PACIFIC ONLINE LIMITED
太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the "Board") of Pacific Online Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011 together with the comparative figures for the corresponding period of last year, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Revenue	4	**261,488**	202,598
Cost of revenue		**(87,086)**	(61,591)
Gross profit		**174,402**	141,007
Selling and marketing costs		**(39,945)**	(30,969)
Administrative expenses		**(20,366)**	(21,297)
Product development expenses		**(13,106)**	(10,201)
Operating profit		**100,985**	78,540
Finance income		**4,519**	1,981
Finance costs		**(366)**	(641)
Finance income — net	5	**4,153**	1,340
Profit before income tax		**105,138**	79,880
Income tax expense	6	**(21,520)**	(6,942)
Profit for the period		**83,618**	72,938

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity holders of the Company		**83,618**	72,938
Earnings per share for profit attributable to equity holders of the Company			Restated
— basic *(RMB)*	7	**7.79 cents**	6.82 cents
— diluted *(RMB)*	7	**7.55 cents**	6.73 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit for the period	**83,618**	72,938
Other comprehensive income for the period, net of tax	**—**	—
Total comprehensive income for the period	**83,618**	72,938
Attributable to:		
Equity holders of the Company	**83,618**	72,938

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011

	Note	**Unaudited 30 June 2011** *RMB'000*	Audited 31 December 2010 *RMB'000*
ASSETS			
Non-current assets			
Lease prepayment		**18,203**	18,390
Property and equipment	9	**147,211**	148,741
Intangible assets	9	**9,170**	9,345
Deferred income tax assets	10	**7,354**	8,978
Prepayments	12	**29,860**	—
		211,798	185,454
Current assets			
Trade receivables	11	**196,089**	139,799
Other receivables and prepayments	12	**10,641**	9,912
Short-term bank deposits with original terms of over three months		**169,900**	182,200
Cash and cash equivalents		**84,670**	262,283
		461,300	594,194
Total assets		**673,098**	779,648
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	13	**10,060**	9,201
Reserves		**542,867**	597,146
Total equity		**552,927**	606,347
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10	**4,915**	—
Current liabilities			
Accruals and other payables	14	**82,543**	125,761
Prepaid advertising subscriptions from customers		**23,217**	21,539
Current income tax liabilities		**9,496**	26,001
		115,256	173,301
Total liabilities		**120,171**	173,301
Total equity and liabilities		**673,098**	779,648
Net current assets		**346,044**	420,893
Total assets less current liabilities		**557,842**	606,347

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

		Unaudited								
		Attributable to equity holders of the Company								
	Note	Ordinary shares *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	Capital redemption reserve *RMB'000*	Share-based capital reserves *RMB'000*	Statutory reserve funds *RMB'000*	Shares held for Share Award Scheme *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2010		8,737	277,524	4	249	14,428	32,949	—	149,407	483,298
Comprehensive income										
Profit for the period		—	—	—	—	—	—	—	72,938	72,938
Other comprehensive income		—	—	—	—	—	—	—	—	—
Total comprehensive income		—	—	—	—	—	—	—	72,938	72,938
Cash dividends relating to 2009, paid in June 2010	8	—	—	—	—	—	—	—	(94,993)	(94,993)
Bonus shares issued in June 2010	13(b)	407	(407)	—	—	—	—	—		—
Employees Share Option Plan:										
— value of employee services		—	—	—	—	4,458	—	—	—	4,458
— proceeds from shares issued	13(a)	42	6,324	—	—	—	—	—	—	6,366
Balance at 30 June 2010		9,186	283,441	4	249	18,886	32,949	—	127,352	472,067
Balance at 1 January 2011		**9,201**	**285,910**	**4**	**249**	**22,947**	**43,250**	**—**	**244,786**	**606,347**
Comprehensive income										
Profit for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**83,618**	**83,618**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**		**83,618**	**83,618**
Cash dividends relating to 2010, paid in June 2011	8	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(140,753)**	**(140,753)**
Bonus shares issued in June 2011	13(b)	**816**	**(816)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Share Award Scheme										
— purchase of shares held for Share Award Scheme		**—**	**—**	**—**	**—**	**—**	**—**	**(8,298)**	**—**	**(8,298)**
— value of employee services		**—**	**—**	**—**	**—**	**360**	**—**	**—**	**—**	**360**
Employees Share Option Plan:										
— value of employee services		**—**	**—**	**—**	**—**	**3,140**	**—**	**—**	**—**	**3,140**
— proceeds from shares issued	13(a)	**43**	**8,470**	**—**	**—**	**—**	**—**	**—**	**—**	**8,513**
Balance at 30 June 2011		**10,060**	**293,564**	**4**	**249**	**26,447**	**43,250**	**(8,298)**	**187,651**	**552,927**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**52,804**	51,816
Income tax paid		**(31,486)**	(34,164)
Net cash generated from operating activities		**21,318**	17,652
Cash flows from investing activities			
Purchase of property and equipment		**(72,639)**	(2,144)
Purchase of intangible assets		**(65)**	(197)
Decrease/(increase) in short-term bank deposits with original terms of over three months		**12,300**	(109,170)
Interest received		**2,588**	1,981
Net cash used in investing activities		**(57,816)**	(109,530)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme	15	**(8,298)**	—
Cash dividends paid	8	**(140,753)**	(94,993)
Proceeds from issuance of ordinary shares	13	**8,513**	6,366
Net cash used in financing activities		**(140,538)**	(88,627)
Net decrease in cash and cash equivalents		**(177,036)**	(180,505)
Cash and cash equivalents at beginning of period		**262,283**	409,330
Exchange losses on cash and cash equivalents		**(577)**	(543)
Cash and cash equivalents at end of period		**84,670**	228,282

1. GENERAL INFORMATION

The Company was incorporated on 27 August 2007 as an exempted company with limited liability under the Company Law, Cap 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

This condensed consolidated interim financial information (the "Interim Financial Information") has been approved for issue by the Board on 29 August 2011.

The Interim Financial Information has not been audited.

2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) The following amendments to standards and interpretations are effective for the financial year beginning 1 January 2011:

HKAS 24 (Revised)	Related party disclosures
HKFRIC — Int 19	Extinguishing financial liabilities with equity instruments
Amendment to HKAS 32	Classification of rights issues
Amendment to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
Amendments to HKFRIC — Int 14	Prepayments of a minimum funding requirement
HKFRSs (Amendments)	Third improvements to HKFRSs (2011)

The adoption of the above amended standards and interpretations did not have any material impact on the Interim Financial Information of the Group except for disclosure and has not led to any changes in the accounting policies except disclosed elsewhere.

(b) The following new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 7 (Amendment)	Disclosures — Transfers of financial assets	1 July 2011
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRS 9	Financial instruments	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013

Management of the Group is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

4. SEGMENT INFORMATION

The chief operating decision maker has been identified as the executive directors who make strategic decisions.

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

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

The chief operating decision maker assesses the performance of the operating segments based on revenue derived from its different internet portals. The reportable operating segments derive their revenue primarily from the two major portals, namely PConline and PCauto. The Company currently does not allocate cost of revenue, operating costs or assets to its segments, as its chief operating decision maker does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Company does not report a measure of profit for each reportable segment and total assets.

Other segment relates to revenue generated from other portals, including PCgames, PClady, PCbaby and PChouse, e-commerce and other services.

There were no inter-segment sales for the six months ended 30 June 2011 (six months ended 30 June 2010: same). The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the condensed consolidated income statement.

	PCauto	PConline	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2011				
Revenue	**118,101**	**113,799**	**29,588**	**261,488**
For the six months ended 30 June 2010				
Revenue	93,085	90,019	19,494	202,598

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2011, all revenues of the Group were derived from external customers and they were all generated from the PRC (six months ended 30 June 2010: same).

As at 30 June 2011, majority of non-current assets of the Group other than the club membership included in the intangible assets were all located in the PRC (31 December 2010: same).

For the six months ended 30 June 2011, there was no revenue derived from a single external customer accounting for ten per cent or more of the Group's revenues (six months ended 30 June 2010: same).

5. FINANCE INCOME — NET

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Finance income		
— Interest income	**4,519**	1,981
Finance costs		
— Net foreign exchange losses	**(366)**	(641)
Finance income — net	**4,153**	1,340

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
PRC current tax	**14,981**	17,246
Deferred taxation	**6,539**	2,734
Reversal of the over-provided dividend withholding tax	**—**	(13,038)
	21,520	6,942

Income tax expense is recognised based on management's best estimate of the projected full year annual effective income tax rate.

The Company, which is a Cayman Islands corporation, is not subject to any profits tax. The subsidiaries of the Group incorporated in Hong Kong were not subject to Hong Kong profits tax as they had no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2011 (six months ended 30 June 2010: same).

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

Pursuant to the PRC Corporate Income Tax Law ("CIT Law"), the CIT rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the CIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTE"). Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司, "GZP Computer") 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"), the principal operating subsidiaries of the Company, were formally designated as HNTE for the three years ended 31 December 2010 under the CIT Law. As a result, GZP Computer and GDP Internet were subject to CIT at a rate of 15% from 2008 to 2010. For the six months ended 30 June 2011, management has conducted research and consulted relevant third parties to confirm the view of the Board that GZP Computer and GDP Internet will obtain its formal HNTE designation in 2011 under the CIT Law upon the completion of certain administrative approval procedures. Consequently, GZP Computer and GDP Internet used 15% in the computation of deferred taxes as of 30 June 2011 and the current income tax charge for the six months then ended.

All the other PRC entities of the Group are subject to CIT at a rate of 25% (six months ended 30 June 2010: same) in accordance with the CIT Law.

7. 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 period excluding the ordinary shares purchased by the Group and held for the Share Award Scheme (Note 15(b)). In determining the weighted average number of ordinary shares in issue for the six months ended 30 June 2010 and 2011, the 98,131,000 bonus shares (Note 13(b)) issued in June 2011 were treated as if they had been issued prior to 1 January 2010, the earliest period presented.

	Six months ended 30 June	
	2011	2010 Restated
Profit attributable to equity holders of the Company *(RMB'000)*	**83,618**	72,938
Weighted average number of ordinary shares in issue *(thousand shares)*	**977,766**	971,899
Shares held for the Share Award Scheme *(thousand shares)*	**(2,750)**	—
Impact of bonus shares issued in June 2011 *(thousand shares)*	**98,131**	97,491
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,073,147**	1,069,390
Basic earnings per share *(RMB)*	**7.79 cents**	6.82 cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

	Six months ended 30 June	
	2011	2010 Restated
Profit attributable to equity holders of the Company *(RMB'000)*	**83,618**	72,938
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,073,147**	1,069,390
Effect of dilution:		
— Share options scheme *(thousand shares)*	**33,389**	13,652
— Shares granted under the Share Award Scheme *(thousand shares)*	**261**	—
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,106,797**	1,083,042
Diluted earnings per share *(RMB)*	**7.55 cents**	6.73 cents

The weighted average number of ordinary shares used in the calculation of diluted earnings per share has taken into account the impact of bonus issues of shares as disclosed above.

8. DIVIDENDS

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

The dividend that related to the year ended 31 December 2010 included: a) the final cash dividend amounting to RMB140,753,000 (2010: RMB94,993,000) which has been net off the dividend of RMB359,000 (2010: nil) paid to the Share Award Scheme trust (Note 15(b)); and b) a bonus issue of shares on the basis of one new share for every ten existing issued shares relates was paid in June 2011.

9. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and equipment *RMB'000*	Intangible assets *RMB'000*
Six months ended 30 June 2010		
Opening net book amount as at 1 January 2010	12,534	9,321
Additions	2,144	197
Disposals	(8)	—
Depreciation and amortization	(2,011)	(256)
Closing net book amount as at 30 June 2010	12,659	9,262
Six months ended 30 June 2011		
Opening net book amount as at 1 January 2011	**148,741**	**9,345**
Additions	**2,324**	**65**
Disposals	**(40)**	**—**
Depreciation and amortization	**(3,814)**	**(240)**
Closing net book amount as at 30 June 2011	**147,211**	**9,170**

10. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates, which are enacted or substantively enacted and expected to apply to the period when the assets are realised.

Deferred income tax assets

	As at 30 June 2011 ***RMB'000***	As at 31 December 2010 *RMB'000*
Deferred income tax assets:		
— to be recovered after more than 12 months	**3,191**	4,100
— to be recovered within 12 months	**4,163**	4,878
	7,354	8,978

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

	Intra-group software sales	Provision for impairment of trade receivables	Provision for tax losses	Accrued salary expense	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	847	2,289	1,707	—	4,843
(Charged)/credited to the income statement	(327)	285	1,457	—	1,415
At 30 June 2010	520	2,574	3,164	—	6,258
At 1 January 2011	**1,103**	**3,497**	**—**	**4,378**	**8,978**
Charged to the income statement	**(1,103)**	**(306)**	**—**	**(215)**	**(1,624)**
At 30 June 2011	**—**	**3,191**	**—**	**4,163**	**7,354**

Deferred income tax liabilities

	As at 30 June 2011
	RMB'000
Deferred income tax liabilities:	
— to be recovered within 12 months	**4,915**

The movement in deferred income tax liabilities during the period is as follows:

	Deferred income tax liabilities-withholding tax
	RMB'000
At 1 January 2010	—
Charged to the income statement	4,149
At 30 June 2010	4,149
At 1 January 2011	**—**
Charged to the income statement	**4,915**
At 30 June 2011	**4,915**

As at 30 June 2011, the deferred income tax liabilities represented the withholding tax provided for the earnings anticipated to be remitted abroad from a PRC subsidiary of the Group.

11. TRADE RECEIVABLES

Credit terms granted to customers by the Group are generally within six months. As at 30 June 2011, the ageing analysis of the trade receivables (net of impairment provision of RMB12,763,000 (31 December 2010: RMB13,989,000)) was as follows:

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Current to 6 months	**185,134**	114,714
6 months to 1 year	**9,482**	22,593
1 year to 2 years	**1,473**	2,492
	196,089	139,799

12. OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Non-current portion		
Prepayments (a)	**29,860**	—
Current portion		
Other receivables	**10,061**	5,427
Receivables from related parties	**470**	468
Prepayments	**110**	4,017
	10,641	9,912

(a) It represented the advances for the new office decorations.

13. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares ('000)	*HK$'000*	*RMB'000*
At 31 December 2010 and 30 June 2011	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares ('000)	*HK$'000*	*RMB'000*
At 1 January 2010	923,710	9,237	8,737
Employees share option scheme — issued shares (a)	4,784	48	42
Bonus shares issued in June 2010 (b)	46,420	464	407
At 30 June 2010	974,914	9,749	9,186
At 1 January 2011	**976,708**	**9,767**	**9,201**
Employees share option scheme — issued shares (a)	**5,069**	**51**	**43**
Bonus shares issued in June 2011 (b)	**98,131**	**981**	**816**
At 30 June 2011	**1,079,908**	**10,799**	**10,060**

(a) Share options exercised during the six months ended 30 June 2011 resulted in 5,069,000 shares being issued (30 June 2010: 4,784,000), with exercise proceeds of RMB8,513,000 (30 June 2010: RMB6,366,000). The nominal value of these shares of RMB43,000 (30 June 2010: RMB42,000) and the premium of RMB8,470,000 (30 June 2010: RMB6,324,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HK$4.16 per share (30 June 2010: HK$2.45).

(b) At the Annual General Meeting held on 30 May 2011, shareholders of the Company approved a bonus issue of shares on the basis of one new share for every ten existing issued shares held. As a result, the ordinary shares in issue increased by 98,131,000 shares (30 June 2010: 46,420,000 shares), representing an increase in share capital of the Company by RMB816,000 (30 June 2010: RMB407,000) with a corresponding amount of reduction in the share premium account.

All the ordinary shares issued during the six months ended 30 June 2011 rank pari passu with the then existing ordinary shares in all respects.

14. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2011 *RMB'000*	As at 31 December 2010 *RMB'000*
Salaries payable	**27,958**	29,621
Accrued expenses (a)	**30,909**	28,121
Other payables (b)	**23,676**	68,019
	82,543	125,761

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

(b) Other payables for the period ended 30 June 2011 mainly represented business tax and other levies payable.

15. SHARE-BASED COMPENSATION COSTS

(a) Share Option Plan

Options were granted to directors and selected employees according to their contribution to the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

i. Pre-IPO Share Option Plan

On 23 November 2007, the Company granted share options to directors and selected employees under a Pre-IPO Share Option Plan, under which the option holders are entitled to acquire an aggregate of 49,929,000 shares of the Company. All options under the Pre-IPO Share Option Plan had been granted.

ii. 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 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 Share Option Plan, the Board 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 Share Option Plan is not permitted to exceed, in aggregate, 98,130,880 shares of the Company, without prior approval obtained from the Company's shareholders. The number of shares issued and to be issued in respect of these options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval obtained from the Company's shareholders. Options granted to independent non-executive directors and substantial shareholders of the Company in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up by the Eligible Person within 28 days of the date of offer, upon payment of HK$1 per grant. Options may be exercised at any time during the option period, which should not be more than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the share for the five business dates immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

iii. Adjustment for bonus issue of shares

As a result of the bonus shares issued in June 2011 (Note 13(b)), adjustments have been made to the exercise price and the number of shares to be allotted and issued upon exercise of the subscription rights attaching to the outstanding share options of the Company as at 25 May 2011 granted under the Pre-IPO Share Option Plan and Post-IPO Share Option Plan.

Accordingly, the impact of the bonus shares issued in June 2011 has been considered in Note 15(a)(iv) and Note 15(a)(v) as below.

iv. Movements in share options

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

	Pre-IPO Share Option Plan		**Post-IPO Share Option Plan**		
	Average exercise price (HK$)	*Number of options (thousands)*	*Average exercise price (HK$)*	*Number of options (thousands)*	*Total number of options (thousands)*
At 1 January 2010	1.92	40,792	1.57	14,963	55,755
Granted	—	—	3.09	15,633	15,633
Exercised	1.52	(4,784)	—	—	(4,784)
Forfeited	1.92	(36)	1.51	(270)	(306)
Adjustment for bonus shares issued in June 2010	—	1,771	—	1,520	3,291
At 30 June 2010	1.88	37,743	2.24	31,846	69,589
Currently exercisable as at 30 June 2010	1.45	9,232	—	—	9,232
At 1 January 2011	**1.88**	**35,808**	**2.25**	**31,626**	**67,434**
Granted	**—**	**—**	**—**	**—**	**—**
Exercised	**1.81**	**(2,513)**	**2.23**	**(2,556)**	**(5,069)**
Forfeited	**2.16**	**(85)**	**2.75**	**(1,114)**	**(1,199)**
Adjustment for bonus shares issued in June 2011	**—**	**3,191**	**—**	**2,838**	**6,029**
At 30 June 2011	**1.72**	**36,401**	**2.02**	**30,794**	**67,195**
Currently exercisable as at 30 June 2011	**1.55**	**20,995**	**2.08**	**7,268**	**28,263**

v. *Outstanding share options*

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

Expiry date	**30 June 2011**		31 December 2010	
	Adjusted exercise price in HK$ per share	***Adjusted number of options (thousands)***	*Exercise price in HK$ per share*	*Number of options (thousands)*
Pre-IPO Share Option Plan				
— 22 November 2017	**1.32**	**8,567**	1.45	8,157
— 22 November 2017	**1.71**	**12,428**	1.88	13,445
— 22 November 2017	**1.96**	**15,406**	2.16	14,206
Post-IPO Share Option Plan				
— 11 April 2014	**2.68**	**12,298**	2.95	13,125
— 13 April 2014	**2.63**	**874**	2.89	797
— 17 May 2014	**1.31**	**11,838**	1.44	11,923
— 17 May 2014	**2.65**	**2,242**	2.92	2,390
— 5 July 2014	**1.56**	**3,542**	1.72	3,391
		67,195		**67,434**

vi. *Fair values of options*

The fair value of options granted on 23 November 2007 under Pre-IPO Share Option Plan determined using the Binomial valuation model was approximately RMB19.8 million.

The fair values of options granted under Post-IPO Share Option Plan determined using the Trinomial valuation model was approximately RMB16.6 million.

(b) Share Award Scheme

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

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

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

For the Awarded Shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the Awarded Shares is recognised as an expense and credited to equity over the period in which the vesting conditions are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Awarded Shares granted. Non-vesting conditions and market conditions shall be taken into account when estimating the fair value of the equity instruments granted.

During the six months ended 30 June 2011, the Share Award Scheme Trust acquired 2,750,000 shares of the Company through purchases on the open market, at a total cost (including related transaction costs) of approximately RMB8,298,000 and 261,000 shares were awarded to a number of employees with a vesting period of one year. The excess 2,489,000 shares would be awarded to employees in future.

During the six months ended 30 June 2011, the Share Award Scheme Trust received cash dividend amounting to RMB359,000 which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

The total expenses recognised for employee services received in respect of the Share Award Scheme for the six months ended 30 June 2011 was RMB360,000 (six months ended 30 June 2010: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 29.1% from RMB202.6 million for the six months ended 30 June 2010 to RMB261.5 million for the six months ended 30 June 2011. The increase was mainly due to organic growth across the Group's different portals, with notably strong performance from PConline, PCauto and our female segments. Profit before tax rose by 31.6%, which was in line with the growth in the Group's revenue.

Revenue for PConline, the Group's IT and consumer electronics portal, increased by 26.4% from RMB90.0 million for the six months ended 30 June 2010 to RMB113.8 million for the six months ended 30 June 2011. The increase in revenue from PConline was mainly due to an overall increase in advertising spending from consumer electronic customers, especially from large multinationals.

Revenue for PCauto, the Group's automobile portal, increased by 26.9% from RMB93.1 million for the six months ended 30 June 2010 to RMB118.1 million for the six months ended 30 June 2011. According to a report issued by the China Association of Automobile Manufacturers (CAAM), in the first six months of 2011, automobile sales in Mainland China reached nearly 9.4 million vehicles, a 3.4% increase from the same period in 2010. Even with this modest growth backdrop, PCauto was able to increase its revenue as advertisers continue to allocate more marketing budget toward digital media.

Revenue for other operations, including the Group's other portals, PCgames, PClady, PCbaby, and PChouse increased by 51.8% from RMB19.5 million for the six months ended 30 June 2010 to RMB29.6 million for the six months ended 30 June 2011. Revenue from this segment increased significantly as a result of higher consumer spending in Mainland China and as consumer goods companies allotted a larger percentage of their advertising budgets to internet advertising.

As a percentage of total revenue, PCauto accounted for 46.0% for the six months ended 30 June 2010 and 45.2% for the six months ended 30 June 2011. PConline accounted for 44.4% for the six months ended 30 June 2010 and 43.5% for the six months ended 30 June 2011. Other operations accounted for 9.6% for the six months ended 30 June 2010 and 11.3% for the six months ended 30 June 2011. The Group continued to diversify its revenue base as the other portals significantly scaled up their operations.

Cost of Revenue

Cost of revenue increased by 41.4% from RMB61.6 million for the six months ended 30 June 2010 to RMB87.1 million for the six months ended 30 June 2011. Gross profit margin was 66.7% for the six months ended 30 June 2011 and 69.6% for the six months ended 30 June 2010. The increase in cost of revenue was mainly due to an increase in number of employees to support the Group's expansion plans.

Selling and Marketing Costs

Selling and marketing costs increased by 28.7% from RMB31.0 million for the six months ended 30 June 2010 to RMB39.9 million for the six months ended 30 June 2011. The rise was primarily due to increase in staff cost and increased promotional activities for existing products and brand building for the whole Group.

Administrative Expenses

Administrative expenses decreased by 4.2% from RMB21.3 million for the six months ended 30 June 2010 to RMB20.4 million for the six months ended 30 June 2011. The decrease was mainly due to less provision for impairment of receivables during the period.

Product Development Expenses

Product development expenses increased by 28.4% from RMB10.2 million for the six months ended 30 June 2010 to RMB13.1 million for the six months ended 30 June 2011. The increase was primarily due to greater staff recruitment in research and development during the period.

Operating Profit before Share-based Compensation Expenses (non-GAAP)

Operating profit before share-based compensation expenses (non-GAAP) was RMB104.5 million in the first half of 2011, representing a 26.0% increase from RMB83.0 million over the period in 2010.

Net Finance Income

Net finance income was RMB1.3 million for the six months ended on 30 June 2010 and RMB4.2 million for the six months ended on 30 June 2011. Net finance income came mainly from interest income on short-term bank deposits.

Income Tax Expense

Income tax expense increased by 211.6% from RMB6.9 million for the six months ended 30 June 2010 to RMB21.5 million for the six months ended 30 June 2011. For the six months ended 30 June 2010, there was a reversal of the over-provided dividend withholding tax from different tax rates in 2008 and 2009, and there was no tax adjustment for the six months ended 30 June 2011.

Net Profit

Net profit increased by 14.7% from RMB72.9 million for the six months ended 30 June 2010, to RMB83.6 million for the six months ended 30 June 2011.

Liquidity and Financial Resources

As of 30 June 2011, the Group had short-term bank deposits and cash totalling RMB254.6 million, compared with RMB444.5 million as of 31 December 2010. Cash dividend amounting to RMB140.8 million was paid out during the six months ended 30 June 2011.

The Group had no external debt as of 31 December 2010 and 30 June 2011.

Bank Borrowings

As of 30 June 2011, the Group did not have any bank borrowings and therefore, its gearing ratio, representing ratio of total bank borrowings to shareholders' equity, was nil. The Group also did not have any bank borrowings as of 31 December 2010.

Property Update

The new Guangzhou headquarters has been under internal decoration and tentatively the Group will move into the new property in the fourth quarter of the year. In early 2010, GZP Computer (a subsidiary of the Company) acquired the said property located at No. 115 Gaopu Road, Gaotang Software Station, Tianhe District, Guangzhou at a total consideration of RMB148.7 million. Further details of the said acquisition were disclosed in the Company's announcement dated 28 January 2010.

Material Acquisitions and Disposals

During the period ended 30 June 2011, the Group had no material acquisitions and disposals of subsidiaries and associates.

Charges on Assets

As of 30 June 2011, the Group had no bank deposits or other assets pledged to secure its banking facilities.

Foreign Exchange Risk

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

Business Outlook

The Group delivered strong results for the first half of 2011 and expects to see continued upward momentum in the second half of 2011. Given its strong market position and growing user base, the Group expects to continue to attract new advertising customers as the Chinese online advertising industry grows.

PConline, the Group's flagship IT portal, continued to grow at a steady pace as the Group broadened its base of advertising customers and attracted new users to its site. In addition to our traditional brand advertisers, the increased competition in the e-commerce space has resulted in increasing need to market and to draw more traffic to these e-commerce sites. As consumer electronic products are among the most popular net purchases, PConline has benefited from such increased demand in advertising from these e-commerce sites.

PCauto, the Group's automobile portal continued to grow despite of industry headwind in the automobile sector. Overall automobile sales in China has grown modestly in the first half as the government instilled various buying restrictions across some first-tier cities. Increased competition among automobile brands, however, favors consumer oriented site like PCauto as advertisers allocate a greater amount to reach potential purchasers. In addition, the continued transition from traditional advertising to digital advertising will only enhance the growth of PCauto.

The Group's other portals, such as PClady, PCgames and PCbaby, also delivered meaningful growth in the first half of 2011. The Group expects to see continued growth across all of its portals in the second half of the year, and, in particular, our female segment is likely to contribute a greater percentage of the Group's overall revenues as consumer products companies are starting to emphasize and allocate a greater amount to digital marketing. Our newest site, PChouse, has progressed along steadily and we expect to start contributing next year.

The Group is highly confident in the long-term outlook of its businesses. The Group plans to continue to invest in technology and R&D to enhance its offering and attract new users. The Group has already rolled out its various wireless applications, including the PConline, PCauto, and PClady app for the iOS and Android platform. In addition, the Group also introduced the PCauto iPad electronic magazine to complement its digital offering.

The Group also plans to continue to recruit new employees to support its expansion and accommodate a greater number of users. As we are a service company, recruiting and retaining talent has always been our challenge and priority. The Group will further utilize equity based compensation and invest in people.

In the second half of 2011, the Group expects to increase the Group's share in its existing portal markets by adding a variety of new features that will better serve the Group's customers. The Group remains confident that it has a clear strategy to continue to drive profitability and add value for shareholders over the long term.

EMPLOYEES AND REMUNERATION INFORMATION

As of 30 June 2011, the Group had 1,073 employees (31 December 2010: 946), an increase of 13.4% from the first half of 2011. The increase in staff level represented the expansion of the Group's operations in 2011. The Group determines staff's remuneration based on factors such as qualifications and years of experience.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee of the Company, which comprises all the three independent non-executive directors of the Company, namely, Mr. Tsui Yiu Wa, Alec (Chairman of the Audit Committee), Mr. Thaddeus Thomas Beczak and Mr. Louie Ming, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of these interim results.

CORPORATE GOVERNANCE

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

APPRECIATION

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

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

Hong Kong, 29 August 2011

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