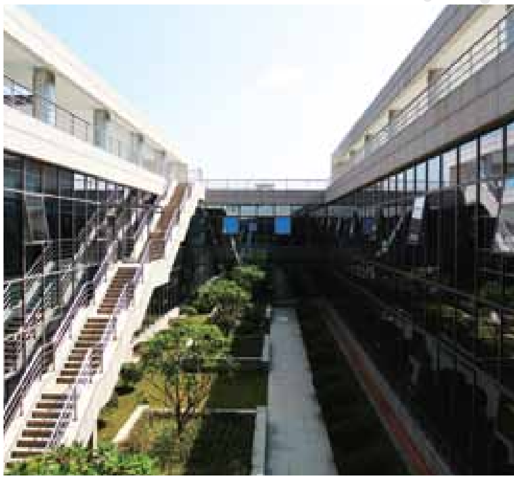
PConline.com.cn

Pacific Online Limited
太平洋網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code:543)



ANNUAL REPORT 2013

PConline.com.cn 太平洋电脑网 | PCauto.com.cn 太平洋汽车网 | PCgames.com.cn 太平洋游戏网 | PCLADY 太平洋时尚网 | PCbaby.com.cn 太平洋亲子网 | PChouse.com.cn 太平洋家居网

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Wai Yan
(Chairman and Chief Executive Officer)
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

COMPANY SECRETARY

Mr. Wong Huk Yung, Hudson

AUTHORISED REPRESENTATIVES

Mr. Wang Ta-Hsing
Mr. Wong Huk Yung, Hudson

AUDIT COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

REMUNERATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

NOMINATION COMMITTEE

Mr. Lam Wai Yan *(Chairman)*
Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak

PRINCIPAL BANKERS

Bank of China
China Construction Bank

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

115 Gaopu Road
Tianhe, Guangzhou
PRC
Postcode: 510663

PLACE OF BUSINESS IN HONG KONG

Portion of Unit 807, Tower 2
Lippo Centre, 89 Queensway
Hong Kong

GROUP'S PORTAL ADDRESSES

www.pconline.com.cn
www.pcauto.com.cn
www.pcgames.com.cn
www.pclady.com.cn
www.pcbaby.com.cn
www.pchouse.com.cn

WEBSITE ADDRESS

corp.pconline.com.cn

STOCK CODE

543

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Pacific Online Limited (the "Company") and its subsidiaries (together, the "Group"), I would like to present the annual results of the Company for the year ended 31 December 2013.

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.

CHAIRMAN'S STATEMENT

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.

APPRECIATION

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

Lam Wai Yan
Chairman

Hong Kong, 28 March 2014

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, Guangzhou Pacific Computer Information Consulting Co., Ltd (廣州太平洋電腦信息諮詢有限公司 ("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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

EXECUTIVE DIRECTORS

Mr. Lam Wai Yan ("Mr. Lam"), aged 62, is an executive director, the Chairman of the Board and of the nomination committee and the Chief Executive Officer of the Company and a director of certain subsidiaries of the Company. Mr. Lam obtained a bachelor's degree in Science from the University of Texas at EL PASO, in 1975. He has extensive local and overseas general management experience and has more than 10 years of experience in IT industry. He had been a vice president and director of Dean Witter Reynolds Inc. from 1979 to 1989 and a director of CLSA Limited (formerly known as "Credit Lyonnais Securities (Asia) Limited") from 1990 to 1991. Mr. Lam co-founded the Group and has played a key role in developing the businesses of the Group since 1997 and led the Group to become one of the leading specialized content portal in China.

Mr. Ho Kam Wah ("Mr. Ho"), aged 61, is an executive director of the Company and a director of certain subsidiaries of the Company. He is also a director and the controlling shareholder of Treasure Field Holdings Limited, a substantial shareholder of the Company. Mr. Ho obtained a bachelor's degree in Science from Illinois State University in 1976. He is principally involved in strategic planning and assisting in overall management and business development of the Group. Mr. Ho co-founded the Group and has played a major role in developing the businesses of the Group since 1997 and has an extensive management experience over 10 years in the IT industry.

Mr. Wang Ta-Hsing ("Mr. Wang"), aged 39, is an executive director of the Company and a director of certain subsidiaries of the Company. He joined the Group in 2005. Mr. Wang obtained a bachelor's degree in Science from the University of California, Berkeley in 1998 and a master's degree in Business Administration from Columbia University in 2004. Mr. Wang is responsible for financing and accounting management of the Group. Mr. Wang has been the director of Kwong Fong Industries Corporation (a company listed on the Taiwan Stock Exchange) since June 2012.

Ms. Zhang Cong Min ("Ms. Zhang"), aged 46, is an executive director and the Chief Operating Officer of the Company and a director of certain subsidiaries of the Company. Ms. Zhang graduated EMBA programme from China Europe International Business School (中歐國際工商學院) in 2011 and obtained a bachelor's degree in Chemical Analysis from the University of Science and Technology of China (中國科學技術大學) in 1991. She is also a member of National People's Congress of Tianhe District, Guangzhou (中國廣州天河區人民代表大會). Ms. Zhang joined the Group in January 2003. Prior to joining the Group, Ms. Zhang worked as a marketing manager and assistant general manager of Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). Ms. Zhang has over 10 years of experience in operation management and the IT industry. She has held various management positions in the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsui Yiu Wa, Alec ("Mr. Tsui"), aged 64, is an independent non-executive director, the chairman of both the audit committee and remuneration committee and a member of the nomination committee of the Company. He joined the Group in November 2007. Mr. Tsui obtained a bachelor's degree in Science (Industrial Engineering) and a master's degree in Engineering (Industrial Engineering) from the University of Tennessee, Knoxville in 1975 and 1976, respectively.

He attended the Programme for Senior Managers in Government at the John F. Kennedy School of Government, Harvard University in 1993. He has been a member of the Hong Kong Securities and Investment Institute (formerly known as "Hong Kong Securities Institute") since 1998. Mr. Tsui has over 20 years' extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission of Hong Kong prior to joining the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and becoming the chief executive in 1997. He was also the chairman of the Hong Kong Securities and Investment Institute from 2001 to 2004. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui has been independent non-executive director of China Chengtong Development Group Limited (stock code: 217), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from March 2003 to November 2013 and Ageas Insurance Company (Asia) Limited and Ageas Asia Holding Limited from June 2007 to February 2014. Currently, Mr. Tsui is an independent non-executive director of Industrial and Commercial Bank of China (Asia) Limited (a company delisted on The Stock Exchange of Hong Kong Limited on 21 December 2010). Besides, Mr. Tsui is acting as independent non-executive director of the following listed companies:

Name of listed companies
China Oilfield Services Limited
China Power International Development Limited
COSCO International Holdings Limited
Melco Crown Entertainment Limited
Summit Ascent Holdings Limited
ATA Inc.
Melco Crown (Philippines) Resorts Corporation (formerly known as "Manchester International Holdings Unlimited Corporation")

Mr. Thaddeus Thomas Beczak ("Mr. Beczak"), aged 63, is an independent non-executive director and a member of the audit committee, remuneration committee and nomination committee of the Company. He joined the Group in November 2007. Mr. Beczak graduated from Georgetown University (B.S.F.S.) and Columbia University (M.B.A.). He is a member of the board of advisers of the Edmund A. Walsh School of Foreign Service at Georgetown University. He is currently the chairman of Cowen Latitude Asia. Mr. Beczak has been an independent non-executive director of Advanced Semiconductor Manufacturing Corporation Limited (stock code: 3355), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from February 2005 to March 2013. Currently, Mr. Beczak is acting as non-executive director of a number of non-listed companies. Besides, Mr. Beczak is acting as independent non-executive director of the following listed companies:

Name of listed companies
Phoenix Satellite Television Holdings Limited
e-Kong Group Limited
Singapore Exchange Limited

From June 2004 until March 2008, Mr. Beczak was the senior advisor of Nomura International (Hong Kong) Limited and was also the chairman of Nomura Asia Holdings N.V. from April 2006 until March 2008. From November 1997 until December 2002, Mr. Beczak was the chairman of the Listing Committee of the Hong Kong Stock Exchange and a member of Board of Directors of the Hong Kong Stock Exchange from 1998 until 2001. He was a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong from 2001 until 2007 and was also a member of the Advisory Committee of the China Securities Regulatory Commission. From September 1997 until December 2003, Mr. Beczak was a director of Kerry Holdings Limited. During this time he also held various board and operating positions within the group, including deputy chairman of SCMP Group Limited and publisher of South China Morning Post Publishers Limited, deputy chairman of Shangri-La Asia Limited, deputy chairman of Kuok Philippines Properties (now known as "Shang Properties, Inc."), a director of China World Trade Center Limited and a director of Kerry Properties Limited. Prior to joining the Kerry Group, Mr. Beczak was the managing director of J.P. Morgan Inc., and president of J.P. Morgan Securities Asia from 1990 until 1997. While at J.P. Morgan, Hong Kong, Mr. Beczak was a director of the Bank of the Philippine Islands and a committee member of the Hong Kong Association of Banks. Mr. Beczak has over 20 years of experience in Asia.

Mr. Chan Chi Mong, Hopkins ("Mr. Chan"), aged 56, is an independent non-executive director and a member of the audit committee and remuneration committee of the Company. He joined the Group in May 2012. Mr. Chan is the founder member of the Institute of Leadership and Management, U.K. Mr. Chan has over twenty years' experiences in finance and management. He served as the vice president and associate director of Dean Witter Reynolds (H.K.) Ltd., and the executive director of Silver Grant International Finance Ltd. He is the president of Chengdu Arkian Scientific Research Ltd. He is the supervisor of Hong Kong Pui Ching Middle School, and Hong Kong Pui Ching Primary School. In social service, he is the board chairman of Baptist Oi Kwan Social Service. Currently, Mr. Chan is acting as independent non-executive director of Talent Property Group Limited (stock code: 760), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Ma Man Ho, Stephen ("Mr. Ma"), aged 43, is the chief financial officer of the Group with effect from 1 April 2013. Mr. Ma joined the Group in 2012. He has over 10 years of experience working in financial management and corporate development. Prior to joining the Group, Mr. Ma held management roles with several financial services companies in Hong Kong and the United States. He holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong and a Master of Business Administration degree from Northwestern University's Kellogg School of Management.

Mr. Tsung Shih Kin, Samuel ("Mr. Tsung"), aged 63, is the chief technical officer of the Group and a former executive director of the Company. He joined the Group in 2003. Mr. Tsung obtained a bachelor's degree in Electrical Engineering from the University of Texas, Austin, in 1975. He has over 30 years of progressive IT industry experience in Canada, Hong Kong and China. Mr. Tsung is in charge of commercial application of information technology and development of Internet and e-commerce capabilities. Prior to joining the Group, Mr. Tsung held several key senior management positions in the IT service industry. He had worked in Canada for 18 years and served as a manager of application development for the Ministry of Agriculture & Food in Ontario, Canada until 1996.

Ms. Lu Wu Qing ("Ms. Lu"), aged 45, is the senior vice president and chief administrative officer of the Group and joined the Group in 2003. Prior to joining the Group, Ms. Lu worked as a deputy manager of the administrative department of Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). She obtained a bachelor's degree in Computer Software from Sun Yat-sen University (中山大學) in 1990.

Mr. Wong Huk Yung, Hudson ("Mr. Wong"), aged 48, is the company secretary and financial controller of the Group and joined the Group in 2005. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wong was a qualified accountant working for international accounting firms and a Hong Kong listed company. He obtained a bachelor's degree in Economics and Accounting from University of Reading.

Ms. Fan Zeng Chun ("Ms. Fan"), aged 43, is the vice president responsible for finance of the PRC operations in the Group. She joined the Group in 2003. Prior to joining the Group, Ms. Fan worked as a senior accounting manager at Guangdong Pacific Electronic Technology Mall Co., Ltd. (廣東太平洋電子科技廣場有限公司). Ms. Fan is a qualified accountant (enterprise) and certified internal auditor. Ms. Fan graduated from the Zhejiang Zhijin Economic Professional School (浙江治金經濟專科學校) with a Certificate of Industrial Economics (經濟系工業經濟專業專科).

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Group's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

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

In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2013, save for the deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized below.

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

THE BOARD

Responsibilities and Delegation

The Board is responsible for overall management and control of the Company. Its main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior staff. Any director may request independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

The Board has delegated a schedule of responsibilities to the executive directors and senior staff of the Company. These responsibilities include implementing decisions of the Board and directing and co-ordinating day-to-day operation and management of the Company. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Board Composition

The following chart illustrated the structure and membership of the Board and the Board committees as at 31 December 2013:

Board of Directors

Executive Directors

Mr. Lam Wai Yan, *Chairman of the Board and Chief Executive Officer*
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

Executive Committee
Mr. Lam Wai Yan, *Chairman*
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

Audit Committee
Mr. Tsui Yiu Wa, Alec, *Chairman*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

Remuneration Committee
Mr. Tsui Yiu Wa, Alec, *Chairman*
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

Nomination Committee
Mr. Lam Wai Yan, *Chairman*
Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak

The Board has at all times during the year ended 31 December 2013 met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board) with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement.

The biographical details of the directors of the Company are set out under the section headed "Directors' and Senior Management's profiles" in this annual report. None of the members of the Board is related to one another.

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

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Appointment, Re-Election and Removal of Directors

Each of the executive directors of the Company is engaged on a service agreement with the Company for a term of three years. The Company has also issued a letter of appointment to each of the independent non-executive directors of the Company for a term of three years.

According to the Company's Articles of Association (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting.

Pursuant to the above provisions in the Articles of Association, Mr. Lam Wai Yan, Mr. Ho Kam Wah and Mr. Tsui Yiu Wa, Alec shall retire by rotation at the forthcoming 2014 annual general meeting of the Company (the "2014 AGM"). It is noted that all the above three retiring directors will offer themselves for re-election. The Company's circular, sent together with this annual report, contains detailed information of such directors as required by the Listing Rules.

Training and Continuous Professional Development of Directors

Each newly appointed director of the Company receives induction on the first occasion of his/her appointment, so as to ensure he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading materials on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2013, the Company (i) has organized briefings conducted by the Company Secretary for all its directors, namely, Mr. Lam Wai Yan, Mr. Ho Kam Wah, Mr. Wang Ta-Hsing, Ms. Zhang Cong Min, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, on corporate governance and update on the Listing Rules and (ii) has provided reading materials on regulatory update to all the directors for their reference and studying.

Model Code for Securities Transactions

The Company has adopted its own code of conduct governing directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Company's directors and they have confirmed that they have complied with the Own Code and the Model Code throughout the period from 1 January 2013 to the date of this report.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

Attendance Records of Directors and Committee Members

The attendance records of each director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2013 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. Lam Wai Yan	3/4	—	—	1/1	1/1
Mr. Ho Kam Wah	3/4	—	—	—	0/1
Mr. Wang Ta-Hsing	4/4	—	—	—	1/1
Ms. Zhang Cong Min	4/4	—	—	—	1/1
Mr. Tsui Yiu Wa, Alec	4/4	2/2	1/1	1/1	1/1
Mr. Thaddeus Thomas Beczak	4/4	2/2	1/1	1/1	1/1
Mr. Chan Chi Mong, Hopkins	4/4	2/2	1/1	—	1/1

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the independent non-executive directors without the presence of executive directors during the year.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established four Board committees during the year ended 31 December 2013, namely, the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website (http://corp.pconline.com.cn) and on the Stock Exchange's website (www.hkexnews.hk) (except for the written terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Chairman of the Board, Mr. Lam Wai Yan, acting as the Chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

Audit Committee

The Audit Committee comprises a total of three members, namely, Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, all of whom are independent non-executive directors of the Company. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The principal duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; (iii) make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and (iv) review the Company's financial controls, internal control, risk management systems and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2013, the Audit Committee has performed the following major tasks:

— Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2012, the related accounting principles and practices adopted by the Group and the relevant audit findings; the report from the external auditor on the Company's internal control and risk management; and the recommendation of the re-appointment of the external auditor; and

— Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2013 and the related accounting principles and practices adopted by the Group; and the review of the arrangements for employees of the Company to raise concerns about possible improprieties.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Audit Committee also met the external auditor twice without the presence of the executive directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

Remuneration Committee

The Remuneration Committee comprises a total of three members, namely, Mr. Tsui Yiu Wa, Alec (Chairman), Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins, all of whom are independent non-executive directors of the Company.

The principal duties of the Remuneration Committee are to (i) make recommendations to the Board on the Company's remuneration policy and structure for directors and members of senior management and the establishment of a formal and transparent procedure for developing such remuneration policy and structure; (ii) make recommendations on the remuneration packages of directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code was adopted); and (iii) review and approve performance-based remuneration by reference to corporate goals and objectives.

During the year ended 31 December 2013, the Remuneration Committee has reviewed and made recommendations on the payment of discretionary bonus to the executive directors of the Company and remuneration package of the directors and senior staff of the Company.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of senior management by band for the year ended 31 December 2013 is set out below:

Remuneration	**Number of individuals**
HKD0 to HKD2,000,000	4
HKD2,000,001 to HKD3,000,000	1
	5

Details of the remuneration of each director of the Company for the year ended 31 December 2013 are set out in note 7(b) to the consolidated financial statements contained in this annual report.

Nomination Committee

The Nomination Committee comprises a total of three members, being one executive director, namely, Mr. Lam Wai Yan (Chairman), and two independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec and Mr. Thaddeus Thomas Beczak. Accordingly, a majority of the members are independent non-executive directors of the Company.

The principal duties of the Nomination Committee are to (i) review the Board composition, develop and formulate relevant procedures for the nomination and appointment of directors; (ii) make recommendations to the Board on the appointment and succession planning of directors; and (iii) assess the independence of independent non-executive directors of the Company.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 December 2013, the Nomination Committee has performed the following major tasks:

— Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;

— Recommendation of the re-appointment of those directors standing for re-election at the 2013 annual general meeting of the Company; and

— Assessment of the independence of the independent non-executive directors of the Company.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

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

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of interim and annual reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

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

EXTERNAL AUDITOR AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2013 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Group's external auditors in respect of audit services and non-audit services for the year ended 31 December 2013 are analyzed below:

Type of services provided by the Group's external auditors	**Fees paid/ payable (RMB)**
Audit services (including interim review):	3,396,000
Non-audit services:	378,000
TOTAL:	3,774,000

COMPANY SECRETARY

During the year ended 31 December 2013, Mr. Wong Huk Yung, Hudson, the Company Secretary, has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables shareholders and investors to make the best investment decision.

The Company maintains a website at "http://corp.pconline.com.cn", as a communication platform with shareholders and investors, where information on the Company's announcement, financial information and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company. Contact details are as follows:

Address: Unit 807, Tower Two, Lippo Centre, 89 Queensway, Hong Kong
(For the attention of the Investor Relations Department)
Email: ir@pconline.com.cn

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. The Chairman of the Board, independent non-executive directors as well as the Chairmen and/or other members of the Audit Committee, Remuneration Committee and Nomination Committee will normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised.

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

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Company's Articles of Association as follows:

(i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

(ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office in Hong Kong or the Company's registration office (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's head office in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is also available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://corp.pconline.com.cn).

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange and the Company immediately after the relevant general meetings.

The Board is pleased to present the annual report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2013.

GROUP REORGANISATION

The Company was incorporated on 27 August 2007 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. The Company is an investment holding company of the companies now comprising the Group.

The Company's shares have been listed on Main Board of the Stock Exchange since 18 December 2007. After the completion of group reorganisation as set out in the prospectus of the Company dated 5 December 2007 (the "Prospectus"), pursuant to an agreement dated 12 November 2007, the Company acquired the entire issued capital of Takehigh Industry Limited through a share swap and became the holding company of the companies now comprising the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of internet advertising services in the People's Republic of China. The activities of its subsidiaries are set out in note 15 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 43.

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 2014 AGM to be held on Friday, 23 May 2014. 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.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and assets less liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 100 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

SHARE OPTION SCHEMES

Pursuant to the shareholders' resolutions of the Company passed on 23 November 2007, the Company has adopted a Pre-IPO Share Option Plan and a Post-IPO Share Option Plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Summary of the Share Option Schemes of the Company is as follows:

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
1.	Purpose	To recognize the contribution to the Group by the executive directors, certain senior management staff and employees of the Group and to retain those persons whose contributions are important to the long-term growth and profitability of the Group.	To advance the interests of the Company and its shareholders by enabling the Company to grant share options to attract, retain and reward the eligible persons, to provide to the eligible persons a performance incentive for continued and improved services with the Company and its subsidiaries, and to enhance such persons' contribution to increase the profits by encouraging capital accumulation and share ownership.
2.	Participants	Any executive directors, senior management staff and employees of the Group.	Any directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment, contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group.
3.	Total number of ordinary shares available for issue	No further option could be granted under the Pre-IPO Share Option Plan.	98,130,880 shares, being approximately 9% of the issued share capital as at the date of this annual report.
4.	Maximum entitlement of each participant	Determined by the Board.	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options already granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting. Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.

	Details	Pre-IPO Share Option Plan	Post-IPO Share Option Plan
5.	Period within which the securities must be taken up under an option	An option may be exercised during a period to be determined and notified by the Board to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Pre-IPO Share Option Plan.	An option may be exercised at any time during a period to be determined and notified by the Board to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Post-IPO Share Option Plan.
6.	Minimum period for which an option must be held before it can be exercised	The minimum period for which an option granted must be held before it can be exercised is as follow: **Minimum Period** — **Number of options exercisable** 24 months from the date of grant — 1st phase options, being one-third of the total number of options granted 36 months from the date of grant — 2nd phase options, being a further one-third of the total number of options granted 48 months from the date of grant — 3rd phase options, being a further one-third of the total number of options granted	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
7.	Acceptance of offer	Options granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per grant.	Options granted must be taken up within 28 days from the date of offer, upon payment of HK$1 per grant.
8.	Basis of determining the exercise price	Determined by the Board.	Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the grant of options; and (iii) the nominal value of an ordinary share of the Company.
9.	Remaining life of the scheme	Expired on 28 November 2007.	It will remain in force for a period of 10 years, commencing on 23 November 2007.

During the year ended 31 December 2013, movements of the two share option plans of the Company are as follows:

(a) Pre-IPO Share Option Plan

Category	Date of grant	Exercise period[1]	Exercise price per share	Number of share options: As at 1 January 2013	Exercised during the year	Lapsed during the year	As at 31 December 2013
Director							
Ms. Zhang Cong Min	23 November 2007	A	I	4,366,545	—	—	4,366,545
	23 November 2007	B	II	6,096,631	—	—	6,096,631
	23 November 2007	C	III	6,129,000	—	—	6,129,000
				16,592,176	—	—	16,592,176
Employees in aggregate	23 November 2007	A	I	2,802,821	(88,489)	—	2,714,332
	23 November 2007	B	II	4,456,236	(316,120)	—	4,140,116
	23 November 2007	C	III	6,672,060	(1,709,401)	—	4,962,659
				13,931,117	(2,114,010)	—	11,817,107
Total				30,523,293	(2,114,010)	—	28,409,283

Exercise period	Exercise price
A: from 23 November 2009 to 22 November 2017	I: HKD1.32
B: from 23 November 2010 to 22 November 2017	II: HKD1.71
C: from 23 November 2011 to 22 November 2017	III: HKD1.96

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) No share options have been granted/cancelled under the Pre-IPO Share Option Plan during the year ended 31 December 2013.

(b) Post-IPO Share Option Plan

Category	Date of grant	Exercise period[1]	Exercise price per share	Number of share options: As at 1 January 2013	Exercised during the year	Lapsed during the year	As at 31 December 2013
Director							
Mr. Lam Wai Yan	18 May 2009	C	I	1,267,939	(1,267,939)	—	—
				1,267,939	(1,267,939)	—	—
Mr. Wang Ta-Hsing	18 May 2009	A	I	1,152,671	—	—	1,152,671
	18 May 2009	B	I	1,152,672	—	—	1,152,672
	18 May 2009	C	I	1,152,672	—	—	1,152,672
				3,458,015	—	—	3,458,015
Ms. Zhang Cong Min	18 May 2009	A	I	1,913,434	—	—	1,913,434
	18 May 2009	B	I	1,913,436	—	—	1,913,436
	18 May 2009	C	I	1,936,489	—	—	1,936,489
	12 April 2010	G	III	694,029	—	—	694,029
	12 April 2010	H	III	694,030	—	—	694,030
	12 April 2010	I	III	694,030	—	—	694,030
				7,845,448	—	—	7,845,448
Mr. Tsui Yiu Wa, Alec	6 July 2009	D	II	76,576	—	—	76,576
	6 July 2009	E	II	77,737	—	—	77,737
	6 July 2009	F	II	77,738	—	—	77,738
				232,051	—	—	232,051
Mr. Thaddeus Thomas Beczak	6 July 2009	D	II	76,576	—	—	76,576
	6 July 2009	E	II	77,737	—	—	77,737
	6 July 2009	F	II	77,738	—	—	77,738
				232,051	—	—	232,051
				13,035,504	(1,267,939)	—	11,767,565
Employees in aggregate	6 July 2009	D	II	254,167	(80,128)	—	174,039
	6 July 2009	E	II	580,128	(580,128)	—	—
	6 July 2009	F	II	580,128	—	—	580,128
	12 April 2010	G	III	1,413,729	(691,326)	(37,016)	685,387
	12 April 2010	H	III	3,068,063	(1,284,030)	(399,219)	1,384,814
	12 April 2010	I	III	3,752,389	(924,866)	(576,043)	2,251,480
	14 April 2010	J	IV	286,871	—	—	286,871
	14 April 2010	K	IV	286,871	—	—	286,871
	14 April 2010	L	IV	299,544	—	(1,153)	298,391
	18 May 2010	M	V	284,779	(92,469)	(68,351)	123,959
	18 May 2010	N	V	733,325	(244,258)	(222,430)	266,637
	18 May 2010	O	V	890,885	(309,263)	(227,066)	354,556
				12,430,879	(4,206,468)	(1,531,278)	6,693,133
Total				25,466,383	(5,474,407)	(1,531,278)	18,460,698

Exercise period		Exercise price	
A:	from 18 May 2011 to 17 May 2014	I:	HKD1.31
B:	from 18 May 2012 to 17 May 2014	II:	HKD1.56
C:	from 18 May 2013 to 17 May 2014	III:	HKD2.68
D:	from 6 July 2011 to 5 July 2014	IV:	HKD2.63
E:	from 6 July 2012 to 5 July 2014	V:	HKD2.65
F:	from 6 July 2013 to 5 July 2014		
G:	from 12 April 2011 to 11 April 2014		
H:	from 12 April 2012 to 11 April 2014		
I:	from 12 April 2013 to 11 April 2014		
J:	from 14 April 2011 to 13 April 2014		
K:	from 14 April 2012 to 13 April 2014		
L:	from 14 April 2013 to 13 April 2014		
M:	from 18 May 2011 to 17 May 2014		
N:	from 18 May 2012 to 17 May 2014		
O:	from 18 May 2013 to 17 May 2014		

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) No share options have been granted/cancelled under the Post-IPO Share Option Plan during the year ended 31 December 2013.

Further details of the two share option plans of the Company are set out in note 21 to the consolidated financial statements.

SHARE AWARD SCHEME

The Board adopted a restricted share award scheme (the "Share Award Scheme") on 10 January 2011 (the "Adoption Date") as an incentive to retain and encourage the eligible participants for the continual operation and development of the Group. Eligible participants include any directors, any employee, any consultant or adviser of or to the Company or the Group and who, in the absolute opinion of the Board, have contributed to the Company or the Group.

Pursuant to the Share Award Scheme, the Board may, from time to time, at its absolute discretion select eligible participants and determine the number of shares to be awarded. The aggregate number of shares to be awarded by the Board throughout the duration of the Share Award Scheme shall not exceed 2.5% of the issued share capital of the Company as at the Adoption Date. The term of the Share Award Scheme is 10 years commencing from the Adoption Date.

During the year, a total of 1,310,850 shares were granted. Further details in relation to the Share Award Scheme are set out in note 21 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, the Company had distributable reserves amounting to RMB938.3 million (2012: RMB808.3 million).

Under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands, the share premium account and the retained earnings are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 21.7% of the total sales for the year and sales to the largest customer included therein amounted to 5.2%. Excluded the acquisition of property, purchases from the Group's five largest suppliers accounted for 68.0% of the total purchases for the year and purchase from the largest supplier included therein amounted to 28.4%.

None of the directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

EMPLOYEES 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.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year were as follows:

Executive Directors:
Mr. Lam Wai Yan
(Chairman and Chief Executive Officer)
Mr. Ho Kam Wah
Mr. Wang Ta-Hsing
Ms. Zhang Cong Min

Independent Non-executive Directors:
Mr. Tsui Yiu Wa, Alec
Mr. Thaddeus Thomas Beczak
Mr. Chan Chi Mong, Hopkins

In accordance with Article 87 of the Company's Articles of Association, Mr. Lam Wai Yan, Mr. Ho Kam Wah and Mr. Tsui Yiu Wa, Alec shall retire from office by rotation at the 2014 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2014 AGM.

The Company has received annual confirmations of independence from Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Chan Chi Mong, Hopkins pursuant to Rule 3.13 of the Listing Rules. The Company considers the independent non-executive directors to be independent as at the date of this report.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2014 AGM has a service agreement with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2013, the interests of the directors of the Company in the shares and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(1) Interests in shares of the Company

Name of director	Long/Short position	Capacity	Number of ordinary shares in the Company	Note	Percentage of the Company's issued share capital†
Mr. Lam Wai Yan	Long	Interests held jointly with spouse	7,914,585	(1)	0.73%
	Long	Beneficial owner	300,149,976	—	27.47%
			308,064,561	—	28.20%
Mr. Ho Kam Wah	Long	Interests held by a controlled corporation	99,348,480	(2)	9.09%
	Long	Beneficial owner	2,055,900	—	0.19%
	Long	Interests of spouse	1,432,200	(3)	0.13%
			102,836,580	—	9.41%
Ms. Zhang Cong Min	Long	Beneficial owner	6,448,000	—	0.59%
Mr. Tsui Yiu Wa, Alec	Long	Beneficial owner	60,000	—	0.005%

Notes:

(1) These shares were held jointly by Mr. Lam Wai Yan and his spouse, Ms. Ma Muk Lan.

(2) These shares were held by Treasure Field Holdings Limited, a controlled corporation of Mr. Ho Kam Wah.

(3) Mr. Ho Kam Wah was deemed to be interested in 1,432,200 shares of the Company through the interests of his spouse, Ms. Yeung Yuk Chun.

† The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2013.

(2) Interests in shares of associated corporation — GZ Yingxin Computer Technology Exchange Co., Ltd. ("GZ Yingxin")

Name of director	Long/Short position	Capacity	Number of shares in GZ Yingxin	Percentage of GZ Yingxin's issued share capital†
Ms. Zhang Cong Min	Long	Beneficial owner	2,280,000	40%

† The percentage represents the number of shares interested divided by the number of GZ Yingxin's issued shares as at 31 December 2013.

(3) Interests in underlying shares of the Company — physically settled unlisted equity derivatives

Name of director	Long/Short position	Capacity	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the Company's issued share capital†
Mr. Wang Ta-Hsing	Long	Beneficial owner	3,458,015	0.32%
Ms. Zhang Cong Min	Long	Beneficial owner	24,437,624	2.24%
Mr. Tsui Yiu Wa, Alec	Long	Beneficial owner	232,051	0.02%
Mr. Thaddeus Thomas Beczak	Long	Beneficial owner	232,051	0.02%

Note: Details of the above share options as required by the Listing Rules have been disclosed in the above section headed "Share Option Schemes" and note 21 to the consolidated financial statements.

† The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2013.

Save as disclosed above and in the above section headed "Share Option Schemes", as at 31 December 2013, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 21 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, the following persons (other than the directors and chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in shares of the Company

Name of substantial shareholder	Long/Short position	Capacity	Number of ordinary shares in the Company	Note	Percentage of the Company's issued share capital†
Ms. Ma Muk Lan	Long	Interests of spouse	300,149,976	(1)	27.47%
	Long	Interests held jointly with spouse	7,914,585	(2)	0.73%
			308,064,561	—	28.20%
Gallop Assets Management Limited	Long	Beneficial owner	296,172,030	(3)	27.11%
J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust	Long	Trustee	296,172,030	(3)	27.11%
Mr. Wang Ko Chiang	Long	Founder of a discretionary trust	296,172,030	(3)	27.11%
	Long	Interests held by controlled corporations	540,000	(4)	0.05%
			296,712,030	—	27.16%
Mrs. Wang Tang Shi Ming	Long	Interests of spouse	296,612,030	(5)	27.15%
	Long	Interests held by a controlled corporation	100,000	(4)	0.01%
			296,712,030	—	27.16%
Treasure Field Holdings Limited	Long	Beneficial owner	99,348,480	(6)	9.09%
Ms. Yeung Yuk Chun	Long	Interests of spouse	101,404,380	(7)	9.28%
	Long	Beneficial owner	1,432,200	—	0.13%
			102,836,580	—	9.41%

Notes:

(1) Ms. Ma Muk Lan was deemed to be interested in 300,149,976 shares of the Company through the interests of her spouse, Mr. Lam Wai Yan.

(2) These shares were held jointly by Ms. Ma Muk Lan and her spouse, Mr. Lam Wai Yan.

(3) These shares were held by Gallop Assets Management Limited, the entire issued share capital of which was owned by J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust, a discretionary trust founded by Mr. Wang Ko Chiang. As such, J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Gallop Trust was deemed to be interested in 296,172,030 shares of the Company held by Gallop Assets Management Limited.

Accordingly, Mr. Wang Ko Chiang, as the founder of The Gallop Trust was deemed to be interested in 296,172,030 shares of the Company held by Gallop Assets Management Limited.

(4) 440,000 shares of the Company were held by South China Resources Development Consultants Limited, which was controlled by Cosmos Sky Investments Limited. Cosmos Sky Investments Limited was wholly owned by Mr. Wang Ko Chiang. Accordingly, Mr. Wang Ko Chiang was deemed to be interested in 440,000 shares of the Company held by South China Resources Development Consultants Limited.

The remaining 100,000 shares of the Company were held by Joy Way Co., Ltd., which was jointly owned by Mr. Wang Ko Chiang and Mrs. Wang Tang Shi Ming.

(5) Mrs. Wang Tang Shi Ming was deemed to be interested in 296,612,030 shares of the Company through the interests of her spouse, Mr. Wang Ko Chiang.

(6) The interests of Treasure Field Holdings Limited was also disclosed as the interests of Mr. Ho Kam Wah in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporation".

(7) Ms. Yeung Yuk Chun was deemed to be interested in 101,404,380 shares of the Company through the interests of her spouse, Mr. Ho Kam Wah.

† The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2013.

Save as disclosed above, as at 31 December 2013, no person, other than the directors of the Company whose interests are set out in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporation", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2013, to the best knowledge of the directors, none of the directors and their respective associates was considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or the Group.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained a sufficient public float.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into the Group during year ended 31 December 2013 is contained in note 25 to the consolidated financial statements.

During the year ended 31 December 2013, save for the continuing connected transactions as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A of the Listing Rules.

1. Tenancy Agreements

On 27 December 2012, the Group entered into the renewed tenancy agreements (the "Renewed Tenancy Agreements") with Kexim Company Limited ("Kexim") and South China Resources Development Consultants Limited ("SCRD Consultants") for a term of 3 years commencing from 1 January 2013 to 31 December 2015. Under the terms of Renewed Tenancy Agreements, Kexim and SCRD Consultants leased to the Group certain premises and properties for general office uses.

Each of Kexim and SCRD Consultants is controlled by Mr. Wang Ko Chiang, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the year ended 31 December 2013, the total amount of fees paid by the Group under the Renewed Tenancy Agreements was RMB988,000 and the annual cap amount was RMB2,000,000.

2. Advertising Agreements

On 27 December 2012, the Group entered into the renewed advertising agreement with Kexim and a new advertising agreement with SCRD Consultants (together, the "Advertising Agreements") for a term of 3 years commencing from 1 January 2013 to 31 December 2015. Under the terms of the Advertising Agreements, Kexim and SCRD Consultants respectively authorised the Company to lease the advertising boards on the external walls of the relevant property(ies) which were owned by Kexim or SCRD Consultants and/or their respectively subsidiaries as well as to receive and collect all revenue in connection with the leasing of such advertising boards, and the Company is responsible for obtaining all necessary government approvals for placing such outdoor advertisements and for paying the associated costs thereof.

Each of Kexim and SCRD Consultants is controlled by Mr. Wang Ko Chiang, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the year ended 31 December 2013, the total amount of fees paid by the Group under the Advertising Agreements was RMB2,235,000 and the annual cap amount was RMB5,500,000.

3. Property Management Service Agreement

On 27 December 2012, the Company entered into the property management service agreement ("Property Management Service Agreement") with Beijing Pacific Times Property Management Co., Ltd. (北京太平洋時代物業管理有限公司) ("BPT Property Management") for a term of 3 years commencing from 1 January 2013 to 31 December 2015. Under the terms of the Property Management Service Agreement, BPT Property Management agreed to provide and the Group agreed to receive property management services in relation to the premises owned or rented by the Group.

BPT Property Management is controlled by Mr. Wang Ko Chiang, a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules.

During the year ended 31 December 2013, the total amount of fees paid by the Group under the Property Management Service Agreement was RMB339,000 and the annual cap was RMB800,000.

4. Structure Contract Transactions

The Group had continuing connected transactions in the form of structure contracts (the "Structure Contracts Transactions").

The Group conducts its online advertising business through GZ Yingxin, Guangdong Pacific Internet Information Service Co., Ltd. ("GDP Internet") and the subsidiaries of GDP Internet under the structure contracts entered into with the Company's wholly-owned subsidiary, Guangzhou Pacific Computer Information Consulting Co., Ltd.. Ms. Zhang Cong Min, an executive director of the Company, holds a 40% equity interest in GZ Yingxin. As such, GZ Yingxin is an associate of Ms. Zhang under the Listing Rules and therefore a connected person of the Company. The structure contracts are fundamental to the Group's legal structure and business operations. The Directors believe that the nature of the Group structure whereby the financial results of GZ Yingxin, GDP Internet and the subsidiaries of GDP Internet are consolidated with the Group's financial statements as if they were subsidiaries of the Company and the economic benefits of their business flow to the Company. The transactions (technical support, information consulting and technical services) under structure contracts carried out during the year ended 31 December 2013 were approximately RMB669,324,000 and the amounts have been eliminated in the consolidated financial statements of the Company and its subsidiaries.

The independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2013 and confirmed as follows:

(I) The continuing connected transaction related to Tenancy Agreements, Advertising Agreements and Property Management Service Agreement had been:

a) entered into by the Group in the ordinary and usual course of business;

b) entered into by the Group on normal commercial terms; and

c) entered into by the Group in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

(II) The Structure Contracts Transactions had been entered into in accordance with the relevant provisions of the structure contracts; the terms of the structure contracts remain unchanged and consistent with those disclosed in the Prospectus; and no dividends have been made by GZ Yingxin to the GZ Yingxin's shareholders; and any new structural contractual arrangements entered into, renewed and/or "cloned" during the year ended 31 December 2013 are fair and reasonable so far as the Company is concerned and in the interests of the Company and its shareholders as a whole.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

AUDITOR

A resolution will be proposed at the 2014 AGM to re-appoint Messrs. PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
Lam Wai Yan
Chairman

28 March 2014

羅兵咸永道

To the shareholders of Pacific Online Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Pacific Online Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 99, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2014

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	**847,923**	715,636
Cost of revenue	6	**(249,861)**	(207,737)
Gross profit		**598,062**	507,899
Selling and marketing costs	6	**(167,896)**	(114,351)
Administrative expenses	6	**(77,395)**	(67,098)
Product development expenses	6	**(45,930)**	(39,704)
Other income	8	**7,150**	4,985
Operating profit		**313,991**	291,731
Finance income	9	**9,017**	5,144
Finance cost	9	**—**	(446)
Finance income — net	9	**9,017**	4,698
Profit before income tax		**323,008**	296,429
Income tax expense	10	**(69,374)**	(59,958)
Profit for the year		**253,634**	236,471
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)	11	**23.34 cents**	21.83 cents
— Diluted (RMB)	11	**22.83 cents**	21.38 cents
Dividend per share			
— Final dividend proposed (RMB)	12	**16.25 cents**	15.26 cents

The notes on pages 49 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	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

The notes on pages 49 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Lease prepayment		17,316	17,640
Property and equipment	13	202,243	209,042
Intangible assets	14	12,292	14,677
Deferred income tax assets	17	9,739	7,074
Prepayments	18	43,484	—
		285,074	248,433
Current assets			
Trade and other receivables and prepayments	18	380,553	260,434
Short-term bank deposits with original terms of over three months	19	12,500	2,583
Cash and cash equivalents	19	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	20	10,161	10,100
Reserves	21	876,972	772,447
Total equity		887,133	782,547
Current liabilities			
Accruals and other payables	22	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

Lam Wai Yan
Director

Wang Ta-Hsing
Director

The notes on pages 49 to 99 are an integral part of these consolidated financial statements.

BALANCE SHEET

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Intangible assets		**8,793**	8,793
Interests in subsidiaries	15	**278,469**	274,583
		287,262	283,376
Current assets			
Prepayments	18	**36**	51
Amounts due from subsidiaries	15	**32,698**	25,107
Dividend due from subsidiaries		**602,240**	487,000
Cash and cash equivalents	19	**36,569**	33,090
		671,543	545,248
Total assets		**958,805**	828,624
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	20	**10,161**	10,100
Reserves	21	**938,342**	808,279
Total equity		**948,503**	818,379
Current liabilities			
Accruals and other payables	22	**1,697**	1,640
Amounts due to subsidiaries	15	**8,605**	8,605
Total current liabilities		**10,302**	10,245
Total equity and liabilities		**958,805**	828,624
Net current assets		**661,241**	535,003
Total assets less current liabilities		**948,503**	818,379

Lam Wai Yan	**Wang Ta-Hsing**
Director	Director

The notes on pages 49 to 99 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company		
	Note	Ordinary shares RMB'000	Reserves RMB'000	Total equity 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	12	—	(160,572)	(160,572)
Repurchase of shares of the Company		(57)	(13,897)	(13,954)
Share Award Scheme	21(b)			
— purchase of shares		—	(3,839)	(3,839)
— value of employee services		—	3,985	3,985
Employees share option schemes	21(a)			
— 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	12	—	(165,858)	(165,858)
Share Award Scheme	21(b)			
— value of employee services		—	3,412	3,412
Employees share option schemes	21(a)			
— 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

The notes on pages 49 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2013	2012
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	23	**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	19	**438,036**	437,316

The notes on pages 49 to 99 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

(a) General information

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

The Company and its subsidiaries (together, the "Group") are principally engaged in the provision of internet advertising services in the People's Republic of China (the "PRC").

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 are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors (the "Board") of the Company on 28 March 2014.

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

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which include online advertising through the internet. In order for the Group to provide such services in the PRC, the following arrangements have been made:

— *Establishment of Guangzhou Yingxin Computer Technology Exchange Co., Ltd. (廣州英鑫計算機科技交流有限公司, "GZ Yingxin")*

GZ Yingxin, a PRC limited liability company, was established on 25 November 2003 by Ms. Zhang Cong Min, Ms. Fan Zeng Chun and Ms. Lu Wu Qing, employees of Takehigh Industrial Limited ("Takehigh") and its subsidiaries (together, the "Takehigh Group") who are PRC citizens as its legal owners (the "3 Registered Owners"). Takehigh also made loans to the 3 Registered Owners for the financing of the initial working capital of GZ Yingxin in connection with its establishment. Through the execution of various contracts and agreements (collectively defined as "Structure Contracts", see below for more details) among the Takehigh Group, GZ Yingxin and the 3 Registered Owners, the Takehigh Group controls GZ Yingxin. GZ Yingxin is accounted for as a subsidiary of the Takehigh Group.

1. GENERAL INFORMATION (CONTINUED)

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

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

Through various equity transfer arrangements commenced after the establishment of GZ Yingxin, all the equity interests of two operating companies in the PRC, Guangzhou Pacific Advertising Co., Ltd. (廣州市太平洋廣告有限公司, "GZP Advertising") and Guangdong Pacific Internet Information Service Co.,Ltd. (廣東太平洋互聯網信息服務有限公司, "GDP Internet") were transferred to GZ Yingxin in or before August 2007.

Thereafter, GZ Yingxin became the holding company of GDP Internet and GZP Advertising.

— *Structure Contracts arrangements made between GZ Yingxin and its subsidiaries*

In addition to GZ Yingxin, Structure Contracts have also been executed among Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司, "GZP Computer"), a subsidiary of the Takehigh Group, the subsidiaries of GZ Yingxin, and the 3 Registered Owners. Through these contractual arrangements, the decision-making rights and operating and financing activities of GZ Yingxin and its subsidiaries (collectively the "GZ Yingxin Group") are ultimately controlled by Takehigh. Takehigh and GZP Computer are also entitled to substantially all the operating profits and residual benefits generated by GZ Yingxin Group under these arrangements. In particular, the 3 Registered Owners are required under the contractual arrangements made with the Takehigh Group to transfer their interests in GZ Yingxin to the Takehigh Group or its designee, upon the Takehigh Group's request at the lowest amount of consideration permitted by PRC law and upon the time when the relevant PRC law and regulations allow such to do so.

Further, the Takehigh Group owns the intellectual property developed by GDP Internet and it also receives the cash flow derived from the operations of GDP Internet and its subsidiaries through the levying of service and consultancy fees. The ownership interests in GZ Yingxin and GDP Internet have also been pledged by the 3 Registered Owners to the Takehigh Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Changes in accounting policies and disclosures

(a) The following new standards, amendments to existing standards and interpretation are effective for the financial year beginning 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 interpretation 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 except disclosed elsewhere.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of presentation (Continued)

Changes in accounting policies and disclosures (Continued)

(b) The following new standard, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

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

Subsidiaries

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The directors of the Company have concluded that it is appropriate to include GZ Yingxin Group in its consolidated financial statements, notwithstanding lack of the share ownership, because in substance the contractual arrangements described in Note 1(b) above give Takehigh control over GZ Yingxin and GDP Internet by way of controlling the operational and financial decisions of the GZ Yingxin Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Profits and losses resulting from inter-company transaction that are recognised in assets are also eliminated.

Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Lease prepayment

Lease prepayment is up-front payment to acquire long-term interest in land. Lease prepayment is carried at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of lease prepayment on a straight-line basis over the periods of the right which are from 39 years to 49 years.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	39 years
Building improvements	10 years
Computers and servers	3–5 years
Motor vehicles	5 years
Furniture, fittings and equipment	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets

(a) Computer software and technology

Acquired computer software and technology are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 years.

(b) Club membership

Club membership is stated at cost less impairment losses, if any. No amortisation is charged as the club membership has an indefinite useful life because the Company has the contractual right to control over the asset and legal rights with no definite period.

2.8 Impairment of non-financial assets and investments in subsidiaries

Assets that have an indefinite useful life, for example club membership, are not subject to amortisation and are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the interest in the separate financial statements exceeds the carrying amount of the investee's net assets in the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets

(a) Classification

The Group currently only has financial assets in the category of loans and receivables. This classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.12), 'short-term bank deposits with original terms of over three months' and 'cash and cash equivalents' (Note 2.13) in the balance sheet.

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

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

2.14 Share capital

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Accruals and other payables

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.16 Prepaid advertising subscriptions from customers and deferred revenue

Prepaid advertising subscriptions from customers represent subscription fees paid by customers in advance for online advertising services but services have not yet rendered by the Group at the balance sheet date.

Deferred revenue represents the portion of subscription fees already paid by customers for online advertising services and in respect of which the Group has started rendering the related service but is yet to complete. Deferred revenue will be recognized as revenue when all of the revenue recognition criteria are met.

2.17 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from interests in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits

(a) *Pension obligations*

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

The group companies incorporated in Hong Kong operate a defined contribution plan, the assets of which are generally held in a separate trustee-administered fund. These group companies pay fixed contribution into such defined contribution plan and have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

Contributions to these defined contributions plans are expensed as incurred.

(b) *Housing benefits*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Share-based payment

The Group operates a number of share-based compensation plans (including share option schemes and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Company. The fair value of the employee services received in exchange for the grant of equity instruments of the Company is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using the Binomial valuation model or the Trinomial valuation model, which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of awarded shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statements, are treated as part of the "Interests in subsidiaries" in the Company's balance sheet.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Revenue recognition (Continued)

(a) *Online advertising revenues*

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

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

(b) *Interest income*

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

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Product development expenses

Expenditure on product development research is expensed as incurred.

Expenditure on development or from the development phase of an individual project is recognised as an internally generated intangible if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group mainly operates in the PRC and most of the Group's transactions, assets and liabilities are denominated in RMB. Therefore, to maintain the flexibility in the Company and HK subsidiaries' payment of daily operation, the Group holds certain monetary assets denominated in USD or HKD subject to certain thresholds stated in its treasury mandate. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD and HKD as management considers that such risk could not be effectively reduced in a low-cost way. Accordingly, the Group did not purchase any forward contract to hedge the foreign exchange risk during 2013.

At 31 December 2013, the exchange rate of RMB to HKD and USD were 0.7862 and 6.0969 respectively. If RMB had strengthened by 0.5% against the HKD/USD with all other variables held constant, post tax profit for the year would have been RMB52,000 (2012: RMB56,000) lower, mainly as a result of net foreign exchange losses in HKD/USD denominated cash at bank and other receivables as at 31 December 2013.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (Continued)

(ii) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, deposits with banks, as well as trade and other receivables.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and international financial institutions outside the PRC of high credit quality. There was no recent history of default of cash and cash equivalents and term deposits with original terms of over three months from these financial institutions.

For trade receivables, as mentioned in Note 2.20(a), a material portion of online advertising services revenues was derived from advertising agents. If they experience financial difficulties in setting the outstanding amount due to the Group, the Group's online advertising services might be adversely affected in terms of recoverability of receivables.

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

(iii) Liquidity risk

The Group aims to finance its operations with its own capital and earnings. It did not have any borrowings or credit facilities committed/utilised during the year ended 31 December 2013. Management considers that the Group does not have significant liquidity risk.

(b) Capital risk management

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation

The different levels for fair value valuation have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the Group's trade and other receivables and accruals and other payables approximate their fair values due to their short maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Recognition of income taxes

The Group is mainly subject to income tax in the PRC. There are transactions (including entitlement to preferential tax treatment and deductibility of expenses) where the ultimate tax determination is uncertain until the final tax position is confirmed by relevant tax authorities. In addition, the Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

(c) Recognition of share-based compensation expense

The Group's employees have participated in share option schemes or share award scheme of the Company. Management of the Group have used the Binomial valuation model or the Trinomial valuation model to determine the fair value of the share options granted, which are based on fair value and various attributes of the underlying shares of the Company. Significant estimates and assumptions are required to be made in determining the parameters for applying the Binomial valuation model and the Trinomial valuation model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of share options and the amount of share options and awarded shares expected to become vested, which may in turn significantly impact the determination of the share-based compensation expense.

5. 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).

6. EXPENSES BY NATURE

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

	2013 RMB'000	2012 RMB'000
Employee benefit expenses (Note 7)	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 (Note 13)	14,545	13,524
— Amortisation of intangible assets (Note 14)	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 development expenses had been capitalised for the year ended 31 December 2013 (2012: nil).

7. EMPLOYEE BENEFIT EXPENSES

	2013 RMB'000	2012 RMB'000
Wages, salaries and bonuses	**157,539**	122,377
Share-based compensation expenses (Note 21)	**3,886**	6,215
Social security contributions	**10,947**	9,686
Contributions to pension schemes (a)	**15,533**	12,915
Contributions to housing fund	**7,513**	5,874
	195,418	157,067

(a) Pensions scheme — defined contribution plans

The PRC employees of the Group participate in defined contribution retirement schemes based on laws and regulations in the PRC. Each employee covered by these schemes is entitled to, after their retirement from the Group, a monthly pension as determined by these schemes. The local government authorities of the PRC are responsible for the pension liabilities to these retired employees. The Group made monthly contributions to the retirement schemes at rates ranging from 12% to 22% of the basic salaries of employees during the year ended 31 December 2013.

All the Hong Kong employees of the Group participate in a mandatory provident scheme (the "MPF Scheme"). Under the MPF Scheme, each company of the Group in Hong Kong (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employers and employees are subject to a cap of HKD1,000 per month and thereafter contributions are voluntary.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments mentioned above.

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2013 is set out below:

Name of Director	Fees	Salaries	Discretionary bonuses	Share-based compensation	Contributions to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lam Wai Yan (i)	—	519	1,966	28	12	2,525
Mr. Wang Ta-Hsing	—	402	—	26	12	440
Mr. Ho Kam Wah	—	4	—	—	—	4
Ms. Zhang Cong Min	—	1,068	686	596	75	2,425
Mr. Tsui Yiu Wa	330	—	—	2	—	332
Mr. Thaddeus Thomas Beczak	330	—	—	2	—	332
Mr. Chan Chi Mong	330	—	—	—	—	330

The remuneration of each Director for the year ended 31 December 2012 is set out below:

Name of Director	Fees	Salaries	Discretionary bonuses	Share-based compensation	Contributions to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lam Wai Yan (i)	—	537	2,441	119	11	3,108
Mr. Wang Ta-Hsing	—	637	244	108	11	1,000
Mr. Ho Kam Wah	—	4	—	—	—	4
Ms. Zhang Cong Min	—	990	—	639	69	1,698
Mr. Tsui Yiu Wa	297	—	—	16	—	313
Mr. Thaddeus Thomas Beczak	297	—	—	16	—	313
Mr. Chan Chi Mong	188	—	—	—	—	188
Mr. Louie Ming (ii)	110	—	—	16	—	126

(i) Mr. Lam Wai Yan is the chief executive officer of the Group.

(ii) Mr. Louie Ming retired as an independent non-executive director of Company and has also ceased to be a member of both the Audit Committee and the Remuneration Committee of the Company with effect from 18 May 2012.

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2012: two) directors whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining three (2012: three) individuals during the year are as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,249	4,507
Share-based compensation expenses	456	576
Contributions to pension schemes	82	75
	4,787	5,158

The emoluments of the remaining three individuals (2012: three) fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HKD1,000,001 to HKD2,000,000	1	2
HKD2,000,001 to HKD3,000,000	2	1

During the year ended 31 December 2013, none (2012: none) of the directors waived or agreed to waive any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. OTHER INCOME

	2013 RMB'000	2012 RMB'000
Government grants	7,150	4,985

9. FINANCE INCOME — NET

	2013 RMB'000	2012 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

10. INCOME TAX EXPENSE

	2013 RMB'000	2012 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"). GZP Computer and 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 these financial statements, 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.

10. INCOME TAX EXPENSE (CONTINUED)

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:

	2013 RMB'000	2012 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.

11. 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 (Note 21(b))).

	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

11. EARNINGS PER SHARE (CONTINUED)

(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).

	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 awarded shares (thousand shares)	**24,191**	22,375
Diluted earnings per share (RMB)	**22.83 cents**	21.38 cents

12. 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)(Note 21(b)).

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.

13. PROPERTY AND EQUIPMENT

	Buildings	Building improvements	Leasehold improvements	Computers and servers	Motor vehicles	Furniture, fittings and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012							
Cost	154,276	37,405	—	27,260	4,612	8,628	232,181
Accumulated depreciation	(3,148)	(573)	—	(17,075)	(665)	(3,421)	(24,882)
Net book amount	151,128	36,832	—	10,185	3,947	5,207	207,299
Year ended 31 December 2012							
Opening net book amount	151,128	36,832	—	10,185	3,947	5,207	207,299
Additions	758	220	7,518	4,368	630	1,867	15,361
Disposals	—	—	—	(6)	—	(88)	(94)
Depreciation (Note 6)	(3,592)	(3,757)	(251)	(3,283)	(885)	(1,756)	(13,524)
Closing net book amount	148,294	33,295	7,267	11,264	3,692	5,230	209,042
At 31 December 2012							
Cost	155,034	37,625	7,518	32,266	5,242	10,137	247,822
Accumulated depreciation	(6,740)	(4,330)	(251)	(21,002)	(1,550)	(4,907)	(38,780)
Net book amount	148,294	33,295	7,267	11,264	3,692	5,230	209,042
Year ended 31 December 2013							
Opening net book amount	148,294	33,295	7,267	11,264	3,692	5,230	209,042
Additions	—	—	486	4,317	968	2,192	7,963
Disposals	(20)	—	—	(141)	—	(56)	(217)
Depreciation (Note 6)	(3,757)	(3,774)	(804)	(3,023)	(964)	(2,223)	(14,545)
Closing net book amount	144,517	29,521	6,949	12,417	3,696	5,143	202,243
At 31 December 2013							
Cost	155,013	37,625	8,004	35,403	6,210	11,113	253,368
Accumulated depreciation	(10,496)	(8,104)	(1,055)	(22,986)	(2,514)	(5,970)	(51,125)
Net book amount	144,517	29,521	6,949	12,417	3,696	5,143	202,243

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

	2013	2012
	RMB'000	RMB'000
Cost of revenue	3,251	3,213
Selling and marketing costs	165	156
Administrative expenses	10,199	9,294
Product development expenses	930	861
	14,545	13,524

Lease rentals amounted to RMB1,694,000 for the year ended 31 December 2013 (2012: RMB1,477,000) relating to the lease of office buildings were included in the consolidated income statement.

14. INTANGIBLE ASSETS

	Computer software and technology RMB'000	Club membership RMB'000	Total RMB'000
At 1 January 2012			
Cost	8,544	8,793	17,337
Accumulated amortisation	(8,303)	—	(8,303)
Net book amount	241	8,793	9,034
Year ended 31 December 2012			
Opening net book amount	241	8,793	9,034
Additions	6,422	—	6,422
Amortisation charge (Note 6)	(779)	—	(779)
Closing net book amount	5,884	8,793	14,677
At 31 December 2012			
Cost	14,966	8,793	23,759
Accumulated amortisation	(9,082)	—	(9,082)
Net book amount	5,884	8,793	14,677
Year ended 31 December 2013			
Opening net book amount	5,884	8,793	14,677
Additions	1,307	—	1,307
Amortisation charge (Note 6)	(3,692)	—	(3,692)
Closing net book amount	3,499	8,793	12,292
At 31 December 2013			
Cost	16,273	8,793	25,066
Accumulated amortisation	(12,774)	—	(12,774)
Net book amount	3,499	8,793	12,292

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

	2013 RMB'000	2012 RMB'000
Cost of revenue	**71**	50
Selling and marketing costs	**76**	97
Administrative expenses	**3,247**	560
Product development expenses	**298**	72
	3,692	779

15. INTERESTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

	2013 RMB'000	2012 RMB'000
Non-current portion		
Investments in equity interests — at cost, unlisted	88,286	88,286
Investments arising from share-based compensation (a)	40,183	36,297
Amounts due from a subsidiary (b)	150,000	150,000
Total	278,469	274,583
Current portion		
Amounts due from subsidiaries (c)	32,698	25,107
Amounts due to subsidiaries (c)	(8,605)	(8,605)
Total	24,093	16,502

(a) The amount represented the amortisation of share-based compensation expense relating to share options and awarded shares granted by the Company to certain directors and employees working for the subsidiaries of the Group. They were recorded as deemed investments made by the Company in these subsidiaries.

(b) The amounts due from a subsidiary included under non-current portion are unsecured, interest-free and not repayable in foreseeable future.

(c) The amounts due from/(to) subsidiaries included under current portion are unsecured, interest-free and repayable on demand.

15. INTERESTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (CONTINUED)

The following is a list of the principal subsidiaries of the Company at 31 December 2013:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital or registered capital	Interest held
Takehigh	Hong Kong, 27 May 1993, limited liability company	Investment holding in Hong Kong	HKD11,875	100%
Pacific E-Commerce Limited	Hong Kong, 10 October 2003, limited liability company	Investment holding in Hong Kong	HKD2	*100%
New Forest Limited	Hong Kong, 5 February 2011, limited liability company	Investment holding in Hong Kong	HKD1	*100%
Winsom Technology Limited (偉信科技有限公司)	Hong Kong, 13 June 2011, limited liability company	Investment holding in Hong Kong	HKD10,000	100%
GZP Computer	The PRC, 7 November 1997, foreign investment enterprise	Information technology and software development and provision of computer information consultancy services in the PRC	RMB80,000,000	100%
GZP Advertising (d)	The PRC, 24 March 1998, limited liability company	Provision of advertising services in the PRC	RMB500,000	100%
GDP Internet (d)	The PRC, 27 November 2002, limited liability company	Provision of online advertising services in the PRC	RMB10,000,000	100%
GZ Yingxin (d)	The PRC, 25 November 2003, limited liability company	Provision of computer technology services in the PRC	RMB5,700,000	100%
Shanghai Pan-Pacific Information Technology Co., Ltd. (上海環宇太平洋信息科技有限公司)	The PRC, 29 December 2006, foreign investment enterprise	Not yet commenced formal operations	USD140,000	100%
Guangzhou Fengwang Technology Co., Ltd (廣州鋒網信息科技有限公司)	The PRC, 14 May 2012, limited liability company	Information technology and software development and provision of computer information consultancy services in the PRC	RMB100,000	100%
Guangzhou Pacific Online Technology Co., Ltd (廣州太平洋網絡科技有限公司)	The PRC, 8 August 2012, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Shanghai Yingzhen Online Technology Co., Ltd (上海英臻網絡科技有限公司)	The PRC, 7 November 2012, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%
Beijing Taihe Xinyang Online Technology Co., Ltd (北京太合新洋網絡科技有限公司)	The PRC, 14 December 2012, foreign investment enterprise	Not yet commenced formal operations	RMB500,000	100%

* Shares held directly by the Company.

15. INTERESTS IN AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (CONTINUED)

Shanghai Huanyu Pacific Network and Technology Consulting Co., Ltd. (上海環宇太平洋網絡科技諮詢有限公司, one subsidiary of the Group, was liquidated in 2013.

(d) As described in Note 1(b), GZ Yingxin, GDP Internet and GZP Advertising are non-legally owned subsidiaries of the Company. They are owned by three PRC citizens. The Group obtains control of GZ Yingxin, GDP Internet and GZP Advertising by way of certain contractual arrangements and is entitled to substantially all of the operating profits and residual benefits generated by GZ Yingxin Group.

(e) In connection with the implementation of the Share Award Scheme of the Group mentioned in Note 21(b), the Company has set up a special purpose entity, and its particulars are as follows:

Special purpose entity	**Principal activities**
Share Award Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible employees of the Group

As the Company has the power to govern the financial and operating policies of the Share Award Scheme Trust and can derive benefits from the contributions of the employees who are awarded with the shares by the scheme through their continued employment with the Group, the directors of the Company consider that it is appropriate to consolidate the Share Award Scheme Trust in accordance with the requirements of HKFRS.

16 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Group

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Current assets		
Trade and other receivables excluding prepayments (Note 18)	**372,309**	260,276
Short-term bank deposits with original terms of over three months (Note 19)	**12,500**	2,583
Cash and cash equivalents (Note 19)	**438,036**	437,316
Total	**822,845**	700,175

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Current liabilities		
Accruals and other payables excluding levies payable and salaries payable	**113,934**	65,809

(b) Company

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Current assets		
Dividend due from subsidiaries	**602,240**	487,000
Amounts due from subsidiaries (Note 15)	**32,698**	25,107
Cash and cash equivalents (Note 19)	**36,569**	33,090
Total	**671,507**	545,197

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Current liabilities		
Amounts due to subsidiaries (Note 15)	**8,605**	8,605
Accruals and other payables (Note 22)	**1,697**	1,640
Total	**10,302**	10,245

17. DEFERRED INCOME TAX ASSETS

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.

	2013 **RMB'000**	2012 RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**4,732**	3,251
— to be recovered within 12 months	**5,007**	3,823
	9,739	7,074

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

	Provision for impairment of trade receivables RMB'000	**Accrued salary expense** RMB'000	**Total** RMB'000
At 1 January 2012	3,213	4,247	7,460
Credited/(charged) to the consolidated income statement	38	(424)	(386)
At 31 December 2012	3,251	3,823	7,074
Credited to the consolidated income statement	1,481	1,184	2,665
At 31 December 2013	4,732	5,007	9,739

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**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	**36**	51
	424,037	260,434	**36**	51
Less non-current portion:				
Prepayments (c)	**(43,484)**	—	**—**	—
Current Portion	**380,553**	260,434	**36**	51
Denominated in				
— RMB	**423,131**	260,255	**—**	—
— HKD	**906**	179	**36**	51
	424,037	260,434	**36**	51

(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:

	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

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(a) Trade receivables, net of impairment provision (Continued)

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:

	2013 RMB'000	2012 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

	Group	
	2013 RMB'000	2012 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 (Note 24).

19. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS WITH ORIGINAL TERMS OF OVER THREE MONTHS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**235,735**	186,549	**35,374**	32,324
Short-term bank deposits	**214,801**	253,350	**1,195**	766
	450,536	439,899	**36,569**	33,090
Less:				
Short-term bank deposits with original terms of over three months	**(12,500)**	(2,583)	**—**	—
Cash and cash equivalents	**438,036**	437,316	**36,569**	33,090

An analysis of the cash and cash equivalents and short-term bank deposits with original terms of over three months as at 31 December 2013 denominated in different currencies is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
— RMB	**437,478**	428,916	**25,034**	24,432
— HKD	**12,790**	10,650	**11,295**	8,353
— USD	**268**	333	**240**	305
	450,536	439,899	**36,569**	33,090

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

The weighted average effective interest rate on short-term bank deposits with original terms of over three months of the Group was 2.96% for the year ended 31 December 2013 (2012: 3.30%). The weighted average effective interest rate of the remaining short-term bank deposits of the Group was 2.76% for the year ended 31 December 2013 (2012: 2.38%).

As at 31 December 2013, approximately 99% (2012: approximately 99%) of cash and cash equivalents of the Group were placed in the listed state-owned/commercial banks in mainland China or Hong Kong. Management did not expect any losses from non-performance by these counterparties.

20. ORDINARY SHARES

	Authorised ordinary shares		
	Number of shares '000	HKD'000	RMB'000
At 31 December 2012 and 2013	100,000,000	1,000,000	969,200

	Issued and fully paid up		
	Number of shares '000	HKD'000	RMB'000
At 1 January 2012	1,084,019	10,840	10,093
Employees share option schemes — issued shares (a)	6,978	70	64
Repurchase of shares of the Company	(6,031)	(60)	(57)
At 31 December 2012	1,084,966	10,850	10,100
Employees share option schemes — issued shares (a)	7,588	76	61
At 31 December 2013	1,092,554	10,926	10,161

* As at 31 December 2013, the total number of issued ordinary shares of the Company was 1,092,554,000 shares (2012: 1,084,966,000 shares) which included 1,920,000 shares (2012: 3,545,000 shares) held under the Share Award Scheme (Note 21(b)).

(a) Share options exercised during the year ended 31 December 2013 resulted in 7,588,000 shares being issued (2012: 6,978,000 shares), with exercise proceeds of RMB12,924,000 (2012: RMB10,347,000). The nominal value of these shares of RMB61,000 (2012: RMB64,000) and the premium of RMB12,863,000 (2012: RMB10,283,000) had been credited to ordinary shares and share premium accounts, respectively. The related weighted average price at the time of exercise was HKD3.34 per share.

All the ordinary shares issued during the year ended 31 December 2013 rank pari passu with the then existing ordinary shares in all respects.

21. RESERVES

Group

	Share premium	Merger reserve	Capital redemption reserve	Share-based compensation reserve	Shares held for Share Award Scheme	Statutory reserve funds (c)	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	299,843	4	249	30,083	(8,605)	43,250	332,962	697,786
Repurchase of shares of the Company	(13,897)	—	57	—	—	—	(57)	(13,897)
Share Award Scheme (b)								
— purchase of shares	—	—	—	—	(3,839)	—	—	(3,839)
— value of employee services	—	—	—	3,985	—	—	—	3,985
— vesting of Award Shares	(2,625)	—	—	—	2,625	—	—	—
Employees share option schemes (a)								
— exercise of share options	10,283	—	—	—	—	—	—	10,283
— value of employee services	—	—	—	2,230	—	—	—	2,230
Profit	—	—	—	—	—	—	236,471	236,471
Cash dividends relating to 2011, paid in 2012	—	—	—	—	—	—	(160,572)	(160,572)
At 31 December 2012	293,604	4	306	36,298	(9,819)	43,250	408,804	772,447
Share Award Scheme (b)								
— value of employee services	—	—	—	3,412	—	—	—	3,412
— vesting of Award Shares	(4,261)	—	—	—	4,261	—	—	—
Employees share option schemes (a)								
— exercise of share options	12,863	—	—	—	—	—	—	12,863
— value of employee services	—	—	—	474	—	—	—	474
Profit	—	—	—	—	—	—	253,634	253,634
Cash dividends relating to 2012, paid in 2013	—	—	—	—	—	—	(165,858)	(165,858)
At 31 December 2013	302,206	4	306	40,184	(5,558)	43,250	496,580	876,972

21. RESERVES (CONTINUED)

Company

	Share premium	Capital redemption reserve	Share-based compensation reserve	Contributed surplus	Shares held for Share Award Scheme	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	284,843	249	30,083	88,277	(8,605)	331,124	725,971
Repurchase of shares of the Company	(13,897)	57	—	—	—	(57)	(13,897)
Share Award Scheme (b)							
— purchase of shares	—	—	—	—	(3,839)	—	(3,839)
— value of employee services	—	—	3,985	—	—	—	3,985
— vesting of Award Shares	(2,625)	—	—	—	2,625	—	—
Employees share option schemes (a)							
— exercise of share options	10,283	—	—	—	—	—	10,283
— value of employee services	—	—	2,230	—	—	—	2,230
Profit	—	—	—	—	—	244,118	244,118
Cash dividends relating to 2011, paid in 2012	—	—	—	—	—	(160,572)	(160,572)
At 31 December 2012	278,604	306	36,298	88,277	(9,819)	414,613	808,279
Share Award Scheme (b)							
— value of employee services	—	—	3,412	—	—	—	3,412
— vesting of Award Shares	(4,261)	—	—	—	4,261	—	—
Employees share option schemes (a)							
— exercise of share options	—	—	474	—	—	—	474
— value of employee services	12,863	—	—	—	—	—	12,863
Profit	—	—	—	—	—	279,172	279,172
Cash dividends relating to 2012, paid in 2013	—	—	—	—	—	(165,858)	(165,858)
At 31 December 2013	287,206	306	40,184	88,277	(5,558)	527,927	938,342

The profit attributable to equity holders of the Company is dealt within the financial statements of the Company to the extent of RMB279,172,000 (2012: RMB244,118,000).

21. RESERVES (CONTINUED)

(a) Share options reserves

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 were 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% of the issued share capital of the Company as of 31 December 2013. 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 shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

21. RESERVES (CONTINUED)

(a) Share options reserves (Continued)

(iii) Movements in share options

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

	Pre-IPO Share Option Plan		Post-IPO Share Option Plan		
	Average exercise price (HKD)	Number of options (thousands)	Average exercise price (HKD)	Number of options (thousands)	Total number of options (thousands)
At 1 January 2012	1.73	33,812	2.01	29,233	63,045
Granted	—	—	—	—	—
Exercised	1.76	(3,289)	1.91	(3,689)	(6,978)
Forfeited	—	—	1.56	(78)	(78)
At 31 December 2012	1.72	30,523	2.03	25,466	55,989
Currently exercisable as at 31 December 2012	1.72	30,523	2.02	14,737	45,260
At 1 January 2013	1.72	30,523	2.03	25,466	55,989
Granted	—	—	—	—	—
Exercised	1.90	(2,114)	2.22	(5,474)	(7,588)
Forfeited	—	—	1.93	(1,531)	(1,531)
At 31 December 2013	1.71	28,409	1.92	18,461	46,870
Currently exercisable as at 31 December 2013	1.71	28,409	1.92	18,461	46,870

21. RESERVES (CONTINUED)

(a) Share options reserves (Continued)

(iv) Outstanding share options

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

	2013		2012	
Expiry date	**Exercise price in HKD per share**	**Number of options (thousands)**	Exercise price in HKD per share	Number of options (thousands)
Pre-IPO Share Option Plan				
— 22 November 2017	**1.32**	**7,081**	1.32	7,169
— 22 November 2017	**1.71**	**10,237**	1.71	10,553
— 22 November 2017	**1.96**	**11,091**	1.96	12,801
Post-IPO Share Option Plan				
— 11 April 2014	**2.68**	**6,404**	2.68	10,316
— 13 April 2014	**2.63**	**872**	2.63	873
— 17 May 2014	**1.31**	**9,222**	1.31	10,489
— 17 May 2014	**2.65**	**745**	2.65	1,909
— 5 July 2014	**1.56**	**1,218**	1.56	1,879
At 31 December		**46,870**		55,989

(v) 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 the year ended 31 December 2013 was RMB474,000 (2012: RMB2,230,000) (Note 7).

21. RESERVES (CONTINUED)

(b) Share Award Scheme

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

The Board will implement the scheme in accordance with the terms of the scheme rules including providing necessary funds to the trustee for 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 the year ended 31 December 2013 are as follows:

	Shares held for the Share Award Scheme (thousands)	**Awarded Shares held by Trustee (thousands)**
At 1 January 2012	2,098	752
Purchased in May 2012	1,500	—
Granted to employees	(1,743)	1,743
Forfeited	53	(53)
Vested	—	(805)
At 31 December 2012	1,908	1,637
At 1 January 2013	1,908	1,637
Granted to employees	(1,311)	1,311
Forfeited	130	(130)
Vested	—	(1,625)
At 31 December 2013	727	1,193

21. RESERVES (CONTINUED)

(b) Share Award Scheme (Continued)

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 are as follows:

Dates of grant	Total value of shares at grant dates (HKD)	No. of share granted (thousands)	Market price at grant dates (HKD)	Vesting period
31 Jan 2013	1,857,000	603	3.08	1 year
1 Jul 2013	2,122,000	615	3.45	1 year
2 Aug 2013	327,000	93	3.52	nil*

* can be exercised immediately

The total expense recognised for employee services received in respect of the Share Award Scheme for the year ended 31 December 2013 was RMB3,412,000 (2012: RMB3,985,000) (Note 7).

During the year ended 31 December 2013, the Share Award Scheme Trust received cash dividend amounting to RMB464,000 (2012: RMB486,000) which will be used to pay for the fees of trust or purchase a maximum number of shares as specified by the Board.

21. RESERVES (CONTINUED)

(c) Statutory reserve funds

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

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

22. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salaries payable	**34,015**	25,955	**—**	—
Accrued expenses (a)	**90,916**	51,890	**1,697**	1,640
Other payables (b)	**44,895**	37,823	**—**	—
	169,826	115,668	**1,697**	1,640

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

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

23. CASH GENERATED FROM OPERATIONS

	2013 RMB'000	2012 RMB'000
Profit before income tax	323,008	296,429
Adjustments for:		
— Finance income	(9,017)	(5,144)
— Finance costs	—	446
— Depreciation (Note 13)	14,545	13,524
— Losses on disposal of property and equipment	183	94
— Amortisation of lease prepayment	324	324
— Amortisation of intangible assets (Note 14)	3,692	779
— Share-based compensation expense (Note 21)	3,886	6,215
	336,621	312,667
Changes in working capital:		
— Trade and other receivables and prepayments	(120,206)	(63,333)
— Accruals and other payables	54,158	15,870
— Prepaid advertising subscriptions from customers and deferred revenue	(830)	(8,501)
Cash generated from operations	269,743	256,703

24. COMMITMENTS

Capital commitments

The Group expenditure contracted for and not yet incurred at the end of the period is as follow:

	2013 RMB'000	2012 RMB'000
Purchase of a property	17,369	—

On 24 June 2013, GZP Computer (the "Purchaser") and a vendor in Shanghai (the "Vendor") entered into a pre-sale agreement, pursuant to which the Vendor shall sell and Purchaser shall acquire a property in Shanghai, the PRC, with a total consideration of RMB60,853,000. As up to 31 December 2013, the Group paid a prepayment of RMB43,484,000 to the Vendor.

Operating lease commitments

The Group leases offices and buses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 RMB'000	2012 RMB'000
Not later than 1 year	2,599	2,418
Later than 1 year and not later than 5 years	784	930
	3,383	3,348

25. RELATED PARTY TRANSACTIONS

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

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang Ko Chiang	Substantial shareholder
Guangdong Pacific Electronic Technology Mall Company Limited (廣東太平洋電子科技廣場有限公司, "GPET Mall")	Controlled by Mr. Wang Ko Chiang
Shanghai Huanyu Pacific Digital Consulting Co., Ltd. (上海環宇太平洋數碼諮詢有限公司, "SHPD Consulting")	Controlled by Mr. Wang Ko Chiang
Kexim Company Limited ("Kexim")	Controlled by Mr. Wang Ko Chiang
Shanghai Huanyu Pacific Digital Technology Company Limited (上海環宇太平洋數碼科技有限公司, "SHPD Technology")	Controlled by Mr. Wang Ko Chiang
Beijing Pacific Times Property Management Co., Ltd (北京太平洋時代物業管理有限公司)	Controlled by Mr. Wang Ko Chiang
South China Resources Development Consultants Limited (華南資源開發顧問有限公司, "SCRD Consultants")	Controlled by Mr. Wang Ko Chiang

25. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related party transactions

The Group undertook the following related party transactions during the year ended 31 December 2013:

	2013 RMB'000	2012 RMB'000
Continuing:		
Rental expenses for office and advertising bill board paid/payable:		
Kexim	1,828	202
SCRD Consultants	1,395	—
GPET Mall	—	1,833
SHPD Consulting	—	1,485
SHPD Technology	—	545
Property Management for office paid/payable:		
Beijing Pacific Times Property Management Co., Ltd	339	113
	3,562	4,178

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

(c) Key management compensation

The remuneration of directors who are also identified as members of key management during the year ended 31 December 2013 is set out in Note 7.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
RESULTS	**2013**	2012	2011	2010	2009
Revenue	**847,923**	715,636	640,095	508,608	386,994
Profit before income tax	**323,008**	296,429	287,386	238,986	183,763
Income tax expense	**(69,374)**	(59,958)	(58,457)	(38,310)	(48,782)
Profit for the year	**253,634**	236,471	228,929	200,676	134,981
Attributable to:					
Equity holders of the Company	**253,634**	236,471	228,929	200,676	134,981
Dividends	**177,540**	165,530	160,250	140,473	94,996
ASSETS, LIABILITIES AND ASSETS LESS LIABILITIES					
Total assets	**1,116,163**	948,766	871,215	779,648	606,480
Total liabilities	**229,030**	166,219	163,336	173,301	123,182
Total assets less liabilities	**887,133**	782,547	707,879	606,347	483,298