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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 2012

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 2012 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 2012

		Unaudited	
		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	4	**298,174**	261,488
Cost of revenue		**(97,663)**	(87,086)
Gross profit		**200,511**	174,402
Selling and marketing costs		**(45,088)**	(39,945)
Administrative expenses		**(35,317)**	(20,366)
Product development expenses		**(17,200)**	(13,106)
Other income		**1,925**	—
Operating profit		**104,831**	100,985
Finance income		**3,070**	4,519
Finance costs		**(358)**	(366)
Finance income — net	5	**2,712**	4,153
Profit before income tax		**107,543**	105,138
Income tax expense	6(a)	**(22,514)**	(21,520)
Profit for the period		**85,029**	83,618

		Unaudited Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity holders of the Company		**85,029**	83,618
Earnings per share for profit attributable to equity holders of the Company			
— basic *(RMB)*	7(a)	**7.83 cents**	7.79 cents
— diluted *(RMB)*	7(b)	**7.63 cents**	7.55 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the period	**85,029**	83,618
Other comprehensive income for the period, net of tax	**—**	—
Total comprehensive income for the period	**85,029**	83,618
Attributable to:		
Equity holders of the Company	**85,029**	83,618

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		**17,756**	17,964
Property and equipment	9	**203,828**	207,299
Intangible assets	9	**8,956**	9,034
Deferred income tax assets	10	**6,882**	7,460
		237,422	241,757
Current assets			
Trade and other receivables and prepayments	11	**282,714**	197,300
Short-term bank deposits with original terms of over three months		**2,541**	2,500
Cash and cash equivalents		**240,909**	429,658
		526,164	629,458
Total assets		**763,586**	871,215
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	12	**10,115**	10,093
Reserves		**622,166**	697,786
Total equity		**632,281**	707,879

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10	**5,000**	—
Current liabilities			
Accruals and other payables	13	**82,948**	106,633
Prepaid advertising subscriptions from customers		**21,153**	26,762
Current income tax liabilities		**22,204**	29,941
		126,305	163,336
Total liabilities		**131,305**	163,336
Total equity and liabilities		**763,586**	871,215
Net current assets		**399,859**	466,122
Total assets less current liabilities		**637,281**	707,879

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

		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 Compensation reserve** *RMB'000*	**Shares held for Share Award Scheme** *RMB'000*	**Statutory reserve funds** *RMB'000*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
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 2011	8	—	—	—	—	—	—	—	(140,753)	(140,753)
Bonus shares issued in June 2011		816	(816)	—	—	—	—	—	—	—
Share Award Scheme										
— purchase of shares		—	—	—	—	—	(8,298)	—	—	(8,298)
— value of employee services	14(b)	—	—	—	—	360	—	—	—	360
Employees share option schemes:										
— exercise of share options	12(a)	43	8,470	—	—	—	—	—	—	8,513
— value of employee services	14(a)	—	—	—	—	3,140	—	—	—	3,140
Balance at 30 June 2011		10,060	293,564	4	249	26,447	(8,298)	43,250	187,651	552,927
Balance at 1 January 2012		**10,093**	**299,843**	**4**	**249**	**30,083**	**(8,605)**	**43,250**	**332,962**	**707,879**
Comprehensive income										
Profit for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**85,029**	**85,029**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**85,029**	**85,029**
Cash dividends relating to 2011, paid in 2012	8	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(160,572)**	**(160,572)**
Repurchase of shares of the Company	12(b)	**(35)**	**(9,291)**	**—**	**35**	**—**	**—**	**—**	**(35)**	**(9,326)**
Share Award Scheme										
— purchase of shares		**—**	**—**	**—**	**—**	**—**	**(3,839)**	**—**	**—**	**(3,839)**
— value of employee services	14(b)	**—**	**—**	**—**	**—**	**2,219**	**—**	**—**	**—**	**2,219**
— vesting of awarded shares		**—**	**(944)**	**—**	**—**	**—**	**944**	**—**	**—**	**—**
Employees share option schemes:										
— exercise of share options	12(a)	**57**	**9,719**	**—**	**—**	**—**	**—**	**—**	**—**	**9,776**
— value of employee services	14(a)	**—**	**—**	**—**	**—**	**1,115**	**—**	**—**	**—**	**1,115**
Balance at 30 June 2012		**10,115**	**299,327**	**4**	**284**	**33,417**	**(11,500)**	**43,250**	**257,384**	**632,281**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

		Unaudited	
		Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**10,316**	52,804
Income tax paid		**(24,673)**	(31,486)
Net cash (used in)/generated from operating activities		**(14,357)**	21,318
Cash flows from investing activities			
Purchase of property and equipment		**(12,378)**	(72,639)
Purchase of intangible assets		**(91)**	(65)
(Increase)/decrease in short-term bank deposits with original terms of over three months		**(41)**	12,300
Interest received		**2,307**	2,588
Net cash used in investing activities		**(10,203)**	(57,816)
Cash flows from financing activities			
Purchase of shares held for Share Award Scheme		**(3,839)**	(8,298)
Cash dividends paid	8	**(160,572)**	(140,753)
Proceeds from issuance of ordinary shares	12(a)	**9,776**	8,513
Repurchase of shares of the Company	12(b)	**(9,326)**	—
Net cash used in financing activities		**(163,961)**	(140,538)
Net decrease in cash and cash equivalents		**(188,521)**	(177,036)
Cash and cash equivalents at beginning of period		**429,658**	262,283
Exchange losses on cash and cash equivalents		**(228)**	(577)
Cash and cash equivalents at end of period		**240,909**	84,670

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

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

This condensed consolidated interim financial information (the "Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. The Interim Financial Information has been approved by the Board on 27 August 2012.

The Interim Financial Information has not been audited.

2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim Financial Reporting'. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011, as described in those annual consolidated 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 are effective for the financial year beginning 1 January 2012:

Amendment to HKAS 12	Deferred tax on recovery of underlying assets
Amendment to HKFRS 7	Disclosures of transfers of financial assets
Amendment to HKFRS 1	Severe hyperinflation and removal of fixed dates for first time adopters

The adoption of the above amended standards 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, amendments to existing standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
HKAS 28 (Revised 2011)	Associates and joint ventures	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
HKFRS 7 (Amendment)	Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
HK(IFRIC)-Int 20	Stripping costs in the production phase of a surface mine	1 January 2013
HKFRSs (Amendments)	Fourth improvements to HKFRSs (2013)	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HKFRS 7 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015

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 makers have 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 makers review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these internal reports.

The chief operating decision makers consider the 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 makers assess 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 three major portals, namely PCauto, PConline and PClady. The Company currently does not allocate cost of revenue, operating costs or assets to its segments, as its chief operating decision makers do not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the 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, PCbaby and PChouse, e-commerce and other services.

There were no inter-segment sales for the six months ended 30 June 2012 (six months ended 30 June 2011: nil). The revenue from external parties reported to the chief operating decision makers is measured in a manner consistent with that in the condensed consolidated income statement.

	PCauto	PConline	PClady	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six months ended 30 June 2012					
Revenue	145,463	112,914	24,342	15,455	298,174
For the six months ended 30 June 2011					
Revenue	118,101	113,799	17,082	12,506	261,488

Though the Company is domiciled in the Cayman Islands, for the six months ended 30 June 2012, all revenues of the Group were derived from external customers and they were all generated from the PRC (six months ended 30 June 2011: same).

As at 30 June 2012, majority of non-current assets of the Group other than the club membership included in the intangible assets were located in the PRC (31 December 2011: same).

For the six months ended 30 June 2012, 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 2011: same).

5. FINANCE INCOME — NET

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Finance income		
— Interest income	**3,070**	4,519
Finance costs		
— Net foreign exchange losses	**(358)**	(366)
Finance income — net	**2,712**	4,153

6. TAX EXPENSE

(a) Income tax expense

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
PRC current tax	**16,936**	14,981
Deferred taxation	**5,578**	6,539
	22,514	21,520

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 2012 (six months ended 30 June 2011: 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 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 ending 31 December 2013 under the CIT Law. As a result, GZP Computer and GDP Internet are subject to CIT at a rate of 15% from 2011 to 2013. Consequently, GZP Computer and GDP Internet used 15% in the computation of deferred taxes as of 30 June 2012 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 2011: same) in accordance with the CIT Law.

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	**Tax rate**	**Basis of levy**
Business tax ("BT")	5%	Advertising income
Value-added tax ("VAT")	6%	Advertising income, offsetting by VAT on purchases
City construction tax	7%	Net VAT and BT payable amount
Educational surcharge	5%	Net VAT and BT payable amount

Pursuant to the pilot program for the transition from BT to VAT launched in Shanghai, the advertising income in Shanghai is subject to VAT instead of BT since 1 January 2012. Other than the advertising income in Shanghai, all the other advertising income of Group provided in PRC is subject to BT.

In the condensed consolidated income statement, business tax and related surcharges for revenue earned by the Group are included in cost of revenue.

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 14(b)).

	Unaudited	
	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**85,029**	83,618
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,086,321**	1,073,147
— Weighted average number of ordinary shares in issue *(thousand shares)*	**1,086,321**	975,016
— Impact of bonus issue of shares issued in June 2011 *(thousand shares)*	**—**	98,131
Basic earnings per share *(RMB)*	**7.83 cents**	7.79 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).

	Unaudited Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**85,029**	83,618
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,114,425**	1,106,797
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,086,321**	1,073,147
— Adjustment for share options and awarded shares *(thousand shares)*	**28,104**	33,650
Diluted earnings per share *(RMB)*	**7.63 cents**	7.55 cents

8. DIVIDENDS

The directors did not recommend the payment of interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

The dividend paid in the six months ended 30 June 2012 included the 2011 final cash dividend of RMB14.78 cents (six months ended 30 June 2011: RMB14.38 cents) per ordinary share out of the retained earnings, totalling RMB160,572,000 (six months ended 30 June 2011: RMB140,753,000), which eliminated the dividend related the ordinary shares held under the Share Award Scheme of RMB486,000 (six months ended 30 June 2011: RMB359,000).

9. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and equipment *RMB'000* **(Unaudited)**	**Intangible assets** *RMB'000* **(Unaudited)**
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 amortisation	(3,814)	(240)
Closing net book amount as at 30 June 2011	147,211	9,170
Six months ended 30 June 2012		
Opening net book amount as at 1 January 2012	**207,299**	**9,034**
Additions	**3,070**	**91**
Disposals	**(30)**	**—**
Depreciation and amortisation	**(6,511)**	**(169)**
Closing net book amount as at 30 June 2012	**203,828**	**8,956**

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

	Unaudited As at 30 June 2012 *RMB'000*	Audited As at 31 December 2011 *RMB'000*
Deferred income tax assets:		
— to be recovered after more than 12 months	**4,419**	3,213
— to be recovered within 12 months	**2,463**	4,247
	6,882	7,460

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

	Intra-group software sales *RMB'000* **(Unaudited)**	**Provision for impairment of trade receivables** *RMB'000* **(Unaudited)**	**Accrued salary expense** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
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
At 1 January 2012	**—**	**3,213**	**4,247**	**7,460**
Credited/(Charged) to the income statement	**—**	**1,206**	**(1,784)**	**(578)**
At 30 June 2012	**—**	**4,419**	**2,463**	**6,882**

Deferred income tax liabilities

	Unaudited As at 30 June 2012 *RMB'000*	Audited As at 31 December 2011 *RMB'000*
Deferred income tax liabilities:		
— to be recovered within 12 months	**5,000**	—

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

	Deferred income tax liabilities-withholding tax
	RMB'000
	(Unaudited)
At 1 January 2011	—
Charged to the income statement	4,915
At 30 June 2011	4,915
At 1 January 2012	**—**
Charged to the income statement	**5,000**
At 30 June 2012	**5,000**

As at 30 June 2012, 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.

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables, net of impairment provision

Credit terms granted to customers by the Group are generally within six months. As at 30 June 2012, the ageing analysis of the trade receivables (net of impairment provision of RMB17,677,000 (31 December 2011: RMB12,851,000) was as follows:

	Unaudited As at 30 June 2012	Audited As at 31 December 2011
	RMB'000	*RMB'000*
Current to 6 months	**222,722**	158,396
6 months to 1 year	**40,128**	30,740
1 year to 2 years	**2,352**	2,400
Above 2 years	**1,431**	—
	266,633	191,536

(b) Other receivables and prepayments

	Unaudited As at 30 June 2012 *RMB'000*	Audited As at 31 December 2011 *RMB'000*
Other receivables	**7,655**	3,470
Advance to employees	**3,799**	2,052
Prepayments	**4,627**	242
	16,081	5,764

12. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares ('000)	*HKD'000*	*RMB'000*
At 31 December 2011 and 30 June 2012	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares ('000) (Unaudited)	*HKD'000* (Unaudited)	*RMB'000* (Unaudited)
At 1 January 2011	976,708	9,767	9,201
Employees Share Option Plan — issued shares (a)	5,069	51	43
Bonus shares issued in June 2011	98,131	981	816
At 30 June 2011	1,079,908	10,799	10,060
At 1 January 2012	**1,084,019**	**10,840**	**10,093**
Employees Share Option Plan — issued shares (a)	**6,504**	**65**	**57**
Repurchased of shares of the Company (b)	**(3,672)**	**(37)**	**(35)**
At 30 June 2012	**1,086,851**	**10,868**	**10,115**

(a) Share options exercised during the six months ended 30 June 2012 resulted in 6,504,000 shares being issued (six months ended 30 June 2011: 5,069,000 shares), with exercise proceeds of RMB9,776,000 (six months ended 30 June 2011: RMB8,513,000). The nominal value of these shares of RMB57,000 (six months ended 30 June 2011: RMB43,000) and the premium of RMB9,719,000 (six months ended 30 June 2011: RMB8,470,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HKD3.41 per share (six months ended 30 June 2011: HKD4.16).

(b) The Company repurchased 3,672,000 shares of its own ordinary shares during the six months ended 30 June 2012 (six months ended 30 June 2011: nil). The total purchased consideration was approximately HKD11,432,000 (equivalent to RMB9,326,000). The nominal value of these shares of HKD37,000 (equivalent to RMB35,000) had been credited to capital redemption reserve. The nominal value of these shares of RMB35,000 and the premium paid for such purchases of approximately RMB9,291,000 were paid out off the Company's retained earnings and share premium, respectively. The shares were cancelled right after the repurchase.

All the ordinary shares issued during the six months ended 30 June 2012 rank pari passu with the then existing ordinary shares in all respects.

13. ACCRUALS AND OTHER PAYABLES

	Unaudited As at 30 June 2012 *RMB'000*	Audited As at 31 December 2011 *RMB'000*
Salaries payable	**16,631**	28,831
Accrued expenses (a)	**34,073**	31,875
Other payables (b)	**32,244**	45,927
	82,948	106,633

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

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

14. 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

On 23 November 2007, the Company also adopted a Post-IPO Share Option Plan pursuant to which a total of 95,000,000 unissued shares of the Company were reserved and made available for grant of share options. In 2011, the Company refreshed the limit of the Post-IPO Share Option Plan to 98,130,880 ordinary shares. These shares, reserved for future grant of share options, represented 9.05% of the issued share capital of the Company as of 31 December 2011. 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 HKD5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up by the option holders within 28 days of the date of offer, upon payment of HKD1 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 days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

(iii). Movements in share options

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

	Pre-IPO Share Option Plan		**Post-IPO Share Option Plan**		
	Average exercise price (HKD) (Unaudited)	*Number of options (thousands)* (Unaudited)	*Average exercise price (HKD)* (Unaudited)	*Number of options (thousands)* (Unaudited)	*Total number of options (thousands)* (Unaudited)
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	(226)	2.75	(1,114)	(1,340)
Adjustment for bonus shares issued in June 2011	—	3,332	—	2,838	6,170
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
At 1 January 2012	**1.73**	**33,812**	**2.01**	**29,233**	**63,045**
Granted	**—**	**—**	**—**	**—**	**—**
Exercised	**1.76**	**(2,893)**	**1.92**	**(3,611)**	**(6,504)**
Forfeited	**—**	**—**	**—**	**—**	**—**
At 30 June 2012	**1.72**	**30,919**	**1.92**	**25,622**	**56,541**
Currently exercisable as at 30 June 2012	**1.72**	**30,919**	**2.01**	**23,310**	**54,229**

(iv). 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.

The total expenses recognised for employee services received in respect of the Pre-IPO Share Option Plan and Post-IPO Share Option Plan for six months ended 30 June 2012 was RMB1,115,000 (six months ended 30 June 2011: RMB3,140,000).

(b) Share Award Scheme

On 10 January 2011 (the "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 the purchase of shares up to 2.5% of the issued share capital of the Company as of the Adoption Date.

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

Movements in the number of shares held for the Share Award Scheme for six months ended 30 June 2012 were as follows:

	Shares held for the Share Award Scheme *(thousands)* (Unaudited)	Awarded Shares *(thousands)* (Unaudited)
At 1 January 2011	—	—
Purchased in January 2011	2,500	—
Granted to employees	(237)	237
Adjustment for bonus issue of shares issued in June 2011	226	24
At 30 June 2011	2,489	261
At 1 January 2012	**2,098**	**752**
Purchased	**1,500**	**—**
Granted to employees	**(907)**	**907**
Forfeited	**5**	**(5)**
Vested	**—**	**(313)**
At 30 June 2012	**2,696**	**1,341**

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.

The fair value of the Awarded Shares was calculated based on market prices of the Company's shares as at the respective grant dates. The expected dividends during the vesting periods have been taken into account when assessing the fair value of the Awarded Shares.

The fair value of the Awarded Shares and their vesting period were as follows:

Dates of grant	Total value of shares at grant dates *(HKD)*	No. of shares granted *(thousands)*	Market price at grant dates *(HKD)*	Vesting period
13 Jan 2012	2,177,000	597	3.65	1 year
16 Jan 2012	215,000	57	3.78	nil*
2 Apr 2012	903,000	253	3.57	1 year
	3,295,000	907		

* *can be exercised immediately.*

The total expense recognised for employee services received in respect of the Share Award Scheme for the six months ended 30 June 2012 was RMB2,219,000 (six months ended 30 June 2011: RMB360,000).

During the six months ended 30 June 2012, the Share Award Scheme Trust received cash dividend amounting to RMB486,000 (six months ended 30 June 2011: 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 14.0% from RMB261.5 million for the six months ended 30 June 2011 to RMB298.2 million for the six months ended 30 June 2012. The increase was mainly due to organic growth across the Company's different portals, with notably strong performance from PCauto and PClady.

Revenue for PConline decreased by 0.8% from RMB113.8 million for the six months ended 30 June 2011 to RMB112.9 million for the six months ended 30 June 2012. The slight decrease in revenue from PConline resulted from a slowdown in advertising spending from consumer electronics clients, especially large multinational companies.

Revenue for PCauto increased by 23.2% from RMB118.1 million for the six months ended 30 June 2011 to RMB145.5 million for the six months ended 30 June 2012. During the first six months of 2012, passenger car sales in China increased by only 5.6% to seven million vehicles, according to statistics from the China Association of Automobile Manufacturers. Despite recent modest growth in China's auto industry, PCauto revenues continued to show strong growth as advertisers allocate increasingly greater portions of their marketing budgets to digital media.

Revenue for PClady increased by 42.5% from RMB17.1 million for the six months ended 30 June 2011 to RMB24.3 million for the six months ended 30 June 2012. The increase was mainly the result of continued strong interest and demand for luxury and fashion goods among female consumers in China.

Revenue from the Company's other portals, PCgames, PCbaby, and PChouse, increased by 23.6% from RMB12.5 million for the six months ended 30 June 2011 to RMB15.5 million for the six months ended 30 June 2012. Revenue from this segment increased significantly due to both higher consumer spending in Mainland China, as well as consumer goods companies allotting larger percentages of their advertising budgets to digital media.

As a percentage of total revenue, for the six month period ended 30 June 2011 compared with the six month period ended 30 June 2012, PCauto accounted for 45.2% versus 48.8%, respectively; PConline accounted for 43.5% versus 37.8%, respectively; PClady accounted for 6.5% versus 8.2%, respectively; and other operations accounted for 4.8% versus 5.2%, respectively. The shift in revenue contributions from each business resulted from the Company's continued efforts to diversify its revenue base and scale up operations for its smaller portals.

Cost of Revenue

Cost of revenue increased by 12.1% from RMB87.1 million for the six months ended 30 June 2011 to RMB97.7 million for the six months ended 30 June 2012. Gross profit margin was 67.2% for the six months ended 30 June 2012 and 66.7% for the six months ended 30 June 2011. The increase in cost of revenue was mainly due to an increase in the number of new employees to support the Company's expansion plans.

Operating Expenses

Selling and Marketing Costs

Selling and marketing costs increased 12.9% from RMB39.9 million for the six months ended 30 June 2011 to RMB45.1 million for the six months ended 30 June 2012. The increase was primarily due to an increase in staff cost and marketing expenses.

Administrative Expenses

Administrative expenses increased by 73.4% from RMB20.4 million for the six months ended 30 June 2011 to RMB35.3 million for the six months ended 30 June 2012. The increase was primarily due to an increase in staff cost, estate management fees, traveling expenses, and provision for impairment of receivables during the period.

Product Development Expenses

Product development expenses increased by 31.2% from RMB13.1 million for the six months ended 30 June 2011 to RMB17.2 million for the six months ended 30 June 2012. 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 RMB108.2 million in the first half of 2012, representing a 3.5% increase from RMB104.5 million over the same period in 2011.

Finance Income and Cost

Net finance income was RMB2.7 million for the six months ended on 30 June 2012, compared with RMB4.2 million for the six months ended on 30 June 2011. Net finance income largely came from interest income on short-term bank deposits.

Income Tax Expense

Income tax expense increased by 4.6% from RMB21.5 million for the six months ended 30 June 2011 to RMB22.5 million for the six months ended 30 June 2012.

Net Profit

Net profit increased by 1.7% from RMB83.6 million for the six months ended 30 June 2011, to RMB85.0 million for the six months ended 30 June 2012.

Liquidity, Financial Resources and Dividend

As of 30 June 2012, the Company had short-term bank deposits and cash totaling RMB243.5 million, compared with RMB432.2 million as of 31 December 2011.

A cash dividend totaling RMB160.6 million was paid out during the six months ended 30 June 2012.

The Company had no external debt as of 31 December 2011 and 30 June 2012.

Material Acquisitions and Disposals

During the period ended 30 June 2012, the Group had no material acquisitions and disposals of subsidiaries and associates.

Charges on Assets

As of 30 June 2012, 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 revenues rose 14.0% from the previous period to RMB298.2 million, driven by increased advertising spending on our portals. PCauto, our auto market-focused portal, continues to be our strongest performing portal. Revenues for PCauto increased 23.2% compared with the same period in 2011, despite the deceleration of automobile sales growth in China during the first half of the year. While a number of policy changes have affected demand for new car purchases in China, manufactures have stepped up their advertising to try to differentiate themselves in such a highly competitive market, and they also appear to be directing more of their advertising spending to important online outlets. We believe our high-quality content and rising brand recognition in this market are helping to draw important advertisers to our platform. We also continued to see strong performance from PClady, which focuses on the fashion and luxury goods markets and is targeted towards female consumers. We expect PClady to continue to perform well as Chinese demand for luxury and brand-name goods rises.

Our original consumer electronics and IT portal, PConline, experienced a mild decline in revenues of 0.8% from the previous period. While the decline was expected, we believe it mainly reflects a drop in advertising spending among consumer electronic companies in the face of the economic slowdown in China. We have also been pleased with our other portals, PCgames, PChouse, and PCbaby, each of which continues to see steady advances in terms of user growth and interaction.

Meanwhile we continue to develop useful new features and content for our users. During the first half of 2012, we worked on optimizing our portals for mobile devices, giving users greater freedom to research their favorite brands and the latest products on the go. In addition, our two leading iPad magazines, PCauto and PChouse, have already seen a pickup new subscribers and they gained significant popularity. While we do not expect significant revenue contribution from this segment in the near future, we will continue to invest in mobile technology to better position ourselves as mobile internet expands. This year we are ramping up our R&D in preparation for further content and product launches.

We are cautiously optimistic for the rest of the year. As China's middle class grows, they increasingly turn to the Internet for information, shopping, and entertainment. According to data published earlier this year by the China Internet Network Information Center, Internet users in China numbered over half a billion. This number is projected to grow over the coming years, and with it, the number of consumers reachable via traditional computer and mobile devices. Having established our brand early on, we not only retain a larger user base compared with some of our competitors, we are also better-positioned to capture new users. However, we are not immune to the general slowing of the Chinese economy, and at the same time we face upward pressure in terms of retaining personnel. We will continue to invest in areas of opportunity and at the same time improve efficiency and manage cost. By staying current with the latest trends in consumer goods, and consistently catering to the changing needs and tastes of our user base, we believe we are well-prepared to lead our business forward and create long-term value for our shareholders.

EMPLOYEES AND REMUNERATION INFORMATION

As of 30 June 2012, the Group had 1,283 employees (31 December 2011: 1,149), an increase of 11.7% from the first half of 2012. The increase in staff level represented the expansion of the Group's operations in 2012. 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

The Company repurchased a total of 3,672,000 shares on the Stock Exchange during the six months ended 30 June 2012. Such shares were cancelled upon repurchase and accordingly the issued capital of the Company was reduced by the nominal value of these shares.

Details of the repurchase are summarized as follows:

Month of repurchase	**Total number of shares repurchased**	**Repurchase price per share**		**Aggregate consideration**
		Highest	**Lowest**	
		HKD	*HKD*	*HKD*
May 2012	3,672,000	3.35	2.68	11,432,190

Except as disclosed above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

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. Chan Chi Mong, Hopkins, 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 during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 30 June 2012 as 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 as stipulated in the code provision A.2.1. 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, 27 August 2012

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. Chan Chi Mong, Hopkins.