Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰 訊 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The board of directors (the "Board") of Tencent Holdings 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 2006. These results have been audited by PricewaterhouseCoopers, the auditors of the Company (the "Auditors"), in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee of the Company, comprising a majority of independent non-executive directors of the Company.

RESULTS

The Group's audited profit after tax for the year ended 31 December 2006 was RMB1,063.8 million, an increase of 119.2% compared with the results for the year ended 31 December 2005. Basic and diluted earnings per share for the year ended 31 December 2006 were RMB0.603 and RMB0.585 respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.12 per share (2005: HKD0.08) for the year ended 31 December 2006, subject to the approval of the shareholders at the Annual General Meeting ("AGM") to be held on 16 May 2007. Such proposed dividend will be payable on 30 May 2007 to shareholders whose names appear on the register of members of the Company on 16 May 2007.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS		
Non-current assets		
Fixed assets	**549,109**	365,047
Construction in progress	**14,462**	-
Leasehold land and land use rights	**10,018**	-
Intangible assets	**155,587**	21,432
Held-to-maturity investments	**-**	244,581
Deferred income tax assets	**130,522**	96,362
Available-for-sale financial assets	**56,440**	36,073
	916,138	763,495
Current assets		
Inventories	**2,466**	2,647
Accounts receivable	**399,337**	222,754
Prepayments, deposits and other receivables	**113,768**	32,570
Financial assets held for trading	**195,907**	383,887
Held-to-maturity investments	**234,261**	-
Term deposits with initial term of over three months	**944,375**	445,725
Cash and cash equivalents	**1,844,320**	1,576,044
	3,734,434	2,663,627
Total assets	**4,650,572**	3,427,122
EQUITY		
Shareholders' equity		
Share capital	**192**	192
Share premium	**1,459,020**	1,666,044
Share-based compensation reserve	**118,078**	40,109
Other reserves	**80,925**	66,609
Retained earnings	**2,059,541**	1,155,459
	3,717,756	2,928,413
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	**16,821**	810
Long term payable	**48,148**	-
	64,969	810
Current liabilities		
Accounts payable	**38,934**	25,555
Other payables and accruals	**444,387**	196,187
Current income tax liabilities	**47,472**	28,766
Other tax liabilities	**17,715**	13,256
Deferred revenue	**319,339**	234,135
	867,847	497,899
Total liabilities	**932,816**	498,709
Total equity and liabilities	**4,650,572**	3,427,122
Net current assets	**2,866,587**	2,165,728
Total assets less current liabilities	**3,782,725**	2,929,223

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Revenues			
Internet value-added services		**1,825,343**	786,680
Mobile and telecommunications value-added services		**700,114**	517,265
Online advertising		**266,684**	112,826
Others		**8,300**	9,624
	2	**2,800,441**	1,426,395
Cost of revenues	5	**(817,062)**	(469,869)
Gross profit	2	**1,983,379**	956,526
Other gains, net	4	**83,195**	73,145
Selling and marketing expenses	5	**(293,247)**	(197,627)
General and administrative expenses	5	**(610,022)**	(347,685)
Operating profit	*	**1,163,305**	484,359
Finance costs, net	**	**(46,534)**	(47,304)
Profit before income tax		**1,116,771**	437,055
Income tax (expenses)/benefit	6	**(52,971)**	48,307
Profit for the year		**1,063,800**	485,362
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- basic	7	**0.603**	0.274
- diluted	7	**0.585**	0.267

* After deduction of share-based compensation charge amounting to RMB77,736,000 for the year ended 31 December 2006 (2005: RMB34,526,000).

** Included foreign exchange loss of RMB41,149,000 for the year ended 31December 2006 (2005: RMB47,304,000).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2005	192	1,777,721	5,583	20,000	32,442	816,300	2,652,238
Profit for the year	-	-	-	-	-	485,362	485,362
Employees share option scheme:							
- value of employee services	-	-	34,526	-	-	-	34,526
- proceeds from shares issued	1	11,408	-	-	-	-	11,409
Repurchase and cancellation of shares	(1)	(123,085)	-	-	-	-	(123,086)
Profit appropriations to statutory reserves	-	-	-	-	14,167	(14,167)	-
Dividend relating to 2004	-	-	-	-	-	(132,036)	(132,036)
Balance at 31 December 2005	192	1,666,044	40,109	20,000	46,609	1,155,459	2,928,413
Balance at 1 January 2006	**192**	**1,666,044**	**40,109**	**20,000**	**46,609**	**1,155,459**	**2,928,413**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,063,800**	**1,063,800**
Employees share option scheme:							
- value of employee services	**-**	**-**	**77,969**	**-**	**-**	**-**	**77,969**
- proceeds from shares issued	**2**	**34,052**	**-**	**-**	**-**	**-**	**34,054**
Repurchase and cancellation of shares	**(2)**	**(241,076)**	**-**	**-**	**-**	**-**	**(241,078)**
Profit appropriations to statutory reserves	**-**	**-**	**-**	**-**	**14,316**	**(14,316)**	**-**
Dividend relating to 2005	**-**	**-**	**-**	**-**	**-**	**(145,402)**	**(145,402)**
Balance at 31 December 2006	**192**	**1,459,020**	**118,078**	**20,000**	**60,925**	**2,059,541**	**3,717,756**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Cash flows from operating activities	**1,507,458**	993,506
Cash flows from investing activities	**(862,729)**	(10,551)
Cash flows from financing activities	**(352,426)**	(247,039)
Net increase in cash and cash equivalents	**292,303**	735,916
Cash and cash equivalents at beginning of the year	**1,576,044**	859,841
Exchange losses on cash and cash equivalents	**(24,027)**	(19,713)
Cash and cash equivalents at end of the year	**1,844,320**	1,576,044

Note

1 **General information, basis of preparation and presentation**

The Company was incorporated in the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Internet and mobile value-added services and online advertising services to users in the People's Republic of China (the "PRC").

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets held for trading.

Assessment and adoption of revised/new IFRS, interpretations and amendments effective in 2006

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the financial year ended 31 December 2006.

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRIC 4	Determining whether an Arrangement Contains a Lease

Management has assessed the relevance of these new standards, interpretations and amendments with respect to the Group's operations and their impact on the Group's accounting policies. In summary:

- IAS 19 (Amendment), IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions, IAS 39 and IFRS 4 (Amendment) - Financial Guarantee Contracts, are not relevant to the Group's operations.
- IAS 21 (Amendment) did not have a significant impact on the Group's financial statements.
- IAS 39 (Amendment) - The Fair Value Option and IFRIC 4 did not result in substantial changes to the Group's accounting policies.

2 **Segment information**

Business segment is the Group's primary basis of segment reporting. The business segment results and other segment items of the Group for the years ended 31 December 2006 and 2005 are presented as follows:

Year ended 31 December 2006	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	**1,825,343**	**700,114**	**266,684**	**8,300**	**2,800,441**
Gross profit/(loss)	**1,399,152**	**427,556**	**172,744**	**(16,073)**	**1,983,379**
Other gains, net					**83,195**
Selling and marketing expenses					**(293,247)**
General and administrative expenses					**(610,022)**
Operating profit					**1,163,305**
Finance costs, net					**(46,534)**
Profit before income tax					**1,116,771**
Income tax expenses					**(52,971)**
Profit for the year					**1,063,800**
Segment assets	**439,138**	**120,155**	**104,861**	**12,937**	**677,091**
Unallocated assets					**3,973,481**
Total assets					**4,650,572**
Segment liabilities	**408,558**	**34,770**	**46,149**	**6,067**	**495,544**
Unallocated liabilities					**437,272**
Total liabilities					**932,816**

Year ended 31 December 2006	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Other segment items					
Capital expenditure	**119,657**	**162,682**	**7,287**	**5,757**	**295,383**
Unallocated capital expenditure					**182,738**
Total capital expenditure					**478,121**
Depreciation	**42,287**	**8,584**	**2,663**	**2,075**	**55,609**
Unallocated depreciation					**50,807**
Total depreciation					**106,416**
Amortisation	**-**	**20,223**	**-**	**-**	**20,223**
Unallocated amortisation					**7,911**
Total amortisation					**28,134**

Year ended 31 December 2005	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	786,680	517,265	112,826	9,624	1,426,395
Gross profit/(loss)	555,200	328,001	78,065	(4,740)	956,526
Other gains, net					73,145
Selling and marketing expenses					(197,627)
General and administrative expenses					(347,685)
Profit from operations					484,359
Finance costs, net					(47,304)
Profit before income tax					437,055
Income tax benefit					48,307
Profit for the year					485,362
Segment assets	262,311	105,796	22,759	5,450	396,316
Unallocated assets					3,030,806
Total assets					3,427,122
Segment liabilities	281,883	24,412	11,004	3,556	320,855
Unallocated liabilities					177,854
Total liabilities					498,709
Other segment items					
Capital expenditure	90,170	22,322	3,507	3,504	119,503
Unallocated capital expenditure					182,485
Total capital expenditure					301,988
Depreciation	20,848	5,894	936	909	28,587
Unallocated depreciation					26,390
Total depreciation					54,977
Amortisation	-	-	-	-	-
Unallocated amortisation					2,343
Total amortisation					2,343

3 **Share option**

(a) *Share option schemes*

The Company has adopted two share option schemes for the purpose of providing incentives to its directors, eligible employees and consultants: Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Post-IPO Share Option Scheme, and under any other share option scheme of the Company (including the Pre-IPO Share Option Scheme), shall not exceed 10% of the relevant class of securities of the Company in issue as at the date of the initial public offering.

(b) *Movements in share options*

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme		Total
	Average exercise price	No. of options	Average exercise price	No. of options	no.of options
At 1 January 2005	USD0.0849	50,406,917	HKD3.6650	6,300,961	56,707,878
Granted	-	-	HKD6.3772	48,209,268	48,209,268
Exercised	USD0.0661	(18,189,710)	HKD3.6650	(415,948)	(18,605,658)
Lapsed	USD0.2069	(642,850)	HKD4.6071	(2,800,635)	(3,443,485)
At 31 December 2005	USD0.0933	31,574,357	HKD6.1627	51,293,646	82,868,003
At 1 January 2006	**USD0.0933**	**31,574,357**	**HKD6.1627**	**51,293,646**	**82,868,003**
Granted	**-**	**-**	**HKD13.5351**	**18,433,600**	**18,433,600**
Exercised	**USD0.0799**	**(12,377,973)**	**HKD4.8948**	**(5,186,727)**	**(17,564,700)**
Lapsed	**USD0.1967**	**(189,420)**	**HKD5.2645**	**(2,177,744)**	**(2,367,164)**
At 31 December 2006	**USD0.1010**	**19,006,964**	**HKD8.4787**	**62,362,775**	**81,369,739**

During the year ended 31 December 2006, no share options were granted to the directors of the Company or any consultants (2005: Nil).

(c) *Outstanding share options*

Out of the 81,369,739 options outstanding as at 31 December 2006 (2005: 82,868,003 options), 21,697,357 options (2005: 23,278,348 options) were currently exercisable. Options exercised for the year ended 31 December 2006 resulted in 17,564,700 ordinary shares issued. The related weighted average price of share at the time of exercise was HKD15.2724 (equivalent to approximately RMB15.3442) per share.

4 **Other gains, net**

	2006 RMB'000	2005 RMB'000
Interest income	**75,782**	45,355
Fair value gains on financial assets held for trading	**12,202**	17,308
Government subsidies	**15,231**	9,750
Donation to a charity fund (Note)	**(20,000)**	-
Others	**(20)**	732
	83,195	73,145

Note: During the year ended 31 December 2006, the Group made a donation to a charity fund established by the Group.

5 **Expenses by nature**

	2006 RMB'000	2005 RMB'000
Employee benefits expenses (Note)	**584,789**	344,460
Mobile and telecommunication charges and bandwidth and server custody fees	**462,634**	279,699
Promotion and advertising expenses	**155,696**	91,066
Depreciation of fixed assets (Note)	**106,416**	54,977
Travelling and entertainment expenses	**66,990**	51,884
Amortisation of intangible assets	**27,946**	2,343
Operating lease rentals in respect of office buildings	**38,775**	23,143
Value-added tax paid upon transfer of software within the Group	**8,100**	1,500
Loss on disposals of fixed assets	**1,062**	108
Other expenses	**267,923**	166,001
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**1,720,331**	1,015,181

Note: Research and development expenses for the year ended 31 December 2006 were RMB297,320,000 (2005: RMB162,544,000) which included employee benefit expenses of RMB247,986,000 and depreciation of fixed assets of RMB40,216,000 (2005: RMB136,424,000 and RMB20,573,000) respectively.

The Group did not capitalise any research and development expenses for the year ended 31 December 2006 (2005: Nil).

6 **Income tax expenses**

(a) *Cayman Islands and British Virgin Islands Profits Tax*

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2006 (2005: Nil).

(b) *Hong Kong Profits Tax*

No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the year ended 31 December 2006 (2005: Nil).

(c) *PRC Enterprise Income Tax ("EIT")*

EIT is provided on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

The EIT tax rates applicable to these companies for the year ended 31 December 2006 range from 0% to 15% except Nanjing Wang Dian Technology Company Limited, a newly acquired subsidiary in 2006, which is subject to EIT at a rate of 33%.

The income tax charges/(credits) of the Group for the year ended 31 December 2006 and 2005 are analysed as follows:

	2006 RMB'000	2005 RMB'000
PRC current tax	**84,851**	47,245
Deferred income taxes	**(31,880)**	(95,552)
	52,971	(48,307)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 15%, the tax rate enacted in Shenzhen and High Technology Zone in Beijing, the PRC, where the principal activities of the Group are conducted. The difference is analysed as follows:

	2006 RMB'000	2005 RMB'000
Profit before income tax	**1,116,771**	437,055
Tax calculated at a tax rate of 15% (2005: 15%)	**167,516**	65,558
Effect of different tax rates available to different companies of the Group	**22,878**	7,363
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	**(152,591)**	(38,021)
Expenses not deductible for tax purposes	**14,877**	9,463
Unrecognised tax losses	**291**	2,728
Utilisation of previously unrecognised tax assets/ deferred tax assets not recognised	**-**	(6,760)
Recognition of previously unrecognised deferred tax assets	**-**	(88,638)
Tax charge/(credit)	**52,971**	(48,307)

7 **Earnings per share**

(a) *Basic*

Basic earnings per share are 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.

	2006 RMB'000	2005 RMB'000
Profit attributable to the equity holders of the Company for the year	**1,063,800**	485,362
Weighted average number of ordinary shares in issue (thousands)	**1,764,337**	1,772,495
Basic earnings per share (EPS) (RMB per share)	**0.603**	0.274

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted EPS). A calculation is done to determine the number of shares that could have been acquired at fair value (determined as to be the average market price of the Company's shares during the periods) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares so calculated is compared against the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2006 RMB'000	2005 RMB'000
Profit attributable to the equity holders of the Company for the year	**1,063,800**	485,362
Weighted average number of ordinary shares in issue (thousands)	**1,764,337**	1,772,495
Adjustments for share options (thousands)	**54,198**	46,482
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands)	**1,818,535**	1,818,977
Diluted EPS (RMB per share)	**0.585**	0.267

OPERATING INFORMATION

The following table sets forth certain operating statistics relating to our IM community and value-added services as at the dates and for the periods presented:

	For the 16-day period ended 31 December 2006	For the 15-day period ended 30 September 2006	**Percentage change**
	(in millions)		
Registered IM user accounts (at end of period)	**580.5**	572.3	1.4%
Active user accounts (at end of period)	**232.6**	221.4	5.1%
Peak simultaneous online user accounts (for the quarter)	**24.5**	22.1	10.9%
Average daily user hours	**340.3**	301.6	12.8%
Average daily messages(1)	**3,052.5**	2,928.6	4.2%
Fee-based Internet value-added services registered subscriptions (at end of period)	**12.5**	13.7	(8.8)%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)(2)	**9.9**	10.1	(2.0)%

(1) Average daily messages include messages exchanged between PCs only and exclude messages exchanged with mobile handsets.

(2) Includes registered subscriptions for services provided directly by us or through mobile operators.

Our IM platform generally showed healthy growth in the fourth quarter of 2006, with registered IM user accounts, peak simultaneous online user accounts, average daily user hours and average daily messages all showing increases. The seasonal impact of year-end holidays also contributed to the increased usage by our users. We continued to implement the measures that we began in early 2006 to enhance account security, reduce account theft and reduce unauthenticated usage of stolen accounts, through means such as QQ Security Doctor, an anti-Trojan and anti-virus software. As a result, the number of both "spam" advertising messages and complaints of stolen accounts decreased throughout 2006. In order to reduce the effect of these measures on normal usage, we have refined restrictions on registration to prevent authentic applications from being rejected. Certain measures, however, such as increased levels of authentication before services and products may be used and restrictions on giving virtual items to third persons as gifts negatively impacted our revenues. Although these measures reduced our active user accounts and affected monetization on our platforms, we believe the measures will be conducive to the healthy growth of our IM platform in the future.

The decrease in fee-based Internet value-added services registered subscriptions reflects the fact that subscriptions for fee-based entertainment-related services in the third quarter are often positively affected by summer school holidays. Fee-based mobile and telecommunications value-added services registered subscriptions decreased at year end as we implemented a "clean-up" of delinquent customer accounts. Both fee-based Internet value-added services registered subscriptions and fee-based mobile and telecommunications value-added services registered subscriptions were also negatively affected as we accelerated the cancellation of delinquent customer accounts starting in the fourth quarter of 2006.

FINANCIAL PERFORMANCE HIGHLIGHTS

Fourth Quarter of 2006

Our unaudited consolidated revenues for the fourth quarter of 2006 were RMB713.2 million, an increase of 66.1% over the same period in 2005 and a decrease of 3.2% from the third quarter of 2006.

Revenues from our Internet value-added services for the fourth quarter of 2006 were RMB436.5 million, an increase of 65.9% over the same period in 2005 and a decrease of 10.9% from the third quarter of 2006.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2006 were RMB193.1 million, an increase of 54.0% over the same period in 2005 and an increase of 16.8% from the third quarter of 2006.

Revenues from online advertising for the fourth quarter of 2006 were RMB81.5 million, an increase of 116.4% over the same period in 2005 and an increase of 1.4% from the third quarter of 2006.

Cost of revenues for the fourth quarter of 2006 were RMB233.7 million, an increase of 66.7% over the same period in 2005 and an increase of 12.0% from the third quarter of 2006.

Other gains, net for the fourth quarter of 2006 were RMB18.4 million, a decrease of 39.0% over the same period in 2005 and a decrease of 16.3% from the third quarter of 2006.

Selling and marketing expenses for the fourth quarter of 2006 were RMB73.4 million, an increase of 18.4% over the same period in 2005 and an increase of 12.6% from the third quarter of 2006.

General and administrative expenses for the fourth quarter of 2006 were RMB180.2 million, an increase of 60.4% over the same period in 2005 and an increase of 14.4% from the third quarter of 2006.

Operating profit for the fourth quarter of 2006 was RMB244.2 million, representing an increase of 68.5% over the same period in 2005 and a decrease of 25.4% quarter on quarter. As a percentage of revenues, operating profit accounted for 34.2% for the fourth quarter of 2006, compared to 33.8% for the same period of 2005 and 44.4% for the third quarter of 2006.

Profit for the fourth quarter of 2006 was RMB263.6 million, representing an increase of 113.1% over the same period in 2005 and a decrease of 6.7% from the third quarter of 2006. As a percentage of revenues, profit for the period accounted for 37.0% for the fourth quarter of 2006, compared to 28.8% for the same period of 2005 and 38.3% for the third quarter of 2006.

Year Ended 31 December 2006

Our consolidated revenues for the year ended 31 December 2006 were RMB2,800.4 million, an increase of 96.3% from the year ended 31 December 2005.

Revenues from our Internet value-added services for the year ended 31 December 2006 were RMB1,825.3 million, an increase of 132.0% from the year ended 31 December 2005.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2006 were RMB700.1 million, an increase of 35.3% from the year ended 31 December 2005.

Revenues from online advertising for the year ended 31 December 2006 were RMB266.7 million, an increase of 136.4% from the year ended 31 December 2005.

Cost of revenues for the year ended 31 December 2006 were RMB817.1 million, an increase of 73.9% from the year ended 31 December 2005.

Other gains, net for the year ended 31 December 2006 were RMB83.2 million, an increase of 13.7% from the year ended 31 December 2005.

Selling and marketing expenses for the year ended 31 December 2006 were RMB293.2 million, an increase of 48.4% from the year ended 31 December 2005.

General and administrative expenses for the year ended 31 December 2006 were RMB610.0 million, an increase of 75.5% from the year ended 31 December 2005.

Operating profit for the year ended 31 December 2006 was RMB1,163.3 million, representing an increase of 140.2% over the year ended 31 December 2005. As a percentage of revenues, operating profit accounted for 41.5% for the year ended 31 December 2006, compared to 34.0% for the year ended 31 December 2005.

Profit for the year ended 31 December 2006 was RMB1,063.8 million, representing an increase of 119.2% from the year ended 31 December 2005. As a percentage of revenues, profit for the period accounted for 38.0% for the year ended 31 December 2006, compared to 34.0% for the year ended 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2006 Compared to Third Quarter of 2006

The following table sets forth the comparative figures for the fourth quarter of 2006 and the third quarter of 2006:

	Unaudited Three months ended 31 December 2006	30 September 2006
	(RMB in thousands)	
Revenues	**713,225**	736,930
Cost of revenues	**(233,697)**	(208,637)
Gross profit	**479,528**	528,293
Other gains, net	**18,360**	21,942
Selling and marketing expenses	**(73,430)**	(65,231)
General and administrative expenses	**(180,229)**	(157,546)
Operating profit	**244,229**	327,458
Finance costs, net	**(14,206)**	(15,696)
Profit before income tax	**230,023**	311,762
Income tax benefit/(expenses)	**33,600**	(29,174)
Profit for the period	**263,623**	282,588

Revenues. Revenues decreased by 3.2% to RMB713.2 million for the fourth quarter of 2006 from RMB736.9 million for the third quarter of 2006. The following table sets forth our revenues by line of business for the fourth quarter of 2006 and the third quarter of 2006:

	Three months ended 31 December 2006 Amount	% of total revenues	30 September 2006 Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**436,527**	**61.2%**	490,018	66.5%
Mobile and telecommunications value-added services	**193,075**	**27.1%**	165,258	22.4%
Online advertising	**81,525**	**11.4%**	80,417	10.9%
Others	**2,098**	**0.3%**	1,237	0.2%
Total revenues	**713,225**	**100.0%**	736,930	100.0%

Revenues from our Internet value-added services decreased by 10.9% to RMB436.5 million for the fourth quarter of 2006 from RMB490.0 million for the third quarter of 2006. Revenues from our online entertainment-related value-added services, such as our online identity and community business and online games, decreased due to seasonal factors as the impact of the school summer holidays that affected the third quarter did not continue in the fourth quarter. A special one-time event, a vote for "Super Girls" using our QQ and QQ Live platforms in partnership with Hunan Satellite TV, also contributed to the higher third quarter results. In addition, we implemented measures to enhance the security of users' virtual items, which particularly affected revenues from QQ Show and QQ Game in the fourth quarter. We also implemented a system upgrade with respect to QQ Game to improve system performance and user experience, and to provide more effective support for in-game avatars and in-game advertising, which affected certain monetization of the game portal in the fourth quarter. The decrease was somewhat offset by growth in revenues from Premium QQ.

Revenues from our mobile and telecommunications value-added services increased by 16.8% to RMB193.1 million for the fourth quarter of 2006 from RMB165.3 million for the third quarter of 2006. This increase reflected increases in revenues from our communication-based SMS, mobile voice value-added services and 2.5G services. China Mobile had implemented policy changes for wireless value-added services on its Monternet platform in the third quarter, involving giving new subscribers free one-month trial periods and reminding subscribers of fees and cancellation procedures, which had a negative effect on our revenues. In September and continuing in the fourth quarter, China Mobile discontinued its one-month trial period policy for SMS services. The discontinuing of such policy by China Mobile had a positive impact on our revenues and allowed us to offer enhanced services and products by increasing our promotional activity during the fourth quarter. The increase in revenues was partially offset by decreased revenues from content-based SMS services. In December, we entered into a partnership with China Mobile to develop a platform tentatively named "Fetion QQ" that will enable interconnection between China Mobile's Fetion handset users and our QQ subscribers, which is expected to be introduced in the middle of 2007.

Revenues from online advertising increased by 1.4% to RMB81.5 million for the fourth quarter of 2006 from RMB80.4 million for the third quarter of 2006. We were able to achieve growth in online advertising in the fourth quarter compared to a seasonally strong third quarter. The increase was mainly attributable to increased in-game advertising revenues. The increase was partially offset by a decrease in advertising revenues from our web portal due to seasonal factors.

Cost of revenues. Cost of revenues increased by 12.0% to RMB233.7 million for the fourth quarter of 2006 from RMB208.6 million for the third quarter of 2006. The increase principally reflected increased telecommunications operators' revenue share, bandwidth and server custody fees, sharing and subscription costs and staff costs as usage of our services increased and as we continued to build our business. As a percentage of revenues, cost of revenues increased to 32.8% for the fourth quarter of 2006 from 28.3% for the third quarter of 2006, as our revenue decreased and as revenues from our mobile and telecommunication services that generally have lower gross profit margins constituted a higher portion of our revenues. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2006 and the third quarter of 2006:

	Three months ended 31 December 2006 Amount	% of segment revenues	30 September 2006 Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**116,531**	**26.7%**	109,168	22.3%
Mobile and telecommunications value-added services	**81,513**	**42.2%**	65,830	39.8%
Online advertising	**28,737**	**35.2%**	26,841	33.4%
Others	**6,916**	**329.6%**	6,798	549.6%
Total cost of revenues	**233,697**		208,637	

Cost of revenues for our Internet value-added services increased by 6.7% to RMB116.5 million for the fourth quarter of 2006 from RMB109.2 million for the third quarter of 2006. The increase reflected higher expenses associated with our bandwidth capacity and servers as usage increased and as we supported more bandwidth intensive services, such as Qzone. Sharing costs also increased as we paid greater amounts of licensing fees due to increased revenue from our licensed game R2Beat.

Cost of revenues for our mobile and telecommunications value-added services increased by 23.8% to RMB81.5 million for the fourth quarter of 2006 from RMB65.8 million for the third quarter of 2006. The increase reflected increased telecommunications operators' revenue share, mainly corresponding to the increased business volume of our mobile and telecommunications value-added services, and increased sharing and subscription costs relating to our content services.

Cost of revenues for our online advertising increased by 7.1% to RMB28.7 million for the fourth quarter of 2006 from RMB26.8 million for the third quarter of 2006. The increase mainly reflected higher expenses associated with our bandwidth capacity and servers as the scale of our advertising business grew, and, in particular, as we introduced new advertisements on our QQ Live platform during the quarter that resulted in greater broadband use.

Other gains, net. Other gains during the reported periods reflected primarily the interest income generated from bank deposits and other interest-earning financial assets and fair value gains on financial instruments. Financial subsidies received from the government, often at the end or start of the year, are also reflected in other gains. We recorded other gains of RMB18.4 million for the fourth quarter of 2006 compared to RMB21.9 million for the third quarter of 2006. The decrease mainly reflected a donation of RMB20.0 million to the Tencent Charity Fund. We formed the Tencent Charity Fund in the fourth quarter to support charitable initiatives in China. We believe that, as a good corporate citizen, we should contribute to the development of a better society in China. In addition, we want to encourage our employees to participate in charity and volunteer work and build a strong and constructive corporate culture. We are committed to supporting the Tencent Charity Fund through additional donations and by encouraging our employees to participate actively in the future. The decrease was mostly offset by increased interest income from our interest-earning financial assets and higher financial subsidies from the local government, mainly related to the promotion of high-tech research and new software products. In the fourth quarter of 2006, we received subsidies of RMB15.2 million, compared to no subsidy received in the third quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 12.6% to RMB73.4 million for the fourth quarter of 2006 from RMB65.2 million for the third quarter of 2006. The increase reflected our increased efforts to promote our mobile value-added services and products after China Mobile relaxed its policy of giving new subscribers free one-month trial periods for SMS services which had negatively impacted our mobile and telecommunications value-added services in the third quarter of 2006. In addition, we have been focused on improving our advertising sales capability by enhancing our training program and hiring high caliber professionals. We have also stepped up our selling efforts by developing advertising agency channels and increasing our promotions to new customers. Greater expenses incurred in connection with branding on our portal also contributed to the increase in selling and marketing expenses. As a percentage of revenues, selling and marketing expenses increased to 10.3% in the fourth quarter of 2006 from 8.9% in the third quarter of 2006.

General and administrative expenses. General and administrative expenses increased by 14.4% to RMB180.2 million for the fourth quarter of 2006 from RMB157.5 million for the third quarter of 2006. The increase was partly due to the continuing expansion of our strategic research and development staff as we focused on developing and enhancing our various products and services, including IM functionalities, online games and web portals. Expenses relating to our office lease also increased for our planned business expansion. In addition, the net value-added tax relating to the sale of software among group companies, which we paid in the fourth quarter but not in the third quarter, contributed to higher general and administrative expenses. As a percentage of revenues, general and administrative expenses increased to 25.3% in the fourth quarter of 2006 from 21.4% in the third quarter of 2006.

Finance costs, net. Finance costs represent foreign exchange loss and interest expenses arising from the discounting of "earn-out" consideration in connection with the acquisition of Joymax Development Ltd. and its subsidiaries (the "Joymax Group"), which we acquired in January 2006. We recorded finance costs of RMB14.2 million for the fourth quarter of 2006 compared to RMB15.7 million for the third quarter of 2006. The decrease in finance costs recorded was mainly due to the adjustments made with respect to the purchase price payable relating to the acquisition of the Joymax Group. Under the terms of the acquisition agreement, we undertook to pay a portion of the purchase price under an "earn-out" arrangement based on the Joymax Group's future profit for 2006 and 2007. As a result of reassessment of current and estimated future profits, the estimated purchase price was adjusted downwards and, therefore, a reversal of interest expense with respect to the discounting of estimated purchase price was recorded. A significant portion of our cash and investments, consisting primarily of the proceeds from our initial public offering in 2004, are subject to the risk of the appreciation of Renminbi. We recorded foreign exchange loss of RMB14.2 million in the fourth quarter of 2006 and RMB13.7 million in the third quarter of 2006.

Income tax benefit/(expenses). We recorded an income tax benefit of RMB33.6 million for the fourth quarter of 2006 compared to income tax expenses of RMB29.2 million for the third quarter of 2006. The net tax credit mainly related to the recognition of deferred tax assets of RMB53.6 million in the fourth quarter of 2006 relating to sales of self-developed software and technologies among our group companies.

Profit for the period. As a result of the factors discussed above, profit for the period decreased by 6.7% to RMB263.6 million for the fourth quarter of 2006 from RMB282.6 million for the third quarter of 2006. Net margin was 37.0% for the fourth quarter of 2006 compared to 38.3% for the third quarter of 2006.

Year Ended 31 December 2006

The following table sets forth the comparative figures for the year ended 31 December 2006 and the year ended 31 December 2005:

	Audited Year ended 31 December 2006	2005
	(RMB in thousands)	
Revenues	**2,800,441**	1,426,395
Cost of revenues	**(817,062)**	(469,869)
Gross profit	**1,983,379**	956,526
Other gains, net	**83,195**	73,145
Selling and marketing expenses	**(293,247)**	(197,627)
General and administrative expenses	**(610,022)**	(347,685)
Operating profit	**1,163,305**	484,359
Finance costs, net	**(46,534)**	(47,304)
Profit before income tax	**1,116,771**	437,055
Income tax (expenses)/benefit	**(52,971)**	48,307
Profit for the period	**1,063,800**	485,362

Revenues. Revenues increased by 96.3% to RMB2,800.4 million for the year ended 31 December 2006 from RMB1,426.4 million for the year ended 31 December 2005. The following table sets forth our revenues by line of business for the year ended 31 December 2006 and the year ended 31 December 2005:

	Year ended 31 December 2006 Amount	% of total revenues	2005 Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,825,343**	**65.2%**	786,680	55.1%
Mobile and telecommunications value-added services	**700,114**	**25.0%**	517,265	36.3%
Online advertising	**266,684**	**9.5%**	112,826	7.9%
Others	**8,300**	**0.3%**	9,624	0.7%
Total revenues	**2,800,441**	**100.0%**	1,426,395	100.0%

Revenues from our Internet value-added services increased by 132.0% to RMB1,825.3 million for the year ended 31 December 2006 from RMB786.7 million for the year ended 31 December 2005. Revenues from our various online games and our online identity and community services increased as we continued to enhance our existing services such as our QQ game portal and QQ Show and built on the success of relatively new products such as QQ Fantasy, QQ Pet and Qzone. Revenues from Premium QQ also grew as we bundled other value-added services, including QQ Magic, E-cards, self-defined personal icons and QQ Ring into its service package in the second quarter of 2006.

Revenues from our mobile and telecommunications value-added services increased by 35.3% to RMB700.1 million for the year ended 31 December 2006 from RMB517.3 million for the year ended 31 December 2005. This increase mainly reflected an increase in revenues from our content-based SMS provided by the Joymax Group, which we acquired in January 2006, and from our mobile voice value-added services and 2.5G services as we increased promotion for WAP and IVR. The increase was partially offset by the negative impact on revenues of the policy changes for wireless value-added services on China Mobile's Monternet platform, including giving new subscribers free one-month trial periods and reminding subscribers of fees and cancellation procedures.

Revenues from online advertising increased by 136.4% to RMB266.7 million for the year ended 31 December 2006 from RMB112.8 million for the year ended 31 December 2005. The increase reflected our growing customer base and the growth in reach of and traffic on our online advertising platforms. In addition, we have been focusing on improving our advertising sales capability by enhancing our training program and hiring high caliber professionals. We have also stepped up our selling efforts by developing advertising agency channels and increasing our promotions to new customers.

Cost of revenues. Cost of revenues increased by 73.9% to RMB817.1 million for the year ended 31 December 2006 from RMB469.9 million for the year ended 31 December 2005. The increase principally reflected higher amounts of telecommunications operators' revenue share, increased bandwidth and server custody fees as we supported more bandwidth intensive services, increased sharing costs due to increases in revenues and enrichment of content and increased staff costs as we increased the number of employees to support our various services and products. As a percentage of revenues, cost of revenues decreased to 29.2% for 2006 from 32.9% for 2005. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2006 and the year ended 31 December 2005:

	Year ended 31 December 2006 Amount	2006 % of segment revenues	2005 Amount	2005 % of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**426,191**	**23.3%**	231,480	29.4%
Mobile and telecommunications value-added services	**272,558**	**38.9%**	189,264	36.6%
Online advertising	**93,940**	**35.2%**	34,761	30.8%
Others	**24,373**	**293.7%**	14,364	149.3%
Total cost of revenues	**817,062**		469,869	

Cost of revenues for our Internet value-added services increased by 84.1% to RMB426.2 million for the year ended 31 December 2006 from RMB231.5 million for the year ended 31 December 2005. The increase mainly reflected higher expenses incurred to support more bandwidth intensive services, such as QQ Pet, Qzone and online games, increased telecommunications operators' revenue share, increased staff costs and increased hardware and equipment-related expenses to support our growing range of Internet value-added services. In addition, sharing and subscription costs associated with the offering of richer content services, such as our avatars, games and music, increased.

Cost of revenues for our mobile and telecommunications value-added services increased by 44.0% to RMB272.6 million for the year ended 31 December 2006 from RMB189.3 million for the year ended 31 December 2005. The increase was mainly due to increased telecommunications operators' revenue share, an increase in sharing and subscription costs as we enriched our content in an increasingly competitive market and an increase in staff costs as we increased the number of employees to support our various services and products and in anticipation of the introduction of 3G services in China. In addition, increased telecommunications operators' revenue share and other costs relating to the services of Joymax Group, which we acquired in late January 2006, contributed to the increase.

Cost of revenues for our online advertising increased by 170.2% to RMB93.9 million for the year ended 31 December 2006 from RMB34.8 million for the year ended 31 December 2005. The increase mainly reflected the higher amount of sales commissions paid to advertising agencies as the volume of our advertising contracts grew and as we increased our usage of advertising agencies to help develop business volume. In addition, we continued to incur increased bandwidth and server custody fees.

Other gains, net. We recorded other gains of RMB83.2 million for the year ended 31 December 2006 compared to RMB73.1 million for the year ended 31 December 2005. The increase mainly reflected additional interest income due to the increase in US dollar-denominated interest rates and higher financial subsidies from the local government, mainly related to the promotion of high-tech research and new software products. In the year ended 31 December 2006, we received subsidies of RMB15.2 million, compared to RMB9.8 million in the year ended 31 December 2005. The increase was partially offset by a donation of RMB20.0 million to the Tencent Charity Fund. We formed the Tencent Charity Fund in the fourth quarter of 2006 to support charitable initiatives in China. We believe that, as a good corporate citizen, we should contribute to the development of a better society in China. In addition, we want to encourage our employees to participate in charity and volunteer work and build a strong and constructive corporate culture. We are committed to supporting the Tencent Charity Fund through additional donations and by encouraging our employees to participate actively in the future.

Selling and marketing expenses. Selling and marketing expenses increased by 48.4% to RMB293.2 million for the year ended 31 December 2006 from RMB197.6 million for the year ended 31 December 2005. The increase principally reflected increased promotional and advertising activities, mainly in connection with Joymax Group products. In addition, increased outsourcing expenses as we expanded our customer support activities and greater travel and entertainment costs as we continued marketing products and established new distribution channels contributed to the increase. As a percentage of revenues, selling and marketing expenses decreased to 10.5% in the year ended 31 December 2006 from 13.9% in the year ended 31 December 2005.

General and administrative expenses. General and administrative expenses increased by 75.5% to RMB610.0 million for the year ended 31 December 2006 from RMB347.7 million for the year ended 31 December 2005. The increase primarily reflected the increase in research and development costs as a result of an increase in the number of research and development staff and technical personnel developing new products and services to drive our future growth, including online games, IM functionalities and web portals. Staff costs also increased as a result of a higher number of staff employed to support our business expansion, together with the increase in office expenses and office rental. In addition, amortization cost attributable to intangible assets acquired in the acquisition of the Joymax Group contributed to the increase. As a percentage of revenues, general and administrative expenses decreased to 21.8% in the year ended 31 December 2006 from 24.4% in the year ended 31 December 2005.

Finance costs, net. Finance costs represent foreign exchange loss and interest expenses arising from the discounting of "earn-out" consideration in connection with the acquisition of the Joymax Group. We recorded finance costs of RMB46.5 million for the year ended 31 December 2006 compared to RMB47.3 million for the year ended 31 December 2005. The decrease in finance costs recorded was mainly due to the lower amount of foreign exchange losses relating to our U.S.-denominated cash and investments in connection with the appreciation of Renminbi, and was offset for the most part by interest expense arising from the discounting of purchase price payable relating to the acquisition of the Joymax Group in January 2006. A significant portion of our cash and investments, consisting primarily of the proceeds from our initial public offering in 2004, are subject to the risk of the appreciation of Renminbi. We recorded foreign exchange loss of RMB41.1 million in the year ended 31 December 2006 and RMB47.3 million in the year ended 31 December 2005.

Income tax benefit/(expenses). We recorded income tax expenses of RMB53.0 million for the year ended 31 December 2006 compared to an income tax benefit of RMB48.3 million for the year ended 31 December 2005. We had recognized deferred tax assets of RMB110.0 million in the year ended 31 December 2005, RMB88.6 million of which related to previously unrecognized deferred tax assets before 2005. We recognized deferred tax assets of RMB62.4 million in the year ended 31 December 2006.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 119.2% to RMB1,063.8 million for the year ended 31 December 2006 from RMB485.4 million for the year ended 31 December 2005. Net margin was 38.0% for the year ended 31 December 2006 compared to 34.0% for the year ended 31 December 2005.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006 and 30 September 2006, we had the following major financial resources in the form of cash and investments:

	Audited 31 December 2006	Unaudited 30 September 2006
	(RMB in thousands)	
Cash and cash equivalents	**1,844,320**	1,640,880
Term deposits with initial term of over three months	**944,375**	897,963
Financial assets held for trading	**195,907**	215,857
Held-to-maturity investments	**234,261**	237,261
Total	**3,218,863**	2,991,961

A large portion of our financial resources represents non-Renminbi denominated proceeds raised from our initial public offering in 2004, and is held in deposits and investments denominated in US dollars. As there are no cost-effective hedges against the appreciation of Renminbi, we have not used any means to hedge our exposure to foreign exchange risk. In addition, generally there is no effective manner to convert a significant amount of US dollars into Renminbi, which is not a freely exchangeable currency. Therefore, we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no interest-bearing borrowings as at 31 December 2006.

CAPITAL EXPENDITURES

In the year ended 31 December 2006, our capital expenditures consisted of additions to fixed assets, construction in progress, leasehold land and land use rights and intangible assets totalling RMB478.1 million. In the year ended 31 December 2005, our capital expenditures consisted of similar items totalling RMB302.0 million.

BUSINESS OUTLOOK

During 2006, the China Internet market continued to grow at a rapid pace. According to China Internet Network Information Center ("CNNIC"), China's Internet population grew by 23.4% in 2006 to reach 137 million. This growth rate was higher than the 18.1% registered in 2005. In particular, the number of broadband Internet users increased at a higher rate of 41.1% to reach 91 million, representing a broadband penetration of 66%. Broadband penetration is important as it allows the users to enjoy richer Internet services such as online games, video and other multimedia applications. Despite the strong growth, Internet penetration in China was only at 10.5%, a rate that is much lower than many other countries and that represents strong potential for future growth. We see both opportunities and challenges in this dynamic market. In 2006, we experienced a strong year of growth in our businesses, reaping the fruits of our investments in research and development as well as new products in 2005. On the other hand, we also faced intensifying competition as well as increase in "spam" messages and user account thefts in our IM service. In order to manage these challenges and to stay ahead in this market, we are committed to continue investing in research and development to enhance our existing products and launch new products. We are also determined to use every means to fight against spamming and user account theft. We believe our strategy of focusing on our users' experience and building sustainable franchises will pay off for us over the long run.

The fourth quarter of the year was a challenging quarter for us as we came off the strong summer holidays season in the third quarter, and as measures to enhance user account security negatively impacted our Internet value-added services. The first quarter of 2007 would present better seasonality for our Internet value-added services as a result of the Chinese New Year holidays and winter holidays for students. On the other hand, we expect our account security measures will continue in the foreseeable future.

In our core IM platform, enhancing user security remained our number one priority. During the quarter, we strengthened our dedicated team of account security staff who have been designing various mechanisms to detect and prevent account thefts. We had launched our QQ Security Doctor to allow our users to more easily detect and eliminate Trojan horses and viruses on their computers aimed to steal user account passwords. We have also put in various restrictions on transfer of virtual items such that virtual items in stolen accounts would not be easily transferred. Although some of the measures we took had negative impact on our revenues, particularly on item-based revenues, we are committed to continuing these measures to foster a safer environment for our users.

In our Internet value-added services, our online identities businesses, Qzone and QQ Pet were relatively flat as organic growth in the businesses evened out weak seasonality and account security measures. On the other hand, QQ show declined as it was partially hard-hit by weak seasonality and account security measures and as the product became mature. For 2007, we will continue to improve the speed and stability of Qzone, and develop more significant new features for QQ Pet and QQ Show.

With respect to online games, weak seasonality affected our revenues across the board. In addition, our mini casual game was negatively impacted by account security measures as certain restrictions were placed on the purchase and consumption of virtual items. We had also commissioned a system upgrade to our QQ Game which caused certain disruption to the monetization of the service. We expect such impacts would be somewhat alleviated in the future as the system upgrade progressed smoothly. Having said that, we will continue to maintain a relatively modest level of monetization in our mini casual game to provide a balanced environment for its large user base which we believe is an important franchise for our entire online game business. In MMOG, QQ Fantasy continued to face intense competition from increasing number of free-to-play games. To counter such pressure, we had been introducing more in-game activities and developing expansion packs. In addition, we are preparing for the launch of our light MMOG, QQ SanGuo, toward the summer season. Apart from QQ SanGuo, we currently have one internally developed and one licensed 3D MMOG scheduled for launch in 2008. In advanced casual game, R2Beat started to contribute more revenue as we increased the number of items for sale while QQ Tang declined as a result of weak seasonality. In the course of 2007, we will continue to roll out expansion packs for both R2Beat and QQ Tang. In addition, we are looking to launch one or more new games toward the second half of this year.

In our wireless business, our revenues benefited from the relaxation of the one-month free trial policy by China Mobile and achieved growth despite continued industry volatility. During the quarter, we entered into a cooperation memorandum with China Mobile to jointly develop a technical platform to implement interoperation between China Mobile's Fetion (mobile chat) handset users and our QQ users through the offering of "Fetion QQ". Our current service contracts on mobile chat services with China Mobile were also extended for another six months at which time Fetion QQ is expected to be launched. As we look forward, we expect the wireless industry to remain volatile and uncertain in the foreseeable future as regulatory scrutiny keeps increasing in response to consumer complaints. We are committed to strengthening our cooperation with operators and regulators, and continuing to improve the user experience for our services. In addition, we believe wireless Internet presents significant opportunity over the long run as more and more users access the Internet via their handsets. According to CNNIC, the number of users who access the Internet via handsets has reached 17 million by the end of 2006. We will focus on investing in wireless Internet technology and our wireless portal to position ourselves for such growth.

Our advertising business was relatively flat compared to a seasonally strong third quarter. We have continued to sign up new advertisers as traffic in our IM and portal platforms grew. In addition, we have placed a lot of emphasis on improving the foundation of our advertising business by professionalizing our advertising sales team and improving our advertising delivery technology. In 2007, we will focus on increasing the monetization of our QQ.com portal given it has already become the number one portal in China in terms of traffic since June 2006, according to Alexa.com. We will invest in branding campaigns for QQ.com to raise its profile and increase our purchase of strategic content to further improve its appeal for users. Although the first quarter of 2007 will be a weak season, we strive to grow our advertising business at a rate above industry average in the entire year of 2007.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2006, the Group had 3,017 employees (2005: 2,274), most of whom are based in the Company's head office in Shenzhen, the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the year ended 31 December 2006 was RMB 585.6 million (2005: RMB344.5 million).

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

During the year, the Company repurchased 18,357,000 shares on the Stock Exchange for an aggregate consideration of HKD232,141,000 before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

		Purchase consideration per share		
Month of purchase in 2006	**No. of shares purchased**	**Highest price paid HKD**	**Lowest price paid HKD**	**Aggregate consideration paid HKD**
January	4,584,000	9.75	9.5	44,227,000
February	3,471,000	9.95	9.8	34,242,000
April	10,302,000	15.1	14.05	153,672,000
Total	18,357,000			232,141,000

From the time of our initial public offering through 31 December 2006, we had repurchased 32,623,000 of our ordinary shares for an aggregate amount of approximately HKD350,121,000 before expenses. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Closure of Register of Members

The register of members will be closed from Friday, 11 May 2007 to Wednesday, 16 May 2007 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30p.m. on Thursday, 10 May 2007.

AUDIT COMMITTEE

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the 2005 annual report of the Company which was the position as at 31 December 2005, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2006, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As to the deviation from code provision A.2.1 of Appendix 14 to the Listing Rules, the Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

PUBLICATION OF THE ANNUAL RESULTS, ANNUAL REPORT AND CORPORATE GOVERNANCE REPORT

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange and the Company (www.tencent.com) in due course.

APPRECIATION

The dedication of the staff of the Group is the most important ingredient of our success and its continuation is critical for the Group to meet the challenges and opportunities ahead. We would like to take this opportunity to record our most cordial thanks to them all.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 21 March 2007

As at the date of this announcement, the directors of the Company are:

Executive Directors:
Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:
Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. The forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements are a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents.