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PACIFIC ONLINE LIMITED

太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of directors (the “Board”) of Pacific Online Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2021	2020
	Note	RMB'000	RMB'000
Revenue	3	852,153	967,470
Cost of revenue	4	<u>(452,785)</u>	<u>(407,014)</u>
Gross profit		399,368	560,456
Selling and marketing costs	4	(210,486)	(190,140)
Administrative expenses	4	(78,807)	(80,946)
Product development expenses	4	(66,727)	(67,006)
Net impairment losses on trade receivables		(44,985)	(57,018)
Other income	5	11,324	20,211
Other gains	11	<u>36,685</u>	—
Operating profit		<u>46,372</u>	<u>185,557</u>
Finance income		6,909	7,605
Finance cost		<u>(44)</u>	<u>(1,875)</u>
Finance income — net	6	<u>6,865</u>	<u>5,730</u>
Profit before income tax		53,237	191,287
Income tax expense	7	<u>(1,386)</u>	<u>(27,713)</u>
Profit for the year		<u>51,851</u>	<u>163,574</u>
Attributable to:			
— Equity holders of the Company		49,920	161,887
— Non-controlling interests		<u>1,931</u>	<u>1,687</u>
		<u>51,851</u>	<u>163,574</u>
Earnings per share for profit attributable to equity holders of the Company for the year			
— Basic and diluted (RMB)	8	<u>4.41 cents</u>	<u>14.33 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit for the year	51,851	163,574
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Changes in value of investment in financial assets	—	9,909
Other comprehensive income for the year, net of tax	—	9,909
Total comprehensive income for the year	51,851	173,483
Attributable to:		
— Equity holders of the Company	49,920	171,796
— Non-controlling interests	1,931	1,687
	51,851	173,483

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Right-of-use assets		15,261	15,425
Property and equipment		180,342	196,687
Investment property		53,563	47,913
Intangible assets		7,802	9,079
Deferred income tax assets		60,289	55,281
Investment in financial assets	11	67,546	62,785
		<u>384,803</u>	<u>387,170</u>
Current assets			
Trade and note receivables, other receivables and prepayments	10	429,406	652,443
Prepayments for current income tax		14,650	—
Short-term bank deposits with original terms of over three months		90,740	117,249
Restricted cash		—	30
Cash and cash equivalents		391,010	356,807
		<u>925,806</u>	<u>1,126,529</u>
Total assets		<u><u>1,310,609</u></u>	<u><u>1,513,699</u></u>
EQUITY			
Ordinary shares		10,491	10,491
Reserves		947,811	1,049,655
Equity attributable to equity holders of the Company		<u>958,302</u>	<u>1,060,146</u>
Non-controlling interests		<u>4,990</u>	<u>5,309</u>
Total equity		<u><u>963,292</u></u>	<u><u>1,065,455</u></u>

		As at 31 December	
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>31</u>	<u>74</u>
Current liabilities			
Accruals and other payables	12	266,345	348,350
Contract liabilities		43,102	48,118
Current income tax liabilities		37,321	51,394
Lease liabilities		<u>518</u>	<u>308</u>
		<u>347,286</u>	<u>448,170</u>
Total liabilities		<u>347,317</u>	<u>448,244</u>
Total equity and liabilities		<u><u>1,310,609</u></u>	<u><u>1,513,699</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company			Non- controlling interests RMB'000	Total equity RMB'000
		Ordinary shares RMB'000	Reserves RMB'000	Subtotal RMB'000		
Balance at 1 January 2020		10,491	991,931	1,002,422	3,622	1,006,044
Comprehensive income						
Profit for the year		—	161,887	161,887	1,687	163,574
Other comprehensive income						
— Change in fair value of investment in financial assets		—	9,909	9,909	—	9,909
Total comprehensive income		—	171,796	171,796	1,687	173,483
Transactions with shareholders						
Cash dividends relating to 2019 Share Award Scheme	9	—	(122,162)	(122,162)	—	(122,162)
— value of employee services		—	8,090	8,090	—	8,090
Balance at 31 December 2020		<u>10,491</u>	<u>1,049,655</u>	<u>1,060,146</u>	<u>5,309</u>	<u>1,065,455</u>
Comprehensive income						
Profit for the year		—	49,920	49,920	1,931	51,851
Total comprehensive income		—	49,920	49,920	1,931	51,851
Transactions with shareholders						
Cash dividends relating to 2020 Share Award Scheme	9	—	(147,120)	(147,120)	(2,250)	(149,370)
— purchase of shares held for share award scheme		—	(7,736)	(7,736)	—	(7,736)
— value of employee services		—	3,092	3,092	—	3,092
Balance at 31 December 2021		<u>10,491</u>	<u>947,811</u>	<u>958,302</u>	<u>4,990</u>	<u>963,292</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		164,671	236,374
Income tax paid		<u>(35,117)</u>	<u>(30,115)</u>
Net cash generated from operating activities		<u>129,554</u>	<u>206,259</u>
Cash flows from investing activities			
Placement of short-term bank deposits with original terms of over three months		(139,749)	(117,249)
Receipt from maturity of short-term bank deposits with original terms of over three months		166,258	2,100
Interest received		6,252	7,605
Purchase of property and equipment		(3,579)	(46,408)
Disposals of property and equipment		252	2,225
Purchase of intangible assets		(8)	(14)
Disposal of a subsidiary		—	445
Receipt from redemption of investment		31,924	—
Dividends received		<u>496</u>	<u>525</u>
Net cash generated from/(used in) investing activities		<u>61,846</u>	<u>(150,771)</u>
Cash flows from financing activities			
Cash dividends paid	9	(149,370)	(122,162)
Lease payments		(748)	(622)
Purchase of shares held for share award scheme		<u>(7,736)</u>	<u>—</u>
Net cash used in financing activities		<u>(157,854)</u>	<u>(122,784)</u>
Net increase/(decrease) in cash and cash equivalents			
		33,546	(67,296)
Cash and cash equivalents at beginning of year		356,807	425,942
Exchange gains/(losses) on cash and cash equivalents		<u>657</u>	<u>(1,839)</u>
Cash and cash equivalents at end of year		<u><u>391,010</u></u>	<u><u>356,807</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated on 27 August 2007 as an exempted company with limited liability under the Company Law, Cap.22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

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

The Company has its shares listed on The Stock Exchange of Hong Kong Limited 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 the Company on 28 March 2022.

2. BASIS OF PREPARATION

(i) Compliance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, except for investment in financial assets, which is measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform —Phase 2 — amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16;

The Group also elected to adopt the following amendments early:

- Amendments to Covid-19-Related Rent Concessions beyond 30 June 2021.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) **New standards, amendments to standards and interpretations not yet adopted**

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2021 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018 — 2020	1 January 2022
Accounting Guideline 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 17	Amendments to HKFRS 17	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors who make strategic decisions.

The Group is principally engaged in the provision of 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 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 revenues generated. The reportable operating segments are grouped into PCauto, PConline and others. 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 and home products and other services.

There were no inter-segment sales for the year ended 31 December 2021 (2020: 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	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the year ended 31 December 2021				
Timing of revenue recognition				
— Over time	552,059	85,509	36,825	674,393
— At a point in time	<u>164,838</u>	<u>6,208</u>	<u>6,714</u>	<u>177,760</u>
Revenue	<u><u>716,897</u></u>	<u><u>91,717</u></u>	<u><u>43,539</u></u>	<u><u>852,153</u></u>
For the year ended 31 December 2020				
Timing of revenue recognition				
— Over time	729,121	96,223	30,472	855,816
— At a point in time	<u>99,391</u>	<u>6,895</u>	<u>5,368</u>	<u>111,654</u>
Revenue	<u><u>828,512</u></u>	<u><u>103,118</u></u>	<u><u>35,840</u></u>	<u><u>967,470</u></u>

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2021, all revenues of the Group were derived from external customers and they were all generated from the PRC (2020: same).

As at 31 December 2021, other than club membership included in the intangible assets and investment in financial assets, majority of other non-current assets of the Group were located in the PRC (31 December 2020: same).

For the year ended 31 December 2021, revenues of approximately RMB93,436,000 are derived from a single external customer accounting for ten percent or more of the Group's revenues (2020: none).

The Group does not disclose information about remaining unsatisfied performance obligations as permitted under the practical expedient in accordance with HKFRS 15 as their original expected duration is less than one year.

4. EXPENSES BY NATURE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Employee benefit expenses	276,394	247,725
Outsourcing production cost	206,885	138,742
Service commission to advertising agencies	115,159	158,164
Advertising expenses	104,564	88,017
Technology service fees	24,182	26,279
Depreciation and amortisation expenses		
— Depreciation of property and equipment	12,272	13,913
— Depreciation of investment properties	1,750	1,312
— Depreciation of right-of-use assets	1,035	910
— Amortisation of intangible assets	285	412
Lawsuit compensation	—	12,000
Travelling and entertainment expenses	8,775	7,606
Bandwidth and server custody fees	18,094	17,407
Other taxes and surcharge	6,570	7,075
Conference and office expenses	4,892	5,278
Auditors' remuneration		
— Audit services	3,670	3,670
— Non-audit services	375	419
Expenses related to short term leases	1,559	2,029
Professional fees	1,459	2,932
Impairment loss of intangible assets	1,000	—
Other expenses	19,885	11,216
	<u>808,805</u>	<u>745,106</u>
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	<u>808,805</u>	<u>745,106</u>

Product development expenses are mainly included in employee benefit expenses and depreciation of property and equipment and amortisation of intangible assets. No product development expenses were capitalised for the year ended 31 December 2021 (2020: same).

5. OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Rental income	6,400	4,951
Additional deduction of input value-added tax	3,180	6,072
Government grants (i)	1,248	6,977
Dividend income on investment in financial assets	496	525
Gain on disposal of a subsidiary	—	1,686
	<u>11,324</u>	<u>20,211</u>

(i) There are no unfulfilled conditions or other contingencies relating to these grants.

6. FINANCE INCOME — NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Finance income		
— Interest income	6,252	7,605
— Net foreign exchange gains	657	—
	<u>6,909</u>	<u>7,605</u>
Finance cost		
— Interest expense on lease liabilities	(44)	(36)
— Net foreign exchange losses	—	(1,839)
	<u>(44)</u>	<u>(1,875)</u>
Finance income — net	<u>6,865</u>	<u>5,730</u>

7. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
PRC current tax	6,394	32,505
Deferred taxation	<u>(5,008)</u>	<u>(4,792)</u>
	<u><u>1,386</u></u>	<u><u>27,713</u></u>

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 2021 (2020: 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, successfully renewed the certificate of HNTE in 2020. Therefore, the applicable income tax rate is 15% for the three years from 2020 to 2022. Guangzhou Kuche Information Technology Co., Ltd. (廣州酷車信息科技有限公司, “GZ Kuche”), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2020 and the applicable income tax rate is 15% for the three years from 2020 to 2022. Guangzhou Yurui Information Technology Co., Ltd. (廣州裕睿信息科技有限公司, “GZ Yurui”), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2019 and the applicable income tax rate is 15% for the three years from 2019 to 2021. Assuming that there is no change to the relevant laws and regulations, the directors consider that these four subsidiaries will be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax. All the other PRC entities of the Group are subject to CIT at a rate of 25% in accordance with CIT Law.

According to CIT Law, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong. Hence, the Group used 5% as its withholding tax rate for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before income tax expense	<u>53,237</u>	<u>191,287</u>
Tax calculated at the statutory tax rate of 25% (2020: 25%)	13,309	47,822
Tax effects of		
— Tax concessions available to certain PRC subsidiaries (a)	(1,583)	(23,231)
— Income not subject to tax	(9,170)	(503)
— Expenses not deductible for tax purposes	855	4,156
— Utilisation of previously unrecognised tax losses	(913)	(4,608)
— Unrecognised tax losses	3,337	3,754
— Under provision of prior year	2,044	—
— Additional deduction on product development expenses	(7,843)	(8,927)
Withholding tax on the earnings to be remitted by PRC subsidiaries	<u>1,350</u>	<u>9,250</u>
Income tax expense	<u><u>1,386</u></u>	<u><u>27,713</u></u>

(a) It represented the preferential tax treatments relating to HNTE enjoyed by certain PRC subsidiaries of the Group.

8. EARNINGS PER SHARE

(a) Basic

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

	2021	2020
Profit attributable to equity holders of the Company <i>(RMB'000)</i>	<u>49,920</u>	<u>161,887</u>
Weighted average number of ordinary shares for basic earnings per share <i>(thousand shares)</i>	<u>1,130,878</u>	<u>1,129,413</u>
Basic earnings per share <i>(RMB)</i>	<u><u>4.41 cents</u></u>	<u><u>14.33 cents</u></u>

(b) Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Diluted earnings per share equals to basic earnings per share as there were no potential diluted shares outstanding for the year ended 31 December 2021 (2020: same).

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2020 of RMB13.00 cents per ordinary share (final dividend in respect of the year ended 31 December 2019: RMB10.80 cents per ordinary share) was approved by the shareholders at the annual general meeting in 17 May 2021. Such final dividend for 2020 totalling RMB149,370,000 (including those paid by a subsidiary of the Company to the non-controlling interests amounting to RMB2,250,000) was paid in 2021, which has already excluded the dividend related to the ordinary shares held for the Share Award Scheme of RMB307,000 (final dividend for 2019 of RMB122,162,000 excluding the dividend related to the ordinary shares held for the Share Award Scheme of RMB316,000).

The directors recommended the payment of a final dividend of RMB10 cents per ordinary share in cash for the year ended 31 December 2021, totalling RMB113,406,000 based on the ordinary shares in issue as of 31 December 2021. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held in 30 May 2022. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND NOTE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	At 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, net of impairment provision (a)	387,376	610,629
Other receivables (b)	29,682	27,707
Prepayments	6,612	7,622
Notes receivable	5,736	6,485
	<u>429,406</u>	<u>652,443</u>

As of 31 December 2021, trade and note receivables, other receivables were all denominated in RMB (31 December 2020: same).

(a) Trade receivables, net of impairment provision

Credit terms granted by the Group are generally within a period of three months to one year. The ageing analysis of the trade receivables (net of impairment provision of RMB187,727,000 (31 December 2020: RMB147,132,000)) based on recognition date is as follows:

	At 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 6 months	281,620	410,063
6 months to 1 year	81,693	98,937
1 year to 2 years	8,939	90,629
Above 2 years	15,124	11,000
	<u>387,376</u>	<u>610,629</u>

(b) Other receivables

	At 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Input value-added tax deductible	12,419	9,925
Advance to employees	10,053	6,404
Rental receivables	886	1,051
Advance to a third party	—	4,792
Others	6,324	5,535
	<u>29,682</u>	<u>27,707</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

11. INVESTMENT IN FINANCIAL ASSETS

In June 2014, the Group made an equity investment with an amount of USD5,000,000 in a private fund (the “Fund”) which invested in shares of companies principally engaged in Internet business (“Equity Investments”). During the year ended 31 December 2021, the Fund made certain investment in cryptocurrencies (“Cryptocurrency Investments”). The Group neither have control nor significant influence over the Fund. As at 31 December 2021, the Group held around 27% (31 December 2020: 43%) interests of the Fund as redemption of RMB31,924,000 was made by the Group during the year ended 31 December 2021.

Management assessed the fair value of the Group’s investment in financial assets as at 31 December 2021 based on the net asset value of the Fund provided by the Fund’s administrator and calculated the portion attributable to the Group.

The net asset value of the Fund provided by the Fund’s administrator is based on the fair value of underlying investments held by the Fund, which are mainly influenced by the recent market price of its Equity Investments and Cryptocurrency Investments.

As at 31 December 2021, the Group’s portion of net asset value of the Fund was attributable to the following:

	2021 RMB’000
Equity Investments	25,605
Cryptocurrency Investments	39,036
Other investments	<u>2,905</u>
At end of the year	<u><u>67,546</u></u>

During the year ended 31 December 2021, movement on investment in financial assets is as follows:

	2021 RMB’000
At beginning of the year	62,785
Changes in fair value:	36,685
— Equity Investments	(1,151)
— Cryptocurrency Investments	36,037
— Other investments	1,799
Redemption	<u>(31,924)</u>
At end of the year	<u><u>67,546</u></u>

12. ACCRUALS AND OTHER PAYABLES

	At 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses (a)	197,454	280,621
Salaries payable	50,194	47,874
Other tax payable	6,497	7,654
Other payables	12,200	12,201
	<u>266,345</u>	<u>348,350</u>

- (a) Accrued expenses of the Group mainly represented accrued service commission fees payable to advertising agencies and accrued advertising expenses which's aging was generally within one year.

As at 31 December 2021 and 2020, The fair value of accruals and other payables approximated their carrying amounts.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Qualified Opinion

What we have audited

The consolidated financial statements of Pacific Online Limited (the “Company”) and its subsidiaries (the “Group”), which comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As explained in the consolidated financial statements, the Group invested in a private fund (the “Fund”) which was classified as investment in financial assets measured at fair value in the consolidated balance sheet. Based on the net asset value statement provided by the Fund’s administrator, management assessed the fair value of the investment in financial assets was RMB67,546,000, of which RMB39,036,000 represented certain investments in cryptocurrencies (the “Cryptocurrency Investments”) as at 31 December 2021. For the year ended 31 December 2021, the changes in fair value of the investment in financial assets recognised in the consolidated income statement was RMB36,685,000, of which RMB36,037,000 was attributable to the Cryptocurrency Investments.

The Fund stored the Cryptocurrency Investments in two custodians appointed by the Fund (the “Custodians”) and in wallets under self-custody. With respect to the Cryptocurrency Investments stored with the Custodians, service auditor’s assurance reports on the systems and controls of one of the Custodians were not available. Though we were able to obtain the independent service auditor’s assurance reports of the other Custodian, such reports did not cover certain controls of that custodian relating to management of the private keys and the associated digital wallets. As we were not given access to both of the Custodians, we were unable to carry out any alternative testing of their internal controls. With respect to the Cryptocurrency Investments stored in wallets under self-custody by the Fund, we were unable to test the Fund’s controls or processes on wallet creation and key generation, as well as preservation and backup of the private keys.

Given the abovementioned scope limitations, there were no other satisfactory procedures that we could perform to satisfy ourselves as to the existence and sole ownership of the Cryptocurrency Investments of the Fund as at 31 December 2021 and therefore, we were unable to determine whether any adjustment were necessary in respect of the balance of the Fund’s Cryptocurrency Investments as at 31 December 2021, which has consequential impacts on the Group’s investment in financial assets as at 31 December 2021 and the changes in fair value of the Group’s investment in financial assets for the year ended 31 December 2021.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the whole of 2021, the Company's revenue was RMB852.2 million, a decrease of 11.9% from last year. The profit attributable to equity holders was RMB49.9 million, a year-on-year decrease of 69.2%. Throughout 2021, the global semiconductor shortage has had a significant impact on the Company as manufacturers in both consumer tech and automotive industry have experienced significant stock shortages, product delays, and lengthened product lifecycles; consequently, companies have largely reduced or limited their marketing activities during 2021 compared to the previous year.

Despite the semiconductor shortage affecting automotive production and marketing, sales in automobiles in China increased by 3.8% in 2021 according to the China Automobile Manufacturers Association, ending a downward trend since 2018. As green energy vehicles comprised a growing portion of that growth, PCauto has positioned itself to continue developing our "smart automobiles" platform to provide relevant new media content and integrate online-offline channel strategies. PCauto has also focused on expanding its offerings to deliver new content in live online broadcasting, short videos, and other sales channels.

The semiconductor shortage has similarly disrupted the market for PC and mobile phone manufacturers, with the industry responding by extending product life cycles and reducing marketing. As a result, PConline has expanded with new partners in related industries such as home appliance manufacturers and focused on refining advertising and service offerings. In 2021, PChouse has continued to further develop its original content and expanded its network of designers, through its own vertically integrated platform PChouse now provides a deeper ecosystem for professionals and consumers to interact.

In 2014, the Group made a passive equity investment of US\$5,000,000 in an entity ("the Fund") investing in shares of companies principally engaged in internet related industries and blockchain-related technologies, and cryptocurrencies ("Cryptocurrency Investments"). All along this time, the Group has had no control or influence on the management of the Fund or its investment decisions. The Fund initially began investing in Cryptocurrency Investments in 2020. As at 31 December, 2020 the carrying amount of the Fund was RMB62,785,000 as contained in the Group's audited financial statements for the year ended 31 December 2020.

During the year, the Company made a redemption of US\$4,989,000 (RMB31,924,000) and the Company received dividends totaling US\$511,000 from 2016 to the year ended 31 December 2021. The entire carrying amount of Investment in Financial Assets of RMB67,546,000 (including RMB39,036,000 of Cryptocurrency Investments) as 31 December 2021 therefore represented the accumulated unrealized surplus over of the Group's original Investment.

For the year ended 31 December 2021, RMB36,685,000 was recognized as changes in fair value as disclosed under “Other Gains” in the consolidated income statement for the year ended 31 December 2021. This amount included an amount of RMB36,037,000 attributable to changes in fair value in the Cryptocurrency Investments.

As referred in the Independent Auditor’s Report for the year ended 31 December 2021, the qualified opinion covers both the above-mentioned year end fair value of the Cryptocurrency Investments of RMB39,036,000 and the corresponding changes in fair value of RMB36,037,000 respectively. Notwithstanding this and given that the Group has recouped the entire original investment in the Fund in 2021, the relevant uncertainty is whether the carrying value of the Cryptocurrency Investment may be realized in future. However, as the Group’s remaining investment in the Fund only constitutes a small percentage of the Company’s assets, there remains no changes to our core business. The Group acknowledges the volatility involved with cryptocurrency investments and will continue to monitor the investment to manage exposure to the risks involved.

The Group attaches great importance to shareholders’ return. The Board remains confident in the Group’s prospects, yet in the short term it recognizes the ongoing semiconductor shortage creates uncertainties. As such, it recommended a dividend payment of RMB10 cents per share, a 23% decrease compared with the same period in 2021, after considering such factors as the Company’s profitability, cash flow, future capital requirements and dividend payout in the industry.

Looking ahead towards to 2022, the Company remains cautiously optimistic that the semiconductor shortage will ease towards the second half of the year. The automotive industry in China is expected to continue to grow, with green energy vehicles comprising a significant portion of the growth, and the Company has positioned itself well to provide relevant content and marketing solutions for consumers. In 2022, the Company remains committed to developing its content innovation and channel strategies as well as identifying new partners.

Revenue

Revenue decreased 11.9% from RMB967.5 million for the year ended 31 December 2020 to RMB852.2 million for the year ended 31 December 2021.

Revenue for PCauto, the Group’s automobile portal, decreased 13.5% from RMB828.5 million for the year ended 31 December 2020 to RMB716.9 million during the year ended 31 December 2021. The decrease in revenue for PCauto was due to limited marketing spending from both auto manufacturers and dealership customers because of the global automotive chip shortage in the second half of the year. As a percentage of revenue, PCauto accounted for 85.6% during the year ended 31 December 2020 and 84.1% during the year ended 31 December 2021.

Revenue for PConline, the Group's IT and consumer electronics portal, decreased 11.1% from RMB103.1 million during the year ended 31 December 2020 to RMB91.7 million during the year ended 31 December 2021. The decrease was due to decline in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 10.7% during the year ended 31 December 2020 and 10.8% during the year ended 31 December 2021.

Revenue from other operations, including PClady, PCbaby and PChouse portals, increased by 21.5% from RMB35.8 million during the year ended 31 December 2020 to RMB43.5 million during the year ended 31 December 2021. The increase was mainly due to the increase in advertising demand from PCbaby and PChouse portals. As a percentage of revenue, revenue from other operations accounted for 3.7% during the year ended 31 December 2020 and 5.1% during the year ended 31 December 2021.

Cost of Revenue

Cost of revenue increased 11.2% from RMB407.0 million during the year ended 31 December 2020 to RMB452.8 million during the year ended 31 December 2021. Gross profit margin was 57.9% during the year ended 31 December 2020 and 46.9% during the year ended 31 December 2021. The increase in cost of revenue was mainly due to increase in outsourcing production costs, employees benefit expenses and technology services fees offsetting decrease in services commission to advertising agencies. Outsourcing production costs increased as greater competition led to an increase in activity demands from clients and the need for our company to absorb additional costs.

Selling and Marketing Costs

Selling and marketing costs increased 10.7% from RMB190.1 million during the year ended 31 December 2020 to RMB210.5 million during the year ended 31 December 2021. The increase in selling and marketing expenses was mainly due to the increase in advertising expenses and employee benefit expenses.

Administrative Expenses

Administrative expenses decreased by 2.6% from RMB80.9 million during the year ended 31 December 2020 to RMB78.8 million during the year ended 31 December 2021, mainly due to a compensation payment for a commercial settlement during the year ended 31 December 2020.

Net Impairment Losses on Trade Receivables

Net impairment losses on trade receivables decreased by 21.1% from RMB57.0 million during the year ended 31 December 2020 to RMB45.0 million during the year ended 31 December 2021. The decrease was mainly due to shorter receivables outstanding during the year.

Product Development Expenses

Product development expenses decreased by 0.4% from RMB67.0 million during the year ended 31 December 2020 to RMB66.7 million during the year ended 31 December 2021. The majority of expenses was personnel-related expenses in the Group's research and development team.

Other Income

Other income was RMB11.3 million during the year ended 31 December 2021 and RMB20.2 million during the year ended 31 December 2020. The decrease was mainly due to decrease in government grants and less deduction of input value-added taxes.

Finance Income and Cost

Net finance income increased 19.8% from RMB5.7 million during the year ended 31 December 2020 to RMB6.9 million during the year ended 31 December 2021. The increase was mainly due to increase in net foreign exchange gain during the year.

Other gains

Other gains was RMB36.7 million during the year ended 31 December 2021 and the redemption of investment fund was RMB31.9 million during the year.

Income Tax Expense

Income tax expenses was RMB1.4 million during the year ended 31 December 2021 while income tax expenses was RMB27.7 million during the year ended 31 December 2020, mainly due to less taxable profit during the year.

Net Profit Attributable to Equity Holders

Net profit attributable to equity holders decreased 69.2% from RMB161.9 million during the year ended 31 December 2020 to RMB49.9 million during the year ended 31 December 2021.

Liquidity and Financial Resources

As of 31 December 2021, the Group had short-term deposits and cash totaling RMB481.8 million, compared with RMB474.1 million as of 31 December 2020. In 2021, net cash generated from operating activities was RMB129.6 million, net cash generated from investing activities was RMB61.8 million, net cash used in financing activities was RMB157.9 million, with a net increase in cash and cash equivalents of RMB33.5 million for year 2021. In 2020, net cash generated from operating activities was RMB206.3 million, net cash used in investing activities was RMB150.8 million, net cash used in financing activities was RMB122.8 million, with a net decrease in cash and cash equivalents of RMB67.3 million for year 2020. The Company had no external debt as of 31 December 2020 and 31 December 2021.

Bank Borrowings

As of both 31 December 2021 and 31 December 2020, the Group did not have any bank borrowings and therefore, its gearing ratio, representing the ratio of total bank borrowings to shareholders' equity, was nil for both years.

Material Acquisitions and Disposals

During the year ended 31 December 2021, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2021, 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.

Employee and Remuneration Policies

As at 31 December 2021, the Group had 1,119 employees (2020: 1,106). The Group determines its staff's remuneration based on factors such as qualifications and years of experience.

OTHER INFORMATION

Proposed Final Dividend

The Board has recommended the payment of a final cash dividend of RMB10 cents per ordinary share for the year ended 31 December 2021 (the “Proposed Final Dividend”), which compares with RMB13 cents for 2020. The final dividend is subject to the shareholders’ approval at the Company’s forthcoming annual general meeting to be held on Monday, 30 May 2022 (the “2022 AGM”). The Proposed Final Dividend will be paid in cash on Wednesday, 22 June 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 8 June 2022.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Wednesday, 25 May 2022 to Monday, 30 May 2022, 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 2022 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 Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 24 May 2022.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Tuesday, 7 June 2022 to Wednesday, 8 June 2022, 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 Monday, 6 June 2022.

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 2021.

Audit Committee

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, namely Mr. Tsui Yiu Wa, Alec (Chairman of the Audit Committee), Mr. Thaddeus Thomas Beczak and Mr. Lam Wai Hon, Ambrose, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control and financial reporting matters, including the review of the annual financial results of the Group for the year ended 31 December 2021.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31 December 2021, except that there is no separation of the role of chairman and chief executive as stipulated in the code provision C.2.1. Dr. Lam Wai Yan currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. As Dr. Lam is a co-founder of the Group and has extensive experiences in the internet industry, the Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

Appreciation

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

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

Hong Kong, 28 March 2022

As at the date of this announcement, the Board comprises 3 executive directors, namely, Dr. Lam Wai Yan, Mr. Ho Kam Wah and Mr. Wang Ta-Hsing; and 3 independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Lam Wai Hon, Ambrose.