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 2013

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 2013, together with the comparative figures for the year ended 31 December 2012, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Revenue	3	**847,923**	715,636
Cost of revenue	4	**(249,861)**	(207,737)
Gross profit		**598,062**	507,899
Selling and marketing costs	4	**(167,896)**	(114,351)
Administrative expenses	4	**(77,395)**	(67,098)
Product development expenses	4	**(45,930)**	(39,704)
Other income	5	**7,150**	4,985
Operating profit		**313,991**	291,731
Finance income	6	**9,017**	5,144
Finance cost	6	**—**	(446)
Finance income — net	6	**9,017**	4,698
Profit before income tax		**323,008**	296,429
Income tax expense	7	**(69,374)**	(59,958)
Profit for the year		**253,634**	236,471

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Attributable to:			
Equity holders of the Company		**253,634**	236,471
Earnings per share for profit attributable to equity holders of the Company during the year			
— Basic *(RMB)*	8	**23.34 cents**	21.83 cents
— Diluted *(RMB)*	8	**22.83 cents**	21.38 cents
Dividend per share			
— Final dividend proposed *(RMB)*	9	**16.25 cents**	15.26 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**253,634**	236,471
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**253,634**	236,471
Attributable to:		
Equity holders of the Company	**253,634**	236,471

CONSOLIDATED BALANCE SHEET
As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayment		**17,316**	17,640
Property and equipment		**202,243**	209,042
Intangible assets		**12,292**	14,677
Deferred income tax assets		**9,739**	7,074
Prepayments	10	**43,484**	—
		285,074	248,433
Current assets			
Trade and other receivables and prepayments	10	**380,553**	260,434
Short-term bank deposits with original terms of over three months		**12,500**	2,583
Cash and cash equivalents		**438,036**	437,316
		831,089	700,333
Total assets		**1,116,163**	948,766
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**10,161**	10,100
Reserves		**876,972**	772,447
Total equity		**887,133**	782,547
Current liabilities			
Accruals and other payables	11	**169,826**	115,668
Prepaid advertising subscriptions from customers and deferred revenue		**17,431**	18,261
Current income tax liabilities		**41,773**	32,290
Total current liabilities		**229,030**	166,219
Total equity and liabilities		**1,116,163**	948,766
Net current assets		**602,059**	534,114
Total assets less current liabilities		**887,133**	782,547

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to equity holders of the Company		
		Ordinary shares	**Reserves**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2012		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
Comprehensive income				
Profit		—	253,634	253,634
Other comprehensive income		—	—	—
Total comprehensive income		—	253,634	253,634
Cash dividends relating to 2012, paid in 2013	9	—	(165,858)	(165,858)
Share Award Scheme				
— value of employee services		—	3,412	3,412
Employees share option schemes				
— exercise of share options		61	12,863	12,924
— value of employee services		—	474	474
Balance at 31 December 2013		10,161	876,972	887,133

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**269,743**	256,703
Income tax paid	**(62,556)**	(57,223)
Net cash generated from operating activities	**207,187**	199,480
Cash flows from investing activities		
Purchase of property and equipment	**(51,447)**	(22,075)
Disposals of property and equipment	**34**	—
Purchase of intangible assets	**(1,307)**	(6,422)
Increase in short-term bank deposits with original terms of over three months	**(9,917)**	(83)
Interest received	**7,890**	5,249
Net cash used in investing activities	**(54,747)**	(23,331)
Cash flows from financing activities		
Purchase of shares held for Share Award Scheme	**—**	(3,839)
Cash dividends paid	**(165,858)**	(160,572)
Proceeds from issuance of ordinary shares	**12,924**	10,347
Repurchase of shares of the Company	**—**	(13,954)
Net cash used in financing activities	**(152,934)**	(168,018)
Net (decrease)/increase in cash and cash equivalents	**(494)**	8,131
Cash and cash equivalents at beginning of year	**437,316**	429,658
Exchange gains/(losses) on cash and cash equivalents	**1,214**	(473)
Cash and cash equivalents at end of the year	**438,036**	437,316

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.

These consolidated financial statements have been approved for issue by the Board on 28 March 2014.

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 new standards, amendments to existing standards and interpretations for the accounting periods commencing 1 January 2013:

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKAS 1 (Amendment)	Financial statements presentation
HKAS 19 (Amendment)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Associates and joint ventures
HKFRS 1 (Amendment)	First time adoption on government loans
HKFRS 7 (Amendment)	Financial instruments: Disclosures on asset and liability offsetting
HKFRSs 10, 11, and 12 (Amendment)	Amendment on transition guidance
HKFRSs (Amendments)	Fourth improvements to HKFRSs
HK(IFRIC)-Int 20	Stripping costs in the production phase of a surface mine

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

The following new standards, amendments to existing standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation on assets and liabilities offsetting	1 January 2014
HKAS 36 (Amendment)	Impairment of assets on recoverable amount disclosures	1 January 2014
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement — Novation of derivatives	1 January 2014
HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for investment entities	1 January 2014
HK(IFRIC) 21	Levies	1 January 2014
HKFRS 9	Financial instruments	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.

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 baby products, on-line game and home products, and other services.

There were no inter-segment sales for the year ended 31 December 2013 (2012: 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 2013					
Revenue	448,748	251,833	83,600	63,742	847,923
For the year ended 31 December 2012					
Revenue	344,641	266,053	59,018	45,924	715,636

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2013, all revenues of the Group were derived from external customers and they were all generated from the PRC (2012: same).

As at 31 December 2013, majority of non-current assets of the Group other than the club membership included in the intangible assets were located in the PRC (2012: same).

For the year ended 31 December 2013, there was no revenue derived from a single external customer accounting for ten percent or more of the Group's revenues (2012: 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	
	2013	2012
	RMB'000	*RMB'000*
Employee benefit expenses	**195,418**	157,067
Sales commission to advertising agencies	**105,298**	63,390
Advertising expenses	**102,694**	64,986
Business tax and other levies	**31,526**	59,209
Travelling and entertainment expenses	**20,361**	16,290
Depreciation and amortisation expenses		
— Depreciation of property and equipment	**14,545**	13,524
— Amortisation of intangible assets	**3,692**	779
— Amortisation of lease prepayment	**324**	324
Outsourcing production cost	**15,722**	12,463
Professional fees	**13,672**	7,433
Bandwidth and server custody fees	**10,466**	9,093
Impairment charge of receivables	**8,824**	7,066
Rental expenses	**6,930**	7,347
Auditors' remuneration	**3,774**	3,711
Other expenses	**7,836**	6,208
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	**541,082**	428,890

Product development expenses mainly include employee benefit expenses and depreciation and amortisation expenses. No product expenses had been capitalised for the year ended 31 December 2013 (2012: nil).

5. OTHER INCOME

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Government grants	**7,150**	4,985

6. FINANCE INCOME — NET

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Finance income		
— Interest income	**7,890**	5,144
— Net foreign exchange gains	**1,127**	—
	9,017	5,144
Finance cost		
— Net foreign exchange losses	**—**	(446)
Finance income — net	**9,017**	4,698

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
PRC current tax	**72,039**	59,572
Deferred taxation	**(2,665)**	386
Income tax expense	**69,374**	59,958

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 2013 (2012: 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 ended 31 December 2013 under the CIT Law. Up to the date of this 2013 annual results announcement, management has conducted research to confirm the view of the Board that GZP Computer and GDP Internet will renew their formal HNTE designation in 2014 under the CIT Law upon completion of certain administrative approval procedures. Consequently, GZP Computer and GDP Internet used 15% in the computation of deferred taxes as of 31 December 2013 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% (2012: 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	
	2013	2012
	RMB'000	*RMB'000*
Profit before tax	**323,008**	296,429
Tax calculated at the statutory tax rate of 25% (2012: 25%)	**80,752**	74,107
Tax effects of		
— Tax concessions available to certain PRC subsidiaries (a)	**(34,650)**	(30,802)
— Income not subject to tax	**(1,575)**	(122)
— Expenses not deductible for tax purposes (b)	**10,050**	3,276
Withholding tax on the earnings anticipated to be remitted by a PRC subsidiary	**14,797**	13,499
Tax charge	**69,374**	59,958

(a) The preferential tax treatments relating to HNTE were enjoyed by GZP Computer and GDP Internet for the year ended 31 December 2013 (2012: same).

(b) Expenses not deductible for tax purposes include primarily share-based compensation expenses, expenses incurred by the Company and subsidiaries incorporated in Hong Kong and tax losses for which no deferred income tax asset was recognised.

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 year (excluding the ordinary shares purchased by the Group and held for the Share Award Scheme).

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**253,634**	236,471
Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,086,638**	1,083,466
Basic earnings per share *(RMB)*	**23.34 cents**	21.83 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	
	2013	2012
Profit attributable to equity holders of the Company *(RMB'000)*	**253,634**	236,471
Weighted average number of ordinary shares for diluted earnings per share *(thousand shares)*	**1,110,829**	1,105,841
— Weighted average number of ordinary shares for basic earnings per share *(thousand shares)*	**1,086,638**	1,083,466
— Adjustment for share options and award shares *(thousand shares)*	**24,191**	22,375
Diluted earnings per share *(RMB)*	**22.83 cents**	21.38 cents

9. DIVIDENDS

The dividend paid in 2013 included the payment of the 2012 final cash dividend of RMB15.26 cents (2012: RMB14.78 cents) per ordinary share out of the retained earnings, totalling RMB165,858,000 (2012: RMB160,572,000), excluding the dividend related to the ordinary shares held under the Share Award Scheme of RMB464,000 (2012: RMB486,000).

The directors recommended the payment of a final dividend of RMB16.25 cents per ordinary share in cash for the year ended 31 December 2013, totalling RMB177,540,000 based on the ordinary shares in issue as of 31 December 2013. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held on 23 May 2014. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables, net of impairment provision (a)	**358,533**	250,782
Other receivables (b)	**13,776**	9,494
Prepayments	**51,728**	158
	424,037	260,434
Less non-current portion:		
Prepayments (c)	**(43,484)**	—
Current Portion	**380,553**	260,434
Denominated in		
— RMB	**423,131**	260,255
— HKD	**906**	179
	424,037	260,434

(a) Trade receivables, net of impairment provision

Credit terms granted to customers by the Group are generally within a period of six months to a year. At 31 December 2013, the ageing analysis of the trade receivables (net of impairment provision of RMB20,849,000 (2012: RMB13,003,000)) was as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Current to 6 months	**308,513**	213,276
6 months to 1 year	**42,429**	33,394
1 year to 2 years	**7,591**	4,024
Above 2 years	**—**	88
	358,533	250,782

As of 31 December 2013, trade receivables of RMB40,756,000 (2012: RMB26,335,000) 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	
	2013	2012
	RMB'000	*RMB'000*
Current to 6 months	**15,650**	9,798
6 months to 1 year	**17,515**	13,863
1 year to 2 years	**7,591**	2,586
Above 2 years	**—**	88
	40,756	26,335

(b) Other receivables

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Advance to employees	**8,805**	3,590
Subsidy receivable	**—**	3,000
Others	**4,971**	2,904
	13,776	9,494

(c) Prepayments

Prepayments in non-current portion mainly represented the payment for the acquisition of a property in Shanghai, the PRC.

11. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Salaries payable	**34,015**	25,955
Accrued expenses (a)	**90,916**	51,890
Other payables (b)	**44,895**	37,823
	169,826	115,668

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

(b) Other payables mainly represented value-added tax payables, other levies payable and deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year, we achieved steady revenue growth by maintaining a well-balanced multi-portal portfolio. We focused on integrating our content to meaningfully engage our users. We also continued to invest in new technology and marketing given the increasing sophistication of Chinese consumers. This allowed us to drive further growth by offering customized internet advertising solutions last year.

PCauto's revenue rose 30.2% and remained our largest portal in terms of revenue. We continued to benefit from the fierce competition in China's car market as automakers and dealers vied for market share. Growth was mainly driven by the increase in sales volumes and higher advertising rates. We further refined our market segmentation strategy using geographic locations in an effort to increase advertising revenue from our clients. With car sales in China expected to grow in the double digits again next year, we expect to see strong demand in this vertical as both automakers and dealers devote larger portions of their budgets to online advertising.

Revenue from our IT-focused PConline portal declined 5.3%. While we saw an overall increase in advertising revenue from brands and manufacturers, it was offset by a broader decline in revenue from retail store clients. Despite the slowdown, we are confident that we will be able to maintain our leading position in this important vertical as advertisers increasingly consolidate marketing budgets to include only the most effective web portals. We are also focusing our efforts on higher growth market segments, and improving the overall productivity of this portal going forward.

PClady's revenue increased 41.6% on the back of increased digital marketing spending by a number of large multinationals that are attempting to expand interest among women in China. With its high quality content, the portal continued to attract higher traffic volumes and increased spending from an important and often underserved demographic in China. We anticipate a larger portion of advertising budgets will be spent online to attract female consumers, and we are confident that PClady will continue to position itself at the forefront of the market.

Revenue from PCgames, PCbaby, and PChouse increased 38.8% in 2013. With the relaxation of the one child policy in China, we believe PCbaby could see significant growth in the years ahead. We will continue to develop these portals by adding high quality content as we work to gradually build scale.

Mobile products are an integral part of our strategy to effectively engage our users. The high quality content and user-friendly interfaces of our various portals drove the increase in the number of mobile users last year. Our three online magazines also achieved steady increases in downloads and are expected to contribute meaningfully to our advertising revenue in the near future. In order to serve the growing mobile user population, we are committed to continuously developing mobile applications for each of our vertical portals.

We are pleased with the progress we made during the year and eagerly look forward to 2014. We intend to further strengthen our user-centric content in order to ensure that we can deliver superior marketing returns to our clients. Looking ahead, we plan to develop more innovative products, and will continue to ramp up our brand awareness. We are confident that these investments will benefit the Company over the long-term.

Revenue

Revenue increased by 18.5% from RMB715.6 million for the year ended 31 December 2012 to RMB847.9 million for the year ended 31 December 2013.

Revenue for PCauto, the Group's automobile portal, increased by 30.2% from RMB344.6 million in 2012 to RMB448.7 million in 2013. According to statistics from the China Passenger Car Association, passenger car sales in China grew 17 percent to 17.2 million in 2013. PCauto was able to outperform this broader market growth as automobile advertisers continued to allocate more of their marketing budgets to digital media.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased by 5.3% from RMB266.1 million in 2012 to RMB251.8 million in 2013. Advertising spending from smart phones and tablet manufacturers remained strong, but was offset by a decrease in demand from select consumer electronics manufacturers, such as computer and digital camera makers, and a decline in overall advertising spending from retail store clients.

Revenue for PClady, the Group's lady and fashion portal, increased by 41.6% from RMB59.0 million in 2012 to RMB83.6 million in 2013. The increase reflected the tremendous 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 38.8% from RMB45.9 million in 2012 to RMB63.7 million in 2013. Revenue from these segments increased significantly as advertisers increasingly shifted their marketing spending online.

As a percentage of total revenue, PCauto accounted for 48.2% in 2012 and 52.9% in 2013, whereas PConline accounted for 37.2% in 2012 and 29.7% in 2013, PClady accounted for 8.2% in 2012 and 9.9% in 2013 and other operations accounted for 6.4% in 2012 and 7.5% in 2013. The Group continued to diversify its revenue base across different industry segments.

Cost of Revenue

Cost of revenue increased by 20.3% from RMB207.7 million in 2012 to RMB249.9 million in 2013. The gross profit margin was 71.0% in 2012 and 70.5% in 2013.

The increase in cost of revenue was due to rise in personnel-related expenses, promotion fees and higher sales commissions during the year.

Selling and Marketing Costs

Selling and marketing costs increased by 46.8% from RMB114.4 million in 2012 to RMB167.9 million in 2013. The increase was mainly due to increases in staff costs and marketing expenses.

Administrative Expenses

Administrative expenses increased by 15.3% from RMB67.1 million in 2012 to RMB77.4 million in 2013, due to an increase in staff costs during the year.

Product Development Expenses

Product development expenses increased by 15.7% from RMB39.7 million in 2012 to RMB45.9 million in 2013. 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 RMB317.9 million in 2013, representing 6.7% increase from RMB297.9 million in 2012.

Finance Income and Cost

Net finance income was RMB4.7 million in 2012 and RMB9.0 million in 2013. The increase in net finance income was mainly due to higher interest income on bank deposits.

Income Tax Expense

Income tax expense increased by 15.7% from RMB60.0 million in 2012 to RMB69.4 million in 2013. The rise was mainly due to increase in tax expenses for which no deferred income tax asset was recognised during the year.

Net Profit

Net profit increased by 7.3% from RMB236.5 million in 2012 to RMB253.6 million in 2013.

Liquidity and Financial Resources

As of 31 December 2013, the Group had short-term deposits and cash totaling RMB450.5 million, compared with RMB439.9 million as of 31 December 2012.

In 2013, net cash generated from operating activities was RMB207.2 million, net cash used in investing activities was RMB54.8 million, net cash used in financing activities was RMB152.9 million, with a net decrease in cash and cash equivalents of RMB0.5 million for the year 2013.

In 2012, net cash generated from operating activities was RMB199.5 million, net cash used in investing activities was RMB23.3 million, net cash used in financing activities was RMB168.0 million, with a net increase in cash and cash equivalents of RMB8.1 million for the year 2012.

The Company had no external debt as of 31 December 2013 and 2012.

Bank Borrowings

As of both 31 December 2013 and 31 December 2012, 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.

Acquisition of Property

In June 2013, GZP Computer acquired a property located at 10th Floor, Block 2 of Huaxin Center, No. 711 Yishan Road, Xuhui District, Shanghai City, the PRC for a total consideration of approximately RMB60.9 million. Further details about the acquisition were disclosed in the Company's announcement dated 24 June 2013.

Material Acquisitions and Disposals

During the year ended 31 December 2013, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2013, 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 with most of its transactions denominated and settled in Renminbi, and therefore the overall foreign currency risk was not considered to be significant.

Business Outlook

The Group believes that advertising spending will continue to migrate towards the internet at an increasing pace. With the growing popularity of e-commerce, the Group will expand its advertising offerings to B2C clients. It will also continue to pursue innovations to enhance the user experience. In addition, the Group is committed to building brand equity by improving productivity, attracting and maintaining a highly motivated work force and expanding marketing efforts. The Group is confident that it will continue to benefit from the rapid growth of the online advertising market in China.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2013, the Group had 1,495 employees (2012: 1,268), increased by 227 over 2012. The increase in staff level presented the expansion of the Group's operations in 2013. The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

Change of Address of Hong Kong Branch Share Registrar and Transfer Office

With effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. All telephone and facsimile numbers of the branch share registrar will remain unchanged.

Proposed Final Dividend

The Board has recommended the payment of a final dividend of RMB16.25 cents per ordinary share in cash for the year ended 31 December 2013 (the "Proposed Final Dividend") (2012: RMB15.26 cents), subject to the shareholders' approval at the Company's forthcoming annual general meeting to be held on Friday, 23 May 2014 (the "2014 AGM"). The Proposed Final Dividend will be paid in cash on 12 June 2014 to shareholders whose names appear on the register of members of the Company at the close of business on 4 June 2014.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2014 AGM, the register of members of the Company will be closed from Wednesday, 21 May 2014 to Friday, 23 May 2014, 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 2014 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 (which address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), for registration not later than 4:30 p.m. on Tuesday, 20 May 2014.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Tuesday, 3 June 2014 to Wednesday, 4 June 2014, 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 the above address, for registration not later than 4:30 p.m. on Friday, 30 May 2014.

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 year ended 31 December 2013.

Audit Committee

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 2013.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2013 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 Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 2013, except that there is no separation of the role of chairman and chief executive 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, 28 March 2014

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.