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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 2022**

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 2022, together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	3	813,728	852,153
Cost of revenue	4	<u>(482,602)</u>	<u>(452,785)</u>
Gross profit		331,126	399,368
Selling and marketing costs	4	(189,188)	(210,486)
Administrative expenses	4	(64,472)	(78,807)
Product development expenses	4	(65,138)	(66,727)
Net impairment losses on trade and other receivables		(16,945)	(44,985)
Other income	5	15,600	11,324
Other (losses)/gains	11	<u>(26,946)</u>	<u>36,685</u>
Operating (loss)/profit		<u>(15,963)</u>	<u>46,372</u>
Finance income		12,957	6,909
Finance cost		<u>(6)</u>	<u>(44)</u>
Finance income — net	6	<u>12,951</u>	<u>6,865</u>
(Loss)/profit before income tax		(3,012)	53,237
Income tax expense	7	<u>(3,998)</u>	<u>(1,386)</u>
(Loss)/profit for the year		<u>(7,010)</u>	<u>51,851</u>
Attributable to:			
— Equity holders of the Company		(6,654)	49,920
— Non-controlling interests		<u>(356)</u>	<u>1,931</u>
		<u>(7,010)</u>	<u>51,851</u>
(Losses)/earnings per share for (loss)/profit attributable to equity holders of the Company for the year			
— Basic and diluted (RMB)	8	<u>(0.59) cents</u>	<u>4.41 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit for the year	(7,010)	51,851
Other comprehensive income	<u>—</u>	<u>—</u>
Other comprehensive income for the year, net of tax	<u>—</u>	<u>—</u>
Total comprehensive (loss)/income for the year	<u>(7,010)</u>	<u>51,851</u>
Attributable to:		
— Equity holders of the Company	(6,654)	49,920
— Non-controlling interests	<u>(356)</u>	<u>1,931</u>
	<u>(7,010)</u>	<u>51,851</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		14,774	15,261
Property and equipment		174,540	180,342
Investment properties		51,803	53,563
Intangible assets		7,841	7,802
Deferred income tax assets		68,502	60,289
Investment in financial assets	11	40,600	67,546
		<u>358,060</u>	<u>384,803</u>
Current assets			
Trade and note receivables, other receivables and prepayments	10	473,254	429,406
Prepayments for current income tax		—	14,650
Short-term bank deposits with original terms of over three months		—	90,740
Cash and cash equivalents		399,985	391,010
		<u>873,239</u>	<u>925,806</u>
Total assets		<u><u>1,231,299</u></u>	<u><u>1,310,609</u></u>
EQUITY			
Ordinary shares		10,504	10,491
Reserves		831,680	947,811
Equity attributable to equity holders of the Company		<u>842,184</u>	<u>958,302</u>
Non-controlling interests		<u>4,634</u>	<u>4,990</u>
Total equity		<u><u>846,818</u></u>	<u><u>963,292</u></u>

		As at 31 December	
		2022	2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>28</u>	<u>31</u>
Current liabilities			
Accruals and other payables	12	290,058	266,345
Contract liabilities		48,756	43,102
Current income tax liabilities		45,287	37,321
Lease liabilities		<u>352</u>	<u>518</u>
		<u>384,453</u>	<u>347,286</u>
Total liabilities		<u>384,481</u>	<u>347,317</u>
Total equity and liabilities		<u><u>1,231,299</u></u>	<u><u>1,310,609</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company				
	<i>Note</i>	Ordinary shares <i>RMB'000</i>	Reserves <i>RMB'000</i>	Subtotal <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance as at 1 January 2021		10,491	1,049,655	1,060,146	5,309	1,065,455
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 as at 31 December 2021		<u>10,491</u>	<u>947,811</u>	<u>958,302</u>	<u>4,990</u>	<u>963,292</u>
Comprehensive loss						
Loss for the year		—	(6,654)	(6,654)	(356)	(7,010)
Total comprehensive loss		—	(6,654)	(6,654)	(356)	(7,010)
Transactions with shareholders						
Cash dividends relating to 2021 Share Award Scheme	9	—	(113,164)	(113,164)	—	(113,164)
— shares issued		13	(13)	—	—	—
— value of employee services		—	3,700	3,700	—	3,700
Balance as at 31 December 2022		<u>10,504</u>	<u>831,680</u>	<u>842,184</u>	<u>4,634</u>	<u>846,818</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		11,332	164,671
Income tax refund received/(paid)		10,405	(35,117)
		<hr/>	<hr/>
Net cash generated from operating activities		21,737	129,554
Cash flows from investing activities			
Placement of short-term bank deposits with original terms of over three months		(121,760)	(139,749)
Receipt from maturity of short-term bank deposits with original terms of over three months		212,500	166,258
Interest received		8,919	6,252
Purchase of property and equipment		(3,166)	(3,579)
Disposals of property and equipment		237	252
Purchase of intangible assets		(48)	(8)
Receipt from redemption of investment		—	31,924
Dividends received	5	376	496
		<hr/>	<hr/>
Net cash generated from investing activities		97,058	61,846
Cash flows from financing activities			
Cash dividends paid	9	(113,164)	(149,370)
Lease payments		(771)	(748)
Purchase of shares held for share award scheme		—	(7,736)
		<hr/>	<hr/>
Net cash used in financing activities		(113,935)	(157,854)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		391,010	356,807
Exchange gains on cash and cash equivalents	6	4,115	657
		<hr/>	<hr/>
Cash and cash equivalents at end of year		399,985	391,010
		<hr/> <hr/>	<hr/> <hr/>

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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, 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 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 27 March 2023.

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 on a historical cost basis, 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 amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to Hong Kong Accounting Standards (“HKAS”) 16;
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to HKAS 37;
- Annual Improvements to HKFRS Standards 2018–2020;
- Reference to the Conceptual Framework — Amendments to HKFRS 3; and
- Amendments to AG 5 Merger Accounting for Common Control Combinations.

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 accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations 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
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 17	Amendments to HKFRS 17	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 (HK Int 5 (2020))	1 January 2024
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
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 2022 (2021: 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 <i>RMB'000</i>	PConline <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2022				
Timing of revenue recognition				
— Over time	498,980	88,689	28,250	615,919
— At a point in time	184,768	9,292	3,749	197,809
Revenue	<u>683,748</u>	<u>97,981</u>	<u>31,999</u>	<u>813,728</u>
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	164,838	6,208	6,714	177,760
Revenue	<u>716,897</u>	<u>91,717</u>	<u>43,539</u>	<u>852,153</u>

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	<u>43,102</u>	<u>48,118</u>

Though the Company is domiciled in the Cayman Islands, for the year ended 31 December 2022, all revenues of the Group were derived from external customers and they were all generated from the PRC (2021: same).

As at 31 December 2022, 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 2021: same).

For the year ended 31 December 2022, revenues of approximately RMB112,311,000 (2021: RMB93,436,000) are derived from a single external customer accounting for ten percent or more of the Group's revenues.

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:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	272,966	276,394
Outsourcing production cost	239,912	206,885
Service commission to advertising agencies	100,349	115,159
Advertising expenses	92,096	104,564
Technology service fees	19,727	24,182
Depreciation and amortisation expenses		
— Depreciation of property and equipment	8,731	12,272
— Depreciation of investment properties	1,760	1,750
— Depreciation of right-of-use assets	1,083	1,035
— Amortisation of intangible assets	9	285
Travelling and entertainment expenses	7,402	8,775
Bandwidth and server custody fees	18,547	18,094
Other taxes and surcharge	15,482	6,570
Conference and office expenses	4,499	4,892
Auditors' remuneration		
— Audit services	3,670	3,670
— Non-audit services	324	375
Expenses related to short term leases	1,294	1,559
Professional fees	1,486	1,459
Impairment loss of intangible assets	—	1,000
Other expenses	12,063	19,885
	<u>801,400</u>	<u>808,805</u>
Total cost of revenue, selling and marketing costs, administrative expenses and product development expenses	<u>801,400</u>	<u>808,805</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 2022 (2021: same).

5. OTHER INCOME

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	6,446	6,400
Additional deduction of input value-added tax	5,514	3,180
Government grants (i)	3,264	1,248
Dividend income on investment in financial assets	376	496
	<u>15,600</u>	<u>11,324</u>

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

6. FINANCE INCOME — NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
— Interest income from bank deposits	8,842	6,252
— Net foreign exchange gains	4,115	657
	<u>12,957</u>	<u>6,909</u>
Finance cost		
— Interest expense on lease liabilities	(6)	(44)
	<u>(6)</u>	<u>(44)</u>
Finance income — net	<u>12,951</u>	<u>6,865</u>

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	12,211	6,394
Deferred taxation	(8,213)	(5,008)
	<u>3,998</u>	<u>1,386</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 2022 (2021: same).

Current taxation primarily represented the provision for PRC Corporate Income Tax (“CIT”) for subsidiaries operating in the PRC. These subsidiaries are subject to CIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Corporate Income Tax Law (“CIT Law”), the CIT rate for domestic enterprises and foreign invested enterprises is 25%. In addition, the CIT Law provides for, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises (“HNTE”). Guangzhou Pacific Computer Information Consulting Co., Ltd. (廣州太平洋電腦信息諮詢有限公司, “GZP Computer”) and Guangdong Pacific Internet Information Service Co., Ltd. (廣東太平洋互聯網信息服務有限公司, “GDP Internet”), the principal operating subsidiaries of the Company, 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 successfully renewed 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 successfully renewed as HNTE in 2022 and the applicable income tax rate is 15% for the three years from 2022 to 2024 (2021: same). Guangzhou Fengwang Technology Co., Ltd. (廣州鋒網資訊科技有限公司, “GZ Fengwang”), a PRC operating subsidiary of the Company, was formally designated as HNTE in 2022 and the applicable income tax rate is 15% for the three years from 2022 to 2024 (2021: same). All the other PRC entities of the Group are subject to CIT at a rate of 25% in accordance with CIT Law. Assuming that there is no change to the relevant laws and regulations, the directors consider four subsidiaries, including GZP Computer, GDP Internet, GZ Yurui and GZ Fengwang, 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.

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 (loss)/profit before income tax differed from the theoretical amount that would arise using the statutory tax rate applicable to (losses)/profits of all the consolidated PRC entities as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	<i>RMB'000</i>
(Loss)/profit before income tax expense	<u>(3,012)</u>	<u>53,237</u>
Tax calculated at the statutory tax rate of 25% (2021: 25%)	(753)	13,309
Tax effects of		
— Tax concessions available to certain PRC subsidiaries (a)	(1,057)	(1,583)
— Loss/(profit) not subject to tax	7,098	(9,170)
— Expenses not deductible for tax purposes	904	855
— Utilisation of previously unrecognised tax losses	(1,667)	(913)
— Unrecognised tax losses	3,593	3,337
— Under provision of prior year	2,050	2,044
— Additional deduction on product development expenses	(7,731)	(7,843)
Withholding tax on the earnings to be remitted by PRC subsidiaries	<u>1,561</u>	<u>1,350</u>
Income tax expense	<u><u>3,998</u></u>	<u><u>1,386</u></u>

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

8. (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

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

	Year ended 31 December	
	2022	2021
(Loss)/profit attributable to equity holders of the Company (RMB'000)	<u>(6,654)</u>	<u>49,920</u>
Weighted average number of ordinary shares for basic (losses)/earnings per share (thousand shares)	<u>1,130,087</u>	<u>1,130,878</u>
Basic (losses)/earnings per share (RMB)	<u><u>(0.59) cents</u></u>	<u><u>4.41 cents</u></u>

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/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 (losses)/earnings per share equals to basic (losses)/earnings per share as there were no potential diluted shares outstanding for the year ended 31 December 2022 (2021: same).

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2021 of RMB10.00 cents per ordinary share (2020: RMB13.00 cents per ordinary share) was approved by the shareholders at the annual general meeting on 30 May 2022. Such final dividend for 2021 totalling RMB113,164,000 was paid in 2022, which has already excluded the dividend related to the ordinary shares held for the share award scheme of RMB396,000 (final dividend for 2020 of RMB149,370,000 excluding the dividend related to the ordinary shares held for the share award scheme of RMB307,000).

The directors recommended the payment of a final dividend of RMB10 cents per ordinary share in cash for the year ended 31 December 2022, totalling RMB113,560,000 based on the ordinary shares in issue as of 31 December 2022. Such final dividend is to be approved by the shareholders at the annual general meeting of the Company to be held on 12 May 2023. These consolidated financial statements do not reflect this dividend payable.

10. TRADE AND NOTE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, net of impairment provision (a)	432,665	387,376
Other receivables, net of impairment provision (b)	12,404	17,263
Prepaid value-added tax	8,694	12,419
Prepayments to suppliers	2,377	6,612
Notes receivable	17,114	5,736
	473,254	429,406

As at 31 December 2022, trade and note receivables, other receivables and prepayments were all denominated in RMB (31 December 2021: 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 RMB200,563,000 (31 December 2021: RMB187,727,000)) based on recognition date is as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 6 months	323,535	281,620
6 months to 1 year	101,122	81,693
1 year to 2 years	6,451	8,939
Above 2 years	1,557	15,124
	<u>432,665</u>	<u>387,376</u>

(b) Other receivables, net of impairment provision

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Advance to employees	5,808	10,053
Rental receivables	268	886
Others	6,328	6,324
	<u>12,404</u>	<u>17,263</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 US Dollar (“USD”) 5,000,000 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 2022, the Fund made certain investment in cryptocurrencies (“Cryptocurrency Investments”). The Group neither have control nor significant influence over the Fund. As at 31 December 2022, the Group held 34.0% (31 December 2021: 27.4%) interests of the Fund. As at 31 December 2022, the Group classified the investment in the Fund as financial assets at fair value through profit or loss (31 December 2021: same).

Management assessed the fair value of the Group’s investment in financial assets as at 31 December 2022 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.

The Group's portion of net asset value of the Fund was attributable to the following:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Equity Investments	27,440	25,605
Cryptocurrency Investments	8,753	39,036
Other investments	4,407	2,905
	<u> </u>	<u> </u>
At end of the year	<u><u>40,600</u></u>	<u><u>67,546</u></u>

During the year ended 31 December 2022 and 2021, movement on investment in financial assets is as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	67,546	62,785
Changes in fair value:		
— Equity Investments	1,835	(1,151)
— Cryptocurrency Investments	(30,283)	36,037
— Other investments	1,502	1,799
Redemption	—	(31,924)
	<u> </u>	<u> </u>
At the end of the year	<u><u>40,600</u></u>	<u><u>67,546</u></u>

12. ACCRUALS AND OTHER PAYABLES

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses (a)	216,109	197,454
Salaries payable	50,637	50,194
Other tax payable	11,455	6,497
Other payables	11,857	12,200
	<u> </u>	<u> </u>
	<u><u>290,058</u></u>	<u><u>266,345</u></u>

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

As at 31 December 2022, The fair value of accruals and other payables approximated their carrying amounts (31 December 2021: same).

**EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2022**

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 2022;
- 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 2022, 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 RMB40,600,000 as at 31 December 2022 and RMB67,546,000 as at 1 January 2022, of which RMB8,753,000 represented certain investments in cryptocurrencies (the “Cryptocurrency Investments”) as at 31 December 2022 and RMB39,036,000 as at 1 January 2022. For the year ended 31 December 2022, the fair value loss of the investment in financial assets recognised in the consolidated income statement was RMB26,946,000, of which RMB30,283,000 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 one 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. The same audit scope limitations were in place in the year 2021 resulting in the issuance of a qualified opinion on the consolidated financial statements for the year ended 31 December 2021.

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 2022 and 1 January 2022, and the changes in fair value of the Cryptocurrency Investments for the year ended 31 December 2022. 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 2022 and 1 January 2022, which has consequential impacts on the Group’s investment in financial assets as at 31 December 2022 and 1 January 2022 and the changes in fair value of the Group’s investment in financial assets for the year ended 31 December 2022.

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 2022, the Company's revenue was RMB813.7 million, a decrease of 4.5% from last year. The loss attributable to equity holders was RMB6.7 million. During 2022 the Company was heavily impacted both by COVID-19 lockdowns in major metropolitan areas where the Company primarily operates, particularly in Shanghai from March to May, and during the nationwide COVID-19 outbreak beginning in November.

In 2022, the domestic new energy vehicle (NEV) automobile industry in China continued to surge, with NEVs accounting for 27% of new vehicle sales in China, up from 15% in 2021. PCauto has continued to develop our "smart automobiles" platform to provide integrated online and offline media content and channel strategies, with an emphasis on developing compelling original content.

During 2022, POnline has given greater emphasis to the popular "smart home" segment, expanding partnerships with high-tech home appliance manufacturers while continuing to be a leading consumer electronics content provider. POnline continues to build on the shared expertise with PChouse to provide relevant and synergistic content to consumers. PChouse continues to build out its domestic designer network, focused on improving original content offerings and built out a vertical content ecosystem in the interior design space.

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. 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 2022 the carrying amount of the Fund was RMB40,600,000 as contained in the Group's audited financial statements for the year ended 31 December 2022 and supported by an unqualified audit opinion.

During the year 2021, the Company made a redemption of USD4,989,000 (RMB31,924,000). And the Company received dividends totaling USD557,000 from 2016 to the year ended 31 December 2022. The entire carrying amount of Investment in Financial Assets of RMB40,600,000 (including RMB8,753,000 of Cryptocurrency Investments) as at 31 December 2022 therefore represented the accumulated unrealized surplus over of the Group's original Investment.

The amount of RMB26,946,000 of fair value loss was recognized as changes in fair value as disclosed under "other (losses)/gains" in the consolidated income statement for the year ended 31 December 2022. This amount included an amount of RMB30,283,000 attributable to changes in fair value in the Cryptocurrency Investments.

As referred in the Independent Auditor's Report for the year ended 31 December 2022, the qualified opinion covers both the above-mentioned year end fair value of the Cryptocurrency Investments of RMB8,753,000 and the corresponding changes in fair value of RMB30,283,000 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, as such, it recommended a dividend payment of RMB10 cents per share, maintaining the same 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 etc.

Looking ahead towards 2023, the Company is optimistic that business disruptions due to the 2019 novel coronavirus disease (COVID-19) pandemic are in the past. The Chinese automobile industry is poised for growth, with NEVs projected to comprise a significant portion of the market, and the Company has positioned itself well to provide relevant content and marketing solutions for consumers. In 2023, the Company is optimistic that PConline can continue to explore new opportunities and partners in the burgeoning "smart home" segment and furthering cooperation with PChouse to strengthen brand impact and content innovation.

Revenue

Revenue decreased 4.5% from RMB852.2 million for the year ended 31 December 2021 to RMB813.7 million for the year ended 31 December 2022.

Revenue for PCauto, the Group's automobile portal, decreased 4.6% from RMB716.9 million for the year ended 31 December 2021 to RMB683.7 million during the year ended 31 December 2022. The decrease in revenue for PCauto was due to decreased advertising spending from automobile manufacturers mainly because of the impact of stock shortages and the COVID-19 during the year. As a percentage of revenue, PCauto accounted for 84.1% during the year ended 31 December 2021 and 84.0% during the year ended 31 December 2022.

Revenue for PConline, the Group's IT and consumer electronics portal, increased 6.8% from RMB91.7 million during the year ended 31 December 2021 to RMB98.0 million during the year ended 31 December 2022. The increase was due to increase in demand from consumer electronics manufacturers. As a percentage of revenue, PConline accounted for 10.8% during the year ended 31 December 2021 and 12.1% during the year ended 31 December 2022.

Revenue from other operations, including PClady, PCbaby and PChouse portals, decreased by 26.5% from RMB43.5 million during the year ended 31 December 2021 to RMB32.0 million during the year ended 31 December 2022. The decrease was mainly due to the decrease in general consumption from these sectors. As a percentage of revenue, revenue from other operations accounted for 5.1% during the year ended 31 December 2021 and 3.9% during the year ended 31 December 2022.

Cost of Revenue

Cost of revenue increased 6.6% from RMB452.8 million during the year ended 31 December 2021 to RMB482.6 million during the year ended 31 December 2022. Gross profit margin was 46.9% during the year ended 31 December 2021 and 40.7% during the year ended 31 December 2022. The increase in cost of revenue was mainly due to increase in outsourcing production costs and staff costs 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 decreased 10.1% from RMB210.5 million during the year ended 31 December 2021 to RMB189.2 million during the year ended 31 December 2022. The decrease in selling and marketing expenses was mainly due to the decrease in advertising expenses and employee benefit expenses.

Administrative Expenses

Administrative expenses decreased by 18.2% from RMB78.8 million during the year ended 31 December 2021 to RMB64.5 million during the year ended 31 December 2022, mainly due to decrease in staff costs and general office expenses during the year ended 31 December 2022.

Net Impairment Losses on Trade and Other Receivables

Net impairment losses on trade and other receivables decreased by 62.3% from RMB45.0 million during the year ended 31 December 2021 to RMB16.9 million during the year ended 31 December 2022. The decrease in net impairment losses was mainly due to collection of some long aging receivables during the year.

Product Development Expenses

Product development expenses decreased by 2.4% from RMB66.7 million during the year ended 31 December 2021 to RMB65.1 million during the year ended 31 December 2022. The majority of expenses was personnel-related expenses in the Group's research and development team.

Other Income

Other income was RMB15.6 million during the year ended 31 December 2022 and RMB11.3 million during the year ended 31 December 2021. The increase was mainly due to increase in government grants and more subsidies and tax rebates.

Finance Income and Cost

Net finance income increased 88.7% from RMB6.9 million during the year ended 31 December 2021 to RMB13.0 million during the year ended 31 December 2022. The increase was mainly due to increase in net foreign exchange gain and bank interest income during the year.

Other Losses/Gains

Other losses was RMB26.9 million during the year ended 31 December 2022 and it was the fair value loss of a passive equity investment in a fund, whereas other gains was RMB36.7 million, and redemption of investment fund was RMB31.9 during the year ended 31 December 2021.

Income Tax Expense

Income tax expenses increased 188.5% from RMB1.4 million during the year ended 31 December 2021 to RMB4.0 million during the year ended 31 December 2022.

Net Loss/Profit Attributable to Equity Holders

Net loss attributable to equity holders was RMB6.7 million during the year ended 31 December 2022 and net profit attributable to equity holders was RMB49.9 million during the year ended 31 December 2021.

Liquidity and Financial Resources

As of 31 December 2022, the Group had short-term deposits and cash totaling RMB400.0 million, compared with RMB481.8 million as of 31 December 2021. In 2022, net cash generated from operating activities was RMB21.7 million, net cash generated from investing activities was RMB97.1 million, net cash used in financing activities was RMB113.9 million, with a net increase in cash and cash equivalents of RMB4.9 million for year 2022. 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. The Company had no external debt as of 31 December 2021 and 31 December 2022.

Bank Borrowings

As of both 31 December 2022 and 31 December 2021, 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 2022, the Group had no material acquisitions or disposals of subsidiaries and associates.

Charges on Assets

As at 31 December 2022, 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 2022, the Group had 924 employees (2021: 1,119). 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 2022 (the “Proposed Final Dividend”), which compares with RMB10 cents for 2021. The final dividend is subject to the shareholders’ approval at the Company’s forthcoming annual general meeting to be held on Friday, 12 May 2023 (the “2023 AGM”). The Proposed Final Dividend will be paid in cash on Monday, 12 June 2023 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 22 May 2023.

Closure of Register of Members

For determining the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Tuesday, 9 May 2023 to Friday, 12 May 2023, 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 2023 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 8 May 2023.

For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Friday, 19 May 2023 to Monday, 22 May 2023, 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 Thursday, 18 May 2023.

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 2022.

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 2022.

Scope of work of PricewaterhouseCoopers

The figures in respect of the announcement of the Group's results for the year ended 31 December 2022 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 2022, 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, 27 March 2023

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.