PACIFIC ONLINE LIMITED
太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of Pacific Online Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012, together with the comparative figures for the year ended 31 December 2011, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	3	**715,636**	640,095
Cost of revenue	4	**(207,737)**	(197,915)
Gross profit		**507,899**	442,180
Selling and marketing costs	4	**(114,351)**	(86,288)
Administrative expenses	4	**(67,098)**	(48,747)
Product development expenses	4	**(39,704)**	(28,718)
Other income	5	**4,985**	3,660
Operating profit		**291,731**	282,087
Finance income	6	**5,144**	6,229
Finance cost	6	**(446)**	(930)
Finance income—net	6	**4,698**	5,299
Profit before income tax		**296,429**	287,386
Income tax expense	7	**(59,958)**	(58,457)
Profit for the year		**236,471**	228,929

	Note	Year ended 31 December **2012** ***RMB'000***	 2011 *RMB'000*
Attributable to:			
Equity holders of the Company		**236,471**	228,929
Earnings per share for profit attributable to equity holders of the Company during the year			
— Basic *(RMB)*	8	**21.83 cents**	21.27 cents
— Diluted *(RMB)*	8	**21.38 cents**	20.65 cents
Dividend per share			
— Final dividend proposed *(RMB)*	9	**15.26 cents**	14.78 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**236,471**	228,929
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**236,471**	228,929
Attributable to:		
Equity holders of the Company	**236,471**	228,929

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayment		**17,640**	17,964
Property and equipment		**209,042**	207,299
Intangible assets		**14,677**	9,034
Deferred income tax assets		**7,074**	7,460
		248,433	241,757
Current assets			
Trade and other receivables and prepayments	10	**260,434**	197,300
Short-term bank deposits with original terms of over three months		**2,583**	2,500
Cash and cash equivalents		**437,316**	429,658
		700,333	629,458
Total assets		**948,766**	871,215
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**10,100**	10,093
Reserves		**772,447**	697,786
Total equity		**782,547**	707,879
Current liabilities			
Accruals and other payables	11	**115,668**	106,633
Prepaid advertising subscriptions from customers		**18,261**	26,762
Current income tax liabilities		**32,290**	29,941
Total current liabilities		**166,219**	163,336
Total equity and liabilities		**948,766**	871,215
Net current assets		**534,114**	466,122
Total assets less current liabilities		**782,547**	707,879

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Note	Attributable to equity holders of the Company Ordinary shares RMB'000	Reserves RMB'000	Total equity RMB'000
Balance at 1 January 2011		9,201	597,146	606,347
Comprehensive income				
Profit		—	228,929	228,929
Other comprehensive income		—	—	—
Total comprehensive income		—	228,929	228,929
Cash dividends relating to 2010, paid in 2011	9	—	(140,753)	(140,753)
Bonus shares issued in June 2011		816	(816)	—
Share Award Scheme				
— purchase of shares		—	(8,605)	(8,605)
— value of employee services		—	1,441	1,441
Employees share option schemes				
— exercise of share options		76	14,749	14,825
— value of employee services		—	5,695	5,695
Balance at 31 December 2011		10,093	697,786	707,879
Comprehensive income				
Profit		—	236,471	236,471
Other comprehensive income		—	—	—
Total comprehensive income		—	236,471	236,471
Cash dividends relating to 2011, paid in 2012	9	—	(160,572)	(160,572)
Repurchase of shares of the Company		(57)	(13,897)	(13,954)
Share Award Scheme				
— purchase of shares		—	(3,839)	(3,839)
— value of employee services		—	3,985	3,985
Employees share option schemes				
— exercise of share options		64	10,283	10,347
— value of employee services		—	2,230	2,230
Balance at 31 December 2012		10,100	772,447	782,547

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**256,703**	271,215
Income tax paid	**(57,223)**	(52,999)
Net cash generated from operating activities	**199,480**	218,216
Cash flows from investing activities		
Purchase of property and equipment	**(22,075)**	(100,960)
Purchase of intangible assets	**(6,422)**	(122)
(Increase)/decrease in short-term bank deposits with original terms of over three months	**(83)**	179,700
Interest received	**5,249**	6,070
Net cash (used in)/generated from investing activities	**(23,331)**	84,688
Cash flows from financing activities		
Purchase of shares held for Share Award Scheme	**(3,839)**	(8,605)
Cash dividends paid	**(160,572)**	(140,753)
Proceeds from issuance of ordinary shares	**10,347**	14,825
Repurchase of shares of the Company	**(13,954)**	—
Net cash used in financing activities	**(168,018)**	(134,533)
Net increase in cash and cash equivalents	**8,131**	168,371
Cash and cash equivalents at beginning of year	**429,658**	262,283
Exchange losses on cash and cash equivalents	**(473)**	(996)
Cash and cash equivalents at end of the year	**437,316**	429,658

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 ("PRC").

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

These consolidated financial statements have been approved for issue by the Board on 26 March 2013.

2. BASIS OF PRESENTATION

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

The Group has adopted the following amendment to existing standards for the accounting periods commencing 1 January 2012:

Amendment to HKAS 12	Income taxes on deferred tax
Amendment to HKFRS 1	First time adoption on hyperinflation and fixed dates
Amendment to HKFRS 7	Financial instruments: Disclosures on transfer of financial assets

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

The following new standards, amendments and interpretations have been published and are mandatory for the Group's accounting periods after 1 January 2012, but the Group has not early adopted them:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Financial statements presentation regarding other comprehensive income	1 July 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
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
HKFRS 1 (Amendment)	First time adoption on government loans	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures on asset and liability offsetting	1 January 2013
HK(IFRIC) — Int 20	Stripping costs in the production phase of a surface mine	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation on assets and liabilities offsetting	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 are 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.

3. SEGMENT INFORMATION

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 internet advertising business from the perspective of the 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 the revenues generated. The three major reportable operating segments derive their revenues 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 or total assets for each reportable segment.

Revenues of other segments relate to those generated from other portals, including on-line game, baby and home products, e-commerce and other services.

There were no inter-segment sales for the year ended 31 December 2012 (2011: same). The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated income statement.

	PCauto	**PConline**	**PClady**	**Others**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2012					
Revenue	344,641	266,053	59,018	45,924	715,636
For the year ended 31 December 2011					
Revenue	293,850	257,489	51,799	36,957	640,095

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2012, all revenues of the Group were derived from external customers and they were all generated from the PRC (2011: same).

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

For the year ended 31 December 2012, there was no revenue derived from a single external customer accounting for ten per cent or more of the Group's revenues (2011: same).

4. 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	
	2012	2011
	RMB'000	*RMB'000*
Employee benefit expenses	**157,067**	130,843
Advertising expenses	**64,986**	39,974
Sales commission to advertising agencies	**63,390**	57,411
Business tax	**59,209**	77,087
Rental expenses	**16,440**	13,348
Travelling and entertainment expenses	**16,290**	13,532
Depreciation and amortisation expenses		
— Depreciation of property and equipment	**13,524**	8,329
— Amortisation of intangible assets	**779**	433
— Amortisation of lease prepayment	**426**	426
Outsourcing production cost	**12,463**	2,814
Professional fees	**7,433**	9,612
Auditors' remuneration	**3,711**	3,394
Expense for impairment of receivables	**7,066**	811
Other expenses	**6,106**	3,654
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	**428,890**	361,668

Product development expenses mainly include employee benefit expenses and depreciation of fixed assets. No product development expenses had been capitalised for the year ended 31 December 2012 (2011: Nil).

5. OTHER INCOME

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Government grants	**4,985**	3,660

6. FINANCE INCOME — NET

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Finance income		
— Interest income	**5,144**	6,229
Finance cost		
— Net foreign exchange losses	**(446)**	(930)
Finance income — net	**4,698**	5,299

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
PRC current tax	**59,572**	56,939
Deferred taxation	**386**	1,518
Income tax expense	**59,958**	58,457

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 year ended 31 December 2012 (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 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 Services 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 were 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 31 December 2012 and the current income tax charge for the year then ended. All the other PRC entities of the Group are subject to CIT at a rate of 25% (2011: same) in accordance with CIT Law.

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**296,429**	287,386
Tax calculated at the statutory tax rate of 25% (2011: 25%)	**74,107**	71,847
Tax effects of		
— Tax concessions available to certain PRC subsidiaries (a)	**(30,802)**	(29,958)
— Income not subject to tax	**(122)**	(315)
— Expenses not deductible for tax purposes (b)	**3,276**	3,883
Withholding tax on the earnings anticipated to be remitted by a PRC subsidiary	**13,499**	13,000
Tax charge	**59,958**	58,457

(a) Two of the Group's major principal operating subsidiaries in the PRC were approved by the relevant tax authority to be entitled to the HNTE status in 2012. Accordingly, preferential tax treatments were enjoyed by these two companies for the year ended 31 December 2012 (2011: same).

(b) Expenses not deductible for tax purposes include primarily share-based compensation expenses, and expenses incurred by the Company and subsidiaries incorporated in Hong Kong.

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period (excluding the ordinary shares purchased by the Group and held for the Share Award Scheme).

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**236,471**	228,929
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,083,466**	1,076,513
Basic earnings per share *(RMB)*	**21.83 cents**	21.27 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).

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**236,471**	228,929
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,105,841**	1,108,593
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,083,466**	1,076,513
— Adjustment for share options and awarded shares *(thousand shares)*	**22,375**	32,080
Diluted earnings per share *(RMB)*	**21.38 cents**	20.65 cents

9. DIVIDENDS

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

The directors recommended the payment of a final dividend of RMB15.26 cents per ordinary share in cash for the year ended 31 December 2012, totalling RMB165,530,000 based on the ordinary shares in issue as of 31 December 2012. Such final dividend is to be approved by the shareholders at the Annual General Meeting on 20 May 2013. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables, net of impairment provision (a)	**250,782**	191,536
Other receivables (b)	**9,494**	5,522
Prepayments	**158**	242
	260,434	197,300
Denominated in		
— RMB	**260,255**	197,112
— HKD	**179**	188
	260,434	197,300

(a) Trade receivables, net of impairment provision

Credit terms granted to customers by the Group are generally within six months. At 31 December 2012, the ageing analysis of the trade receivables (net of impairment provision of RMB13,003,000 (2011: RMB12,851,000) was as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current to 6 months	**213,276**	158,396
6 months to 1 year	**33,394**	30,740
1 year to 2 years	**4,024**	2,400
Above 2 years	**88**	—
	250,782	191,536

As of 31 December 2012, trade receivables of RMB26,335,000 (2011: RMB15,563,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables was as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current to 6 months	**9,798**	7,512
6 months to 1 year	**13,863**	8,051
1 year to 2 years	**2,586**	—
Above 2 years	**88**	—
	26,335	15,563

(b) Other receivables

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Advance to employee	**3,590**	2,052
Subsidy receivable (i)	**3,000**	—
Others	**2,904**	3,470
	9,494	5,522

(i) The Group has received the subsidy in January 2013.

11. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Salaries payable	**25,955**	28,831
Accrued expenses (a)	**51,890**	31,875
Other payables (b)	**37,823**	45,927
	115,668	106,633

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

(b) Other payables mainly represented the business tax payable.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the full year 2012, we are pleased to report an 11.8% increase in revenues and a rise of 3.3% in net profit. These results demonstrate the cautious, yet profitable approach we have taken to grow our business, despite the uncertain macroeconomic conditions in China, pressure from competition, and increases in operating costs.

PCauto, our largest vertical portal in terms of revenue, delivered revenue growth of 17.3% in 2012. The portal benefited from the across the board increases seen in the advertising budgets of automobile manufacturers due to intensified competition in the retail market. However, we also saw increased competition from both vertical and diversified portals. Our auto business was temporarily affected during the second half of the year as a result of the dispute between the Chinese and Japanese governments. This caused a brief decrease in marketing spending by some manufacturers, though the impact was temporary as advertiser spending quickly returned to pre-dispute levels. To successfully navigate through these challenges, we worked to strengthen the quality of our content, which helped us increase user stickiness and brand equity, and remain relevant for our users.

PConline, our IT portal, continued its stable development in 2012 thanks in part to relatively steady advertising spending in the IT sector amid intensified competition. The political dispute between China and Japan last year also had a minor temporary impact on our IT business. We were able to marginally expand by shifting our advertising product mix to adapt to the market. With more spending coming from mobile device manufacturers and other similar areas, we will continue to devote resources to this important segment as demand for consumer electronic devices in China continues to expand in line with the rising middle class.

Revenue from our female-focused PClady portal increased 13.9% in 2012. As more and more women move online to research and purchase luxury and brand name products, we are devoting resources to this area in order to attract traffic from users who start their shopping experience with our portal. In addition, we have re-aligned our editorial team in order to strengthen our content, developed a variety of brand-building opportunities, and strengthened cooperation with e-commerce companies both online and offline.

Our other vertical portals, including PCgames, PCbaby, and PChouse, continued to improve content and attract users during 2012 as they gradually build scale. While these brands remain relatively small, their user bases remain robust and continue to grow as new features and content are added. We expect that the revenue contribution from these portals will increase in the coming years.

Last year, we continued to invest in the development of mobile applications for each of our vertical portals. We also launched our third free online magazine for PClady on Apple's iPad which mirrors and expands on the content that is already available on the portal. Our online magazines generated a significant buzz in the market last year and garnered positive feedback. In particular, our PChouse magazine was named one of the Products of the Year by Apple's Mac App store in China. With the increased viewership that we attracted in 2012 along with continued development of our brand, we believe we are bettered positioned to capture the rapidly growing mobile internet market in 2013.

In anticipation of the changing competitive environment, we believe that we have taken the right measures to address current and potential challenges. We are committed to our long-term strategy and will continue to invest more on marketing to increase our brand value, strengthen our management team, and improve the quality of our content to increase user stickiness. This will help to ensure the success of Pacific Online Limited over the long-term.

Revenue

Revenue increased 11.8% from RMB640.1 million for the year ended 31 December 2011 to RMB715.6 million for the year ended 31 December 2012. In 2012, the Ministry of Finance in China launched a pilot program to gradually transition the taxation system from a business tax ("BT") to a value-added tax ("VAT"). Pursuant to this program, the Group's advertising revenue in Shanghai, Beijing and Guangzhou is now fully subject to VAT. For purposes of comparison, our reported revenue growth for 2012 would have been 15.8% had the BT remained applicable to our business during the year.

Revenue for PCauto, the Group's automobile portal, increased 17.3% from RMB293.9 million in 2011 to RMB344.6 million in 2012. According to statistics from the China Passenger Car Association, passenger car sales in China rose 6.8% to 14.68 million vehicles in 2012. PCauto was able to outperform car industry growth because automobile advertisers continued to allocate more of their marketing budgets to digital media.

Revenue for PConline, the Group's IT and consumer electronics portal, increased 3.3% from RMB257.5 million in 2011 to RMB266.1 million in 2012. The increase in revenue from PConline was mainly due to the overall increase in advertising spending from IT sector customers, including smart phone and tablet manufacturers.

Revenue for PClady, the Group's women's and fashion portal, increased 13.9% from RMB51.8 million in 2011 to RMB59.0 million in 2012. The rise mainly reflected increased demand in the women's segment, especially for luxury and fashion goods.

Revenue for other operations, including the PCgames, PCbaby and PChouse portals, increased by 24.3% from RMB37.0 million in 2011 to RMB45.9 million in 2012. Revenue from these segments increased significantly as advertisers increasingly look to the internet as an effective platform to promote and market their products and brands.

As a percentage of total revenue, PCauto accounted for 45.9% in 2011 and 48.2% in 2012, PConline accounted for 40.2% in 2011 and 37.2% in 2012, PClady accounted for 8.1% in 2011 and 8.2% in 2012 and other operations accounted for 5.8% in 2011 and 6.4% in 2012. The Group continued to diversify its revenue base across different industry segments.

Cost of Revenue

Cost of revenue increased 5.0% from RMB197.9 million in 2011 to RMB207.7 million in 2012. The gross profit margin was 69.1% in 2011 and 71.0% in 2012.

The slight increase in cost of revenue was due to increases in personnel related expenses, higher sales commissions and increases in branch operating expenses during the year. This was partially offset by lower business tax charges through the implementation of the business tax/value-added tax reform policy, fully applied to us in late 2012.

Selling and Marketing Costs

Selling and marketing costs increased 32.5% from RMB86.3 million in 2011 to RMB114.4 million in 2012. The increase was mainly due to increases in staff costs and marketing expenses.

Administrative Expenses

Administrative expenses increased by 37.6% from RMB48.7 million in 2011 to RMB67.1 million in 2012. The rise was primarily due to increases in hiring and salary, traveling expenses and higher provisions for the impairment of trade receivables during the full year 2012.

Product Development Expenses

Product development expenses increased by 38.3% from RMB28.7 million in 2011 to RMB39.7 million in 2012. The increase was mainly due to greater staff recruitment in research and development.

Operating Profit Before Share-Based Compensation Expenses (Non-GAAP)

Operating profit before share-based compensation expenses (non-GAAP) was RMB297.9 million in 2012, representing a 3.0% increase from RMB289.2 million in 2011.

Finance Income and Cost

Net finance income was RMB5.3 million in 2011 and RMB4.7 million in 2012. The decline was mainly due to lower interest income on bank deposits.

Income Tax Expense

Income tax expense increased 2.6% from RMB58.5 million in 2011 to RMB60.0 million in 2012. The increase in income tax expense was primarily due to a modest increase in operating profit during the year.

Net Profit

Net profit increased 3.3% from RMB228.9 million in 2011 to RMB236.5 million in 2012.

Liquidity and Financial Resources

As of 31 December 2012, the Group had short-term deposits and cash totaling RMB439.9 million, compared with RMB432.2 million as of 31 December 2011.

In 2012, net cash generated from operating activities was RMB199.4 million, net cash used in investing activities was RMB23.3 million, and net cash used in financing activities was RMB168.0 million. The Group had a net increase in cash and cash equivalents of RMB8.1 million for the year 2012.

In 2011, net cash generated from operating activities was RMB218.2 million, net cash generated from investing activities was RMB84.7 million, and net cash used in financing activities was RMB134.5 million. The Group had a net increase in cash and cash equivalents of RMB168.4 million for the year 2011.

The Company had no external debt as of 31 December 2012 and 2011, respectively.

Bank Borrowings

As of both 31 December 2012 and 31 December 2011, the Group did not have any bank borrowings and therefore, its gearing ratio, representing the ratio of total bank borrowings to shareholders' equity, was nil for both years.

Material Acquisitions and Disposals

During the year ended 31 December 2012, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 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 China. Most transactions, assets and liabilities were denominated in Renminbi, and therefore the overall foreign currency risk was not considered to be significant.

Business Outlook

Looking ahead, the Group will continue to adapt to current trends and technologies in order to ensure that it is keeping up with the changing needs of its operating environment. In view of the government's policy on expanding domestic consumption through urbanization in the coming years, and the continual growth of the online advertising market, the Group is confident that the potential for future business opportunities remains strong. The Group is devoted to enhancing and developing the content on its existing vertical portals, and to improving its brand recognition in order to strengthen competitiveness and provide business growth potential. The Group will also continue to invest in mobile applications, with the aim of enhancing long-term shareholder value.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2012, the Group had 1,268 employees (2011: 1,149), increased by 10.4% over 2011. The increase in staff level presented the expansion of the Group's operations in 2012. The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

Proposed Final Dividend

The Board has recommended the payment of a final dividend of RMB15.26 cents per ordinary share in cash for the year ended 31 December 2012 (the "Proposed Final Dividend") (2011: RMB14.78 cents), subject to the shareholders' approval at the Company's forthcoming annual general meeting to be held on Monday, 20 May 2013 (the "2013 AGM"). The Proposed Final Dividend will be paid in cash on 6 June 2013 to shareholders whose names appear on the register of members of the Company at the close of business on 29 May 2013.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Wednesday, 15 May 2013 to Monday, 20 May 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2013 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents 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, 14 May 2013.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Monday, 27 May 2013 to Wednesday, 29 May 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents 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 Friday, 24 May 2013.

Purchase, Sale or Redemption of the Company's Listed Securities

The Company repurchased a total of 6,031,000 shares on the Stock Exchange during the year ended 31 December 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
July 2012	676,000	2.55	2.37	1,673,750
September 2012	1,443,000	2.50	2.27	3,462,780
October 2012	160,000	2.44	2.32	378,710
November 2012	80,000	2.40	2.37	190,860
	6,031,000			17,138,290

Except as disclosed above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

Audit Committee and Review of Announcement

The Audit Committee of the Company, which comprises 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 the annual financial results of the Group for the year ended 31 December 2012.

The figures in respect of the announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong

Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as contained in Appendix 14 to 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, 26 March 2013

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.