulted from the Reorganisation had been in existence from the beginning of 1 January 2007.

The Company's shares have been listed on Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") since the initial public offering on 18 December 2007 (the "IPO").

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 30 March 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION (Continued)

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

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which include online advertising through the internet, 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 Takehigh and its subsidiaries (together, the "Takehigh Group") who are PRC citizens as its legal owners (the "3 Registered Owners"). Takehigh also made loans to the 3 Registered Owners for the financing of the initial working capital of GZ Yingxin in connection with its establishment. Through the execution of various contracts and agreements (collectively defined as "Structure Contracts", see below for more details) among the Takehigh Group, GZ Yingxin and the 3 Registered Owners, the Takehigh Group controls GZ Yingxin. GZ Yingxin is accounted for as a subsidiary of the Takehigh Group.

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

Through various equity transfer arrangements commenced after the establishment of GZ Yingxin, all the equity interests of two operating companies in the PRC, Guangzhou Pacific Advertising Co., Ltd. (廣州市太平洋廣告有限公司, "GZP Advertising") and Guangdong Pacific Internet Information Service Co., Ltd. (廣東太平洋互聯網信息服務有限公司, "GDP Internet") were transferred to GZ Yingxin in or before 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 (Continued)

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

— *Structure Contracts arrangements*

In addition to GZ Yingxin, Structure Contracts have also been executed among Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息咨詢有限公司, "GZP Computer"), a subsidiary of the Takehigh Group, the subsidiaries of GZ Yingxin and the 3 Registered Owners. Through these contractual arrangements, the decision-making rights and operating and financing activities of GZ Yingxin and its subsidiaries (collectively the "GZ Yingxin Group") 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 Group under these arrangements. In particular, the 3 Registered Owners are required under the contractual arrangements made with the Takehigh Group to transfer their interests in GZ Yingxin to the Takehigh Group or 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 and its subsidiaries through the levying of service and consultancy fees. The ownership interests in GZ Yingxin and GDP Internet have also been pledged by the 3 Registered Owners to the Takehigh Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Pacific Online Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). They have been prepared under the historical cost convention, as modified by the derivative financial instrument at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are stated in Renminbi (RMB) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The Group has adopted the following amendment and interpretations to the existing standards for the accounting periods commencing on or after 1 January 2008:

		Effective for annual periods beginning on or after
Amendment to HKAS 39 and HKFRS 7	Reclassification of Financial Assets	1 July 2008
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The adoption of the above amendment and interpretations to the existing standards did not have any impact on the Group's financial statements and has not led to any changes in the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The following new standards, interpretations and amendments to the existing standards have been published but have not come into effect for the financial year beginning 1 January 2008:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
Amendment to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
Amendment to HKAS 39	Amendment to HKAS 39 'Financial Instruments: Recognition and Measurement' — Eligible Hedged Items	1 July 2009
Amendment to HKFRS 1 and HKAS 27	Amendments to HKFRS 1 'First Time Adoption of HKFRS' and HKAS 27 'Consolidated and Separate Financial Statements' — Cost of Investments In Subsidiaries, Jointly Controlled Entities and Associates	1 July 2009
Amendment to HKFRS 2	Share-Based Payment Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
HK(IFRIC) — Int 17	Distributions of Non-Cash Assets to Owners	1 July 2009

The Group has not early adopted any of the above new standards, interpretations and amendments to the existing standards. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Group's results of operations and financial positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

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

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.

Except for the Reorganisation as set out in Note 1(a), the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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.

The directors of the Company have concluded that it is appropriate to include 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 the GZ Yingxin Group by way of controlling the operational and financial decisions of the GZ Yingxin Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements 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 2.7). Expenses relating to share options granted by the Company to certain directors and employees working for subsidiaries of the Group is recognised as deemed investments in subsidiaries. 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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 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.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

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

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.6 Intangible assets

Costs associated with development and maintaining computer software programmes are recognised as an expense as incurred.

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.

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life 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.

2.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group's derivative instrument does not qualify for hedge accounting, and is accounted for at fair value through profit and loss. Changes in the fair value of this derivative instrument is recognised immediately in the consolidated income statement within 'financial income and cost'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 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 uncollectible, 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.

2.10 Cash and cash equivalents

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

2.11 Share capital

Ordinary shares are classified as equity.

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

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

2.12 Accruals and other payables

Accruals and other payables are recognised 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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Current and deferred income tax

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

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

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

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

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

2.14 Employee benefits

(a) *Pension obligations*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Employee benefits (Continued)

(a) Pension obligations (Continued)

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.

(b) Housing benefits

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

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. 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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 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.

(a) Online advertising revenues

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

Revenues from online advertisements are derived from written contracts with customers that include the related fee, payment terms and provide persuasive evidence of the arrangement. The majority of the online advertising contracts are for the provision of online advertisement for a fixed period of time with no guaranteed minimum impression level. Revenues from these contracts are recognised based on the time period the advertisement is displayed. In all contracts, there are no future obligations after the completion of the contract and no rights of refund related to the impression levels.

(b) Interest income

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

2.16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 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.

3. 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 currency 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 2008, 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 directors of the Company have used forward exchange contracts to control such risk. During 2008, the Company entered into certain foreign exchange forward contracts for buying RMB140,860,000 by selling US$ in one year's time in order to control the exposure to foreign exchange fluctuations between RMB and US$ related to a settlement currency amount of US$20 million.

At 31 December 2008, if RMB had strengthened by 0.5% against the HK$/US$ with all other variables held constant, post tax profit for the year would have been RMB3,120,000 (2007: RMB2,878,000) lower, mainly as a result of net foreign exchange losses on HK$/US$ denominated cash at bank, other receivables and forward foreign exchange contracts as at 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalent, deposits (including restricted cash) with banks and financial institutions, derivative financial instrument, as well as accounts and other receivables.

The carrying amounts of cash and cash equivalents, restricted cash, short-term deposits with original terms of over three months, and accounts and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and international high credit quality financial institutions outside the PRC. There was no recent history of default of cash and cash equivalents, restricted cash and term deposits with original terms of over three months from these financial institutions.

For accounts receivables, as mentioned in Note 2.15(a), a material portion of online advertising services revenues were derived from advertising agents. If they experience financial difficulties in paying us, the Group's online advertising services might be adversely affected in terms of recoverability of receivables.

However, in view of the Group's history of cooperation with the advertising agents and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding accounts receivable balances.

The Group's historical experience in collection of trade and other receivables fell 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 year ended 31 December 2008. Management considers that the Group does not have significant liquidity risk. As at the balance sheet date, other payables of the Group were all due for settlement contractually within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are stated in Renminbi (RMB) unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management

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

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

(c) Fair value estimation

The fair value of financial instruments traded in active markets (such as forward foreign exchange contracts) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of the Group's financial assets (including cash at banks, bank deposits in approved financial institutions and trade and other receivables); and financial liabilities (including accruals and 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are stated in Renminbi (RMB) unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Recognition of deferred tax assets

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

5. 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)

6. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Computers and servers RMB'000	**Motor vehicles** RMB'000	**Furniture, fittings and equipment** RMB'000	**Total** RMB'000
At 1 January 2007				
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 18)	(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
Year ended 31 December 2008				
Opening net book amount	9,108	159	2,083	11,350
Additions	5,267	—	840	6,107
Disposals	(82)	—	(39)	(121)
Depreciation (Note 18)	(3,148)	(48)	(600)	(3,796)
Closing net book amount	11,145	111	2,284	13,540
At 31 December 2008				
Cost	21,044	425	4,214	25,683
Accumulated depreciation	(9,899)	(314)	(1,930)	(12,143)
Net book amount	11,145	111	2,284	13,540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	2008 RMB'000	2007 RMB'000
Cost of revenue	3,590	2,515
Selling and marketing costs	89	111
Administrative expenses	117	401
	3,796	3,027

7. INTANGIBLE ASSETS — GROUP

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

	2008 RMB'000	2007 RMB'000
Cost	7,360	6,927
Accumulated amortisation	(6,413)	(5,342)
Net book amount	947	1,585
Opening net book amount	1,585	1,299
Additions	433	1,265
Amortisation charge (Note 18)	(1,071)	(979)
Closing net book amount	947	1,585

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

	2008 RMB'000	2007 RMB'000
Cost of revenue	671	905
Selling and marketing costs	97	57
Administrative expenses	303	17
	1,071	979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2008 RMB'000	2007 RMB'000
Investments, at cost:		
Unlisted shares (a)	95,815	88,286

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
Takehigh	Hong Kong, 27 May 1993, limited liability company	Investment holding in Hong Kong	HK$11,875	*100%
Pacific E-Commerce Limited	Hong Kong, 10 October 2003, limited liability company	Investment holding in Hong Kong	HK$2	*100%
Joylock Limited ("Joylock") (b)	Cayman Island, 28 May 2008, limited liability company	Not yet commenced formal operations	US$1	*100%
GZP Computer	The PRC, 7 November 1997, foreign investment enterprise	Information technology and software development and provision of computer information consultancy services in the PRC	RMB80,000,000	100%
GZ Yingxin (c)	The PRC, 25 November 2003, limited liability company	Provision of computer technology services in the PRC	RMB5,700,000	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. INVESTMENTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
GDP Internet (c)	The PRC, 27 November 2002, limited liability company	Provision of online advertising services in the PRC	RMB10,000,000	100%
GZP Advertising (c)	The PRC, 24 March 1998, limited liability company	Provision of advertising services in the PRC	RMB500,000	100%
Shanghai Pan-Pacific Information Technology Co., Ltd. (上海環宇太平洋信息科技有限公司)	The PRC, 29 December 2006, foreign investment enterprise	Not yet commenced formal operations	US$140,000	100%
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") (c)	The PRC,18 January 2007, limited liability company	E-commerce	RMB1,000,000	100%

* Shares held directly by the Company.

(a) The increase of investments in subsidiaries in 2008 represents the recognition of expenses relating to share options, granted by the Company to certain directors and employees working for subsidiaries of the Group, as deemed investments made by the Company in these subsidiaries.

(b) Acquisition of Joylock

On 28 July 2008, the Group acquired 100% equity interests of Joylock from an agency Golden China Consultant Limited at an aggregate consideration of US$1 (equivalent to RMB7). The amount forms the paid up capital of Joylock. There were no assets nor liabilities as of the date of acquisition since Joylock was a newly incorporated company. It had not commenced its formal operations as at 31 December 2008.

(c) As described in Note 1(b), GZ Yingxin, GDP Internet, GZP Advertising and Shanghai Huanyu (acquired by GDP Internet in August 2007) are non-legally owned subsidiaries of the Company. They are owned by the 3 Registered Owners. 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 Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. DEFERRED INCOME TAX ASSETS — GROUP

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates of 15% or 25% (2007: 25%) which are expected to apply to the period when the assets are realised.

	2008 RMB'000	2007 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	2,118	548
— Deferred tax assets to be recovered within 12 months	667	2,120
	2,785	2,668

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

	Intra-group software sales(a) RMB'000	Provision for impairment of trade receivables RMB'000	Provision for tax losses RMB'000	Total RMB'000
At 1 January 2007	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
(Charged)/credited to the income statement	(1,042)	1,074	85	117
At 31 December 2008	860	1,593	332	2,785

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. DERIVATIVE FINANCIAL INSTRUMENT — GROUP AND COMPANY

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Forward foreign exchange contracts	1,640	—	1,640	—

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 are RMB140,860,000 (2007: Nil).

11. TRADE AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade receivables, net of impairment provision (a)	96,267	49,662	—	—
Amount due from BNP Paribas Capital (Asia Pacific) Limited ("BNP Paribas Capital") (b)	—	25,166	—	25,166
Receivables from related parties (Note 26(d))	423	242	—	—
Other receivables (c)	3,036	2,631	112,845	633
	99,726	77,701	112,845	25,799
Denominated in				
— RMB	98,137	52,535	102,000	633
— US$	1,325	—	1,325	—
— HK$	264	25,166	9,520	25,166
	99,726	77,701	112,845	25,799

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables — Group

Credit terms granted to customers by the Group are generally within six months. At 31 December 2008, the ageing analysis of the trade receivables (net of impairment provision of approximately RMB6,070,000) was as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Current to 6 months	82,191	44,120
6 months to 1 year	12,197	3,542
1 year to 2 years	1,879	1,894
Over 2 years	—	106
	96,267	49,662

As of 31 December 2008, trade receivables of RMB11,996,000 (2007: RMB5,535,000) were past due but not impaired. These relate to a number of independent customers with no history of credit default and they are in continuous business with the Group. The ageing analysis of these trade receivables was as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Current to 6 months	6,054	2,495
6 months to 1 year	4,063	1,040
1 year to 2 years	1,879	1,894
Over 2 years	—	106
	11,996	5,535

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

The amount represented 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 in May 2008.

(c) 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 proposed dividend of RMB102,000,000 due from a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. CASH AND CASH EQUIVALENTS, SHORT-TERM BANK DEPOSITS WITH ORIGINAL TERMS OF OVER THREE MONTHS AND RESTRICTED CASH — GROUP AND COMPANY

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash at bank and on hand	71,976	53,103	13,065	539,754
Short-term bank deposits	541,387	585,954	463,332	—
Restricted Cash (a)	10,252	—	10,252	—
	623,615	639,057	486,649	539,754
Less:				
Short-term bank deposits with original terms of over three months	(30,509)	(18,000)	—	—
Restricted cash	(10,252)	—	(10,252)	—
	(40,761)	(18,000)	(10,252)	—
Cash and cash equivalents	582,854	621,057	476,397	539,754

(a) The restricted cash was held in bank accounts as guarantee deposits for forward foreign exchange contracts transactions.

An analysis of the cash and cash equivalents, short-term bank deposits with original terms of over three months and restricted cash as at 31 December 2008 denominated in different currency is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
— RMB	115,844	88,350	—	—
— HK$	75,408	550,707	74,790	539,754
— US$	432,363	—	411,859	—
	623,615	639,057	486,649	539,754

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

As at 31 December 2008, the maximum exposure of cash and cash equivalents, short-term bank deposits with original terms of over three months and restricted cash to credit risk of the Group and the Company was RMB623,615,000 (2007: RMB639,057,000) and RMB486,649,000 (2007: RMB539,754,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. CASH AND CASH EQUIVALENTS, SHORT-TERM BANK DEPOSITS WITH ORIGINAL TERMS OF OVER THREE MONTHS AND RESTRICTED CASH — GROUP AND COMPANY (Continued)

The weighted average effective interest rate on short-term bank deposits with original terms of over three months of the Group was 3.90% as at 31 December 2008 (2007: 3.54%). The weighted average effective interest rate of the remaining short-term bank deposits of the Group was 3.16% as at 31 December 2008 (2007: 3.35%).

The table below shows the bank deposits balance placed with major counterparties of the Group as at 31 December 2008.

	2008 RMB'000	2007 RMB'000
Counterparties		
Listed banks		
— BNP Paribas	416,588	539,754
— Wing Hang Bank	70,677	10,953
— China Construction Bank	60,284	1,587
— Bank of China	36,939	33,195
— Bank of East Asia	20,267	—
— China Merchants Bank	17,267	20,536
— Industrial and Commercial Bank of China	38	142
Total listed banks	622,060	606,167
Non-listed banks		
— Bank of Shanghai	1,411	1,437
— Guangzhou Commercial Bank	—	31,230
Total non-listed banks	1,411	32,667
	623,471	638,834

The remaining balance of the cash and cash equivalents as at 31 December 2008 represents cash on hand (2007: 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)

13. ORDINARY SHARES — GROUP AND COMPANY

	Authorised ordinary shares		
	Number of shares '000	HK$'000	RMB'000
At 31 December 2007 and 2008 (a)	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares '000	HK$'000	RMB'000
At 31 December 2007	950,000	9,500	8,986
Repurchase of shares of the Company (b)	(26,290)	(263)	(249)
At 31 December 2008	923,710	9,237	8,737

(a) The total authorised number of ordinary shares as at 31 December 2008 is 100,000,000,000 shares (2007: 100,000,000,000 shares) with a par value of HK$0.01 per share (2007: HK$0.01 per share). All issued shares are fully paid.

(b) The Company repurchased 26,290,000 of its own ordinary shares during the year ended 31 December 2008. The total purchased consideration was approximately HK$38,620,000 (equivalent to RMB33,792,000). The nominal value of these shares of HK$263,000 (equivalent to RMB249,000) had been credited to capital redemption reserve. The nominal value of these shares of RMB249,000 and the premium paid for such purchases of approximately RMB33,543,000 were paid out of the Company's retained earnings and share premium, respectively. The shares were cancelled right after the repurchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. RESERVES — GROUP AND COMPANY

Group

	Share premium RMB'000	Merger reserve RMB'000	Capital redemption reserve RMB'000	Share option reserves RMB'000 note (a)	Statutory reserve funds RMB'000 note (b)	Total RMB'000
At 1 January 2007	15,000	4	—	—	3,531	18,535
Disposal of subsidiaries	—	—	—	—	(531)	(531)
Employee share option benefits	—	—	—	754	—	754
Issue of shares pursuant to the IPO	591,282	—	—	—	—	591,282
Share issuance costs	(38,633)	—	—	—	—	(38,633)
Capitalisation of share premium	(7,180)	—	—	—	—	(7,180)
Appropriations	—	—	—	—	1,000	1,000
At 31 December 2007	560,469	4	—	754	4,000	565,227
Employee share option benefits	—	—	—	6,776	—	6,776
Repurchase of shares of the Company (Note 13(b))	(33,543)	—	249	—	—	(33,294)
Appropriations	—	—	—	—	11,963	11,963
At 31 December 2008	526,926	4	249	7,530	15,963	550,672
Representing:						
Proposed special dividend (Note 23)	249,402	—	—	—	—	249,402
Others	277,524	4	249	7,530	15,963	301,270
At 31 December 2008	526,926	4	249	7,530	15,963	550,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. RESERVES — GROUP AND COMPANY (Continued)

Company

	Share premium RMB'000	**Capital redemption reserve** RMB'000	**Share option reserves** RMB'000 note (a)	**Contributed surplus** RMB'000	**Total** RMB'000
At 1 January 2007	—	—	—	—	—
Employee share option benefits	—	—	754	—	754
Issue of shares pursuant to the IPO	591,282	—	—	—	591,282
Share issue costs	(38,633)	—	—	—	(38,633)
Capitalisation of share premium	(7,180)	—	—	—	(7,180)
Effect of the Reorganisation	—	—	—	88,277	88,277
At 31 December 2007	545,469	—	754	88,277	634,500
Employee share option benefits	—	—	6,776	—	6,776
Repurchase of shares of the Company (Note 13(b))	(33,543)	249	—	—	(33,294)
At 31 December 2008	511,926	249	7,530	88,277	607,982
Representing:					
Proposed special dividend (Note 23)	249,402	—	—	—	249,402
Others	262,524	249	7,530	88,277	358,580
At 31 December 2008	511,926	249	7,530	88,277	607,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. RESERVES — GROUP AND COMPANY (Continued)

(a) Share options reserves

Pre-IPO Share Option Plan

On 23 November 2007, the Company granted share options to selected directors and 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$
1st phase options	From 23 November 2009 to 22 November 2017	1.52
2nd phase options	From 23 November 2010 to 22 November 2017	1.97
3rd phase options	From 23 November 2011 to 22 November 2017	2.27

Movements in the number of share options outstanding:

	2008 Options (thousands)	2007 Options (thousands)
At 1 January	**49,929**	—
Granted	**—**	49,929
Forfeited	**(3,723)**	—
At 31 December	**46,206**	49,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. RESERVES — GROUP AND COMPANY (Continued)

(a) Share options reserves (Continued)

Pre-IPO Share Option Plan (Continued)

The fair value of options granted in 2007 determined using the Binomial valuation model was approximately RMB20 million (RMB0.40 per option). 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 19 for the total expense recognised in the consolidated income statement for share options granted to directors and employees.

RMB7,530,000 had been taken to share option reserve up to 31 December 2008 (2007: RMB754,000).

Post-IPO Share Option Plan

Pursuant to a shareholders' resolution passed on 23 November 2007, the Company also adopted a Post-IPO Share Option Plan (the "Post-IPO 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 Post-IPO 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 Post-IPO 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. RESERVES — GROUP AND COMPANY (Continued)

(a) Share options reserves (Continued)

Post-IPO Share Option Plan (Continued)

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 Post-IPO Scheme and up to 31 December 2008, no options had been granted.

(b) Statutory reserve funds

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	90,968	92,806	(5,405)	—
Profit/(loss) for the year	88,281	91,031	147,936	(5,405)
Dividends paid to the Company's shareholders	(70,965)	—	(70,965)	—
Dividends paid by a subsidiary to its then equity holders	—	(92,400)	—	—
Disposal of subsidiaries	—	531	—	—
Repurchase of shares of the Company (Note 13(b))	(249)	—	(249)	—
Appropriations to reserves (Note 14(b))	(11,963)	(1,000)	—	—
At 31 December	96,072	90,968	71,317	(5,405)

The profit attributable to equity holders of the Company was dealt within the financial statements of the Company to the extent of RMB147,936,000 (2007: loss of RMB5,405,000).

16. ACCRUALS AND OTHER PAYABLES — GROUP AND COMPANY

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Salary payables	11,555	9,223	30	38
Accrued expenses (a)	20,040	13,740	—	—
Other payables (b)	9,253	6,288	881	—
Amounts due to subsidiaries (c)	—	—	8,002	15,720
	40,848	29,251	8,913	15,758

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

(b) Other payables of the Group mainly represented business tax and other levies payable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. 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 at the balance sheet date. Upon commencement of the delivery of services, the balances are then transferred to revenue based on the time period of the respective online advertisements displayed by the Group.

18. EXPENSES BY NATURE

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Employee benefit expenses (Note 19)	**79,028**	52,036
Business tax	**32,126**	21,828
Sales commission	**23,119**	12,938
Rental expenses	**13,034**	10,837
Advertising expenses	**13,562**	7,782
Depreciation and amortisation expenses (Notes 6 and 7)	**4,867**	4,006
Auditors' remuneration	**3,480**	3,050
Conference and office expenses	**3,279**	2,660
Travelling expenses	**2,899**	2,256
Professional fees	**3,160**	967
Technical consultancy fees (Note 26(b)(ii))	**—**	591
Provision for impairment of receivables	**4,362**	417
Utilities and energy costs	**360**	253
Other expenses	**3,875**	3,038
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	**187,151**	122,659

19. EMPLOYEE BENEFIT EXPENSES

	2008	2007
	RMB'000	RMB'000
Wages, salaries and bonuses	**62,198**	44,438
Share options granted to directors and employees (Note 14(a))	**6,776**	754
Social security contributions	**3,473**	2,111
Contributions to pensions scheme (a)	**4,293**	3,267
Contributions to housing fund	**2,288**	1,466
	79,028	52,036

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. EMPLOYEE BENEFIT EXPENSES (Continued)

(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 12% to 22% of the basic salaries of employees during the year ended 31 December 2008.

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 2008, 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.

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2008 was 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	—	5	273	—	—	—	278
Mr. Tsung Shih Kin, Samuel	—	1,041	125	—	442	11	1,619
Mr. Wang Da-Shin, Jeff	—	583	400	—	—	11	994
Mr. Ho Kam Wah	—	5	—	—	—	—	5
Ms. Zhang Cong Min	—	891	150	—	2,328	39	3,408
Mr. Tsui Yiu Wa, Alec	273	—	—	—	—	—	273
Mr. Thaddeus Thomas Beczak	273	—	—	—	—	—	273
Mr. Louie Ming	273	—	—	—	—	—	273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. EMPLOYEE BENEFIT EXPENSES (Continued)

(b) Directors' and senior management's emoluments (Continued)

The remuneration of every director for the year ended 31 December 2007 was 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	—	—	—	—	—	—	—
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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2007: two) directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining two (2007: three) individuals during the year were as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,125	2,079
Share option schemes	405	42
Contributions to pensions scheme	22	17
	2,552	2,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts are stated in Renminbi (RMB) unless otherwise stated)

19. EMPLOYEE BENEFIT EXPENSES (Continued)

(c) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands (in RMB)		
RMB nil to RMB881,900 (equivalent to HK$1,000,000)	—	3
RMB881,901 to RMB1,322,850 (equivalent to HK$1,500,000)	2	—

During the year ended 31 December 2008, none (2007: none) 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.

20. FINANCE INCOME AND COST

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Finance cost		
— Net foreign exchange losses	36,819	8,197
Finance income		
— Interest income on short-term bank deposits	(15,245)	(2,279)
— Interest income on subscription proceeds	—	(203)
— Change in fair values of forward foreign exchange contracts	(1,640)	—
	(16,885)	(2,482)
Finance cost — net	19,934	5,715

21. INCOME TAX EXPENSE

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")	29,359	17,370
Deferred taxation	(117)	55
	29,242	17,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. INCOME TAX EXPENSE (Continued)

The Group was not subject to Hong Kong or Cayman Islands profits tax as it had no assessable income arising in or derived from Hong Kong or Cayman Islands during the year ended 31 December 2008 (2007: Nil).

On 16 March 2007, the National People's Congress approved the new Enterprise Income Tax Law, which is effective from 1 January 2008 (the "New EIT Law"). Under the New EIT Law, the applicable EIT rate for subsidiaries established in the PRC was at 25% (2007: 33%), after taking into account the relevant applicable tax concessions mentioned below. EIT was levied on the assessable income of each of the PRC subsidiaries of the Group during the year ended 31 December 2008, as determined in accordance with the relevant PRC income tax rules and regulations.

According to the New EIT Law, enterprises granted the High/New Technology Enterprises ("HNTE") will be entitled to enjoy a reduced tax rate of 15%. In December 2007, the detailed implementation rules relating to obtaining the HNTE status had 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 HNTE positions of GZP Computer and GDP Internet were formally confirmed in December 2008, when both of them obtained their formal designations as HNTE under the New EIT Law. As a result, GZP Computer and GDP internet applied the 15% rate for computation of current and deferred taxes in 2008.

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit before tax	117,523	108,456
Tax calculated at the statutory tax rate of 25% (2007: 33%)	29,381	35,790
Tax effects of:		
Tax concessions available to subsidiaries	(14,746)	(19,879)
Remeasurement of deferred tax — change in PRC tax rate	219	823
Income not subject to tax	(3,561)	(4,219)
Expenses not deductible for tax purposes	12,555	4,910
Withholding tax on declared profits	5,394	—
Tax charge	29,242	17,425

The weighted average applicable tax rate was 25% (2007: 16%). The increase was mainly caused by exchange losses of the Company which were not deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company:

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	88,281	91,031
Weighted average number of ordinary shares in issue (thousands shares)	938,612	767,288
Basic earnings per share (RMB)	9.405 cents	11.864 cents

(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 done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	88,281	91,031
Weighted average number of ordinary shares in issue (thousands shares)	938,612	767,288
Adjustments for — share options (thousands shares)	236	2,268
Weighted average number of ordinary shares for diluted earnings per share (thousands shares)	938,848	769,556
Diluted earnings per share (RMB)	9.403 cents	11.829 cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. DIVIDENDS

The Company was newly incorporated on 27 August 2007, no dividend was paid by the Company in 2007. The dividends paid by Takehigh to its then equity holders in 2007 was RMB92,400,000. The dividends relating to 2007 paid in 2008 was RMB70,965,000 (RMB7.47 cents per ordinary share).

The directors recommended the payment of a final dividend of RMB7.00 cents per ordinary share out of the retained earnings, totalling RMB64,660,000, and a special dividend of RMB27.00 cents per ordinary share out of the share premium, totalling RMB249,402,000.

The proposed final dividend and special dividend stated above are to be approved by the shareholders at the Annual General Meeting on 15 May 2009. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2008 RMB'000	2007 RMB'000
Proposed final dividend of RMB7.00 cents (2007: RMB7.47 cents) per ordinary share	64,660	70,965
Proposed special dividend of RMB27.00 cents (2007: nil) per ordinary share	249,402	—

24. CASH GENERATED FROM OPERATIONS

	2008 RMB'000	2007 RMB'000
Profit before income tax	117,523	108,456
Adjustments for:		
— Financial cost — net	2,365	5,715
— Depreciation (Note 6)	3,796	3,027
— Loss on disposal of property, plant and equipment	121	151
— Amortisation of intangible assets (Note 7)	1,071	979
— Share-based payment	6,776	754
	131,652	119,082
Changes in working capital:		
— Trade and other receivables	(22,025)	(29,361)
— Accruals and other payables	11,597	5,532
— Prepaid advertising subscriptions from customers	(3,624)	(1,834)
Cash generated from operations	117,600	93,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. COMMITMENTS

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

(b) Operating lease commitments

	2008 RMB'000	2007 RMB'000
Office buildings	3,288	4,343

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

	2008 RMB'000	2007 RMB'000
Not later than 1 year	3,283	2,398
Later than 1 year and not later than 5 years	5	1,945
	3,288	4,343

26. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang Ko Chiang	Substantial shareholder
Guangdong Pacific Electronic Technology Mall Company Limited (廣東太平洋電子科技廣場有限公司 "GPET Mall")	Controlled by Mr. Wang Ko Chiang
Shanghai Huanyu Pacific Digital Consulting Co., Ltd. (上海環宇太平洋數碼諮詢有限公司, "SHPD Consulting")	Controlled by Mr. Wang Ko Chiang
Beijing University Pacific Electronic Technology Company Limited (北京北大太平洋電子科技有限公司, "BUPE Technology")	Controlled by Mr. Wang Ko Chiang

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. RELATED PARTY TRANSACTIONS (Continued)

(a) Name and relationship with related parties (Continued)

Name	Relationship
Kexim Company Limited ("Kexim")	Controlled by Mr. Wang Ko Chiang
Shanghai Huanyu Pacific Digital Technology Company Limited (上海環宇太平洋數碼科技有限公司, "SHPD Technology")	Controlled by Mr. Wang Ko Chiang
Shanghai Pacific Electronic Consulting Co, Ltd. (上海太平洋電子諮詢有限公司, "SPE Consulting")	Controlled by Mr. Wang Ko Chiang
Tristar Partners Limited ("Tristar Partners")	Controlled by Mr. Tsung Shih Kin Samuel, executive director

(b) Related party transactions

The Group undertook the following related party transactions during the year ended 31 December 2008:

	2008 RMB'000	2007 RMB'000
Continuing:		
(i) Rental expenses for office and advertising bill board paid/payable:		
GPET Mall	3,960	2,506
SHPD Consulting	770	1,005
BUPE Technology	227	227
Kexim	212	73
SHPD Technology	72	293
SPE Consulting	—	113
	5,241	4,217
Discontinued:		
(ii) Technical consultancy fees:		
Tristar Partners	—	591

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

The remuneration of directors who were also identified as members of key management during the year ended 31 December 2008 was set out in Note 19.

(d) Balances with related parties

	2008 RMB'000	2007 RMB'000
Included in trade and other receivables:		
GPET Mall	423	242

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

27. 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 five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
RESULTS	**2008**	2007	2006	2005	2004
Turnover	**324,608**	236,830	170,973	114,341	81,332
Profit before income tax	**117,523**	108,456	82,035	52,277	36,323
Income tax	**(29,242)**	(17,425)	(14,836)	(6,285)	(4,069)
Profit for the year	**88,281**	91,031	67,199	45,992	32,254
Attributable to:					
Equity holders of the Company	**88,281**	91,031	67,199	45,992	32,254
Dividends (excluding special dividend)	**64,660**	70,965	92,400	56,530	20,323
ASSETS, LIABILITIES AND ASSETS LESS LIABILITIES					
Total assets	**742,253**	732,361	174,096	101,499	61,658
Total liabilities	**86,772**	67,180	62,746	40,074	21,969
Total assets less liabilities	**655,481**	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.