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 2005

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 2005. 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 2005 was RMB485.4 million, an increase of 10.0% compared with the results for the year ended 31 December 2004. Basic and diluted earnings per share for the year ended 31 December 2005 were RMB0.274 and RMB0.267 respectively.

Dividend

The Board has recommended the payment of a final dividend of HKD0.08 per share (2004: HKD0.07) for the year ended 31 December 2005, subject to the approval of the shareholders at the Annual General Meeting to be held on 24 May 2006. Such proposed dividend will be payable on 7 June 2006 to shareholders whose names appear on the register of members of the Company on 24 May 2006.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
ASSETS			
Non-current assets			
Fixed assets		**365,047**	142,080
Intangible assets		**21,432**	–
Held-to-maturity investments		**244,581**	167,374
Deferred income tax assets		**96,362**	–
Available-for-sale investments		**36,073**	–
		763,495	309,454
Current assets			
Inventories		**2,647**	–
Accounts receivable		**222,754**	192,725
Prepayments, deposits and other receivables		**32,570**	50,347
Financial assets held for trading		**383,887**	666,900
Term deposits with original maturities of over three months		**445,725**	784,054
Cash and cash equivalents		**1,576,044**	859,841
		2,663,627	2,553,867
Total assets		**3,427,122**	2,863,321
EQUITY			
Shareholders' equity			
Share capital		**192**	192
Share premium		**1,666,044**	1,777,721
Share-based compensation reserve	1	**40,109**	5,583
Other reserves		**66,609**	52,442
Retained earnings		**1,155,459**	816,300
		2,928,413	2,652,238
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**810**	–
Current liabilities			
Accounts payable		**25,555**	2,506
Other payables and accruals		**196,187**	79,912
Dividends payable		**–**	145
Current income tax liabilities		**28,766**	5,648
Other tax liabilities		**13,256**	59,650
Deferred revenue		**234,135**	63,222
		497,899	211,083
Total liabilities		**498,709**	211,083
Total equity and liabilities		**3,427,122**	2,863,321

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	For the year ended 31 December 2005	2004 (Restated)
		(All amounts in RMB'000 unless otherwise stated)	
Revenues			
Internet value-added services		**786,680**	439,041
Mobile and telecommunications value-added services		**517,265**	641,190
Online advertising		**112,826**	54,801
Others		**9,624**	8,501
	2	**1,426,395**	1,143,533
Cost of revenues	5	**(469,869)**	(418,125)
Gross profit		**956,526**	725,408
Other gains, net	4	**73,145**	25,915
Selling and marketing expenses	5	**(197,627)**	(109,517)
General and administrative expenses	5	**(347,685)**	(173,110)
Operating profit		**484,359**	468,696
Finance costs		**(47,304)**	(5,043)
Profit before income tax		**437,055**	463,653
Income tax benefit/(expenses)	6	**48,307**	(22,534)
Profit for the year		**485,362**	441,119
Earnings per share for profit attributable to the equity holders of the Company during the year (RMB)			
- basic	7	**0.274**	0.290
- diluted	7	**0.267**	0.284

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Issued share capital	Share premium	Share-based compensation reserve	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004	138	15,261	–	23,653	432,905	471,957
Profit for the year, as restated	–	–	–	–	441,119	441,119
Issue of shares in an initial public offering ("IPO")	52	1,905,195	–	–	–	1,905,247
Shares issuance expenses	–	(151,506)	–	–	–	(151,506)
Employees share option scheme:						
- value of employee services (Note 1)	–	–	5,583	–	–	5,583
- proceeds from shares issued	2	8,771	–	–	–	8,773
Profit appropriations to statutory reserves	–	–	–	28,789	(28,789)	–
Dividend relating to 2003	–	–	–	–	(28,935)	(28,935)
Balance at 31 December 2004	192	1,777,721	5,583	52,442	816,300	2,652,238
Balance at 1 January 2005	**192**	**1,777,721**	**5,583**	**52,442**	**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**	**66,609**	**1,155,459**	**2,928,413**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	For the year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Cash flows from operating activities	**993,506**	(207,576)
Cash flows from investing activities	**(10,551)**	(995,156)
Cash flows from financing activities	**(247,039)**	1,736,987
Net increase in cash and cash equivalents	**735,916**	534,255
Cash and cash equivalents at beginning of year	**859,841**	325,586
Exchange losses on cash and cash equivalents	**(19,713)**	–
Cash and cash equivalents at end of year	**1,576,044**	859,841

NOTES

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 ("SEHK") since 16 June 2004.

The Company is an investment holding company. The Group is 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 balance sheet of the Group as at 31 December 2005 and the related consolidated statements of income, and changes in shareholders' equity and condensed consolidated statement of cash flows for the year then ended (collectively defined as the "Financial Statements") have been approved for issue by the Board of the Company on 22 March 2006.

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

The preparation of the Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Adoption of revised/new IFRS, interpretation and amendments

In 2005, the Group adopted the following revised/newly released IFRS, interpretation and amendments to public standard which should be applied for periods beginning on or after 1 January 2005 and are relevant to its operations. The audited consolidated financial statements for the year ended 31 December 2004 have been restated as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment

IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004)	Share-based Payment
IFRS 3 (revised 2004)	Business Combinations
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
SIC 12 (Amendment)	Consolidation - Special Purpose Entities
IAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 32, 33 and 39 (all revised in 2003), IFRIC 2, SIC 12 (Amendment) and IAS 39 (Amendment) did not result in substantial changes to the Group's accounting policies.

The adoption of IFRS 3 (revised 2004) requires simultaneous adoption with IAS 36 "Impairment of Assets" (revised 2004) and IAS 38 "Intangible Assets" (revised 2004), which are effective on or after 31 March 2004. The adoption of IFRS 3 (revised 2004), IAS 36 (revised 2004) and IAS 38 (revised 2004) form the accounting policies for goodwill arising from business combination and other intangible assets recognised by the Group during the year.

The adoption of IFRS 2 (issued 2004) has resulted in a change in the accounting policy for share-based payments. Prior to this, the provision of share options to employees did not result in a charge in the income statement. Subsequent to the adoption of IFRS 2 (issued 2004), the Group charges the cost of share options to the income statement.

The adoption of IFRS 2 (issued 2004) requires retrospective application to all the share options granted to employees after 7 November 2002 which remained unvested as at 1 January 2005; the resulting accounting impact is as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	(All amounts in RMB'000 unless otherwise stated)			
Increase in share-based compensation reserve	**40,109**	5,583	**40,109**	5,583
Increase in investments in subsidiaries	**–**	–	**40,109**	5,583
Decrease in retained earnings brought forward as previously reported	**5,583**	–	**–**	–
Increase in cost of revenues	**7,785**	1,909	**–**	–
Increase in selling and marketing expenses	**5,720**	1,035	**–**	–
Increase in general and administrative expenses	**21,021**	2,639	**–**	–
Decrease in basic earnings per share (RMB)	**0.0195**	0.0037	**–**	–
Decrease in diluted earnings per share (RMB)	**0.0190**	0.0036	**–**	–

2 **Segment information**

Primary reporting format — business segments

The segment results and other segment items of the Group for the years ended 31 December 2005 and 2004 are presented as follows:

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)**
Operating profit					**484,359**
Finance costs					**(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 amortization					2,343

Year ended 31 December 2004	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	439,041	641,190	54,801	8,501	1,143,533
Gross profit/(loss)	295,616	396,260	37,188	(3,656)	725,408
Other gains, net					25,915
Selling and marketing expenses					(109,517)
General and administrative expenses					(173,110)
Profit from operations					468,696
Finance costs					(5,043)
Profit before income tax					463,653
Income tax expenses					(22,534)
Profit for the year					441,119
Segment assets	151,084	132,213	9,617	5,965	298,879
Unallocated assets					2,564,442
Total assets					2,863,321
Segment liabilities	76,666	9,614	982	3,078	90,340
Unallocated liabilities					120,743
Total liabilities					211,083
Other segment items					
Capital expenditure	43,968	13,510	1,799	2,914	62,191
Unallocated capital expenditure					28,345
Total capital expenditure					90,536
Depreciation	14,520	4,540	605	987	20,652
Unallocated depreciation					7,157
Total depreciation					27,809

3 **Share option**

(a) *Share option schemes*

The Company adopted two share option schemes for the purpose of providing incentives to its directors, eligible employees and consultants:

(i) Pre-IPO Share Option Scheme (the "Pre-IPO Option Scheme")

Under the Pre-IPO Option Scheme, the Board of the Company granted options to eligible employees of the Group, including executive directors of the Company, to subscribe for shares in the Company. The Pre-IPO Option Scheme will expire on 31 December 2011.

The options vest in four equal tranches either after the expiration of a 12-month, 24-month, 36-month and 48-month period beginning on the date of the grant, respectively, or after the expiration of a 24-month, 36-month, 48-month and 60-month period beginning from the commencement date of employment, respectively. All the options are exercisable by installments from the commencement of the relevant vesting period until 31 December 2011.

(ii) Post-IPO Share Option Scheme (the "Post-IPO Option Scheme")

The Post-IPO Option Scheme was adopted by the Company on 24 March 2004. The Board may, at its discretion, invite any employee, consultant or director of any company in the Group to take up options to subscribe for shares at a price determined by it pursuant to the terms of the Post-IPO Option Scheme.

The options vest in four equal tranches either after the expiration of a 12-month, 24-month, 36-month and 48-month period beginning on the date of the grant, respectively, or after the expiration of a 24-month, 36-month, 48-month and 60-month period beginning from the commencement date of employment or the date of grant, respectively. The Post-IPO Option Scheme will remain in force for a period of ten years, commencing on the adoption date.

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

(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**		
	Average exercise price	**No. of options**	**Average exercise price**	**No. of options**	**Total no. of options**
At 1 January 2004	USD0.0497	62,088,600	–	–	62,088,600
Granted	USD0.2253	10,464,230	HKD3.665	6,311,520	16,775,750
Exercised	USD0.0497	(21,239,150)	–	–	(21,239,150)
Lapsed	USD0.1192	(906,763)	HKD3.665	(10,559)	(917,322)
At 31 December 2004	USD0.0849	50,406,917	HKD3.665	6,300,961	56,707,878
At 1 January 2005	**USD0.0849**	**50,406,917**	**HKD3.665**	**6,300,961**	**56,707,878**
Granted	**–**	**–**	**HKD6.3772**	**48,209,268**	**48,209,268**
Exercised	**USD0.0661**	**(18,189,710)**	**HKD3.665**	**(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**

During the year ended 31 December 2005, no share options were granted to the directors of the Company or any consultants (2004: Nil).

4 Other gains, net

	2005	2004
	RMB'000	*RMB'000*
Interest income	**45,355**	14,876
Fair value gains on financial assets held for trading	**17,308**	3,788
Government subsidy	**9,750**	7,233
Others	**732**	18
	73,145	25,915

5 **Expenses by nature**

	2005	2004
	RMB'000	*RMB'000*
Employee benefits expenses *(Note)*	**344,460**	156,707
Mobile and telecom charges and bandwidth and server custody fees	**279,699**	316,409
Promotion and advertising expenses	**91,066**	55,403
Travelling and entertainment expenses	**51,884**	30,887
Depreciation of fixed assets *(Note)*	**54,977**	27,809
Amortisation of intangible assets	**2,343**	–
Operating lease rentals in respect of office buildings	**23,143**	15,597
Value-added tax paid upon transfer of software within the Group	**1,500**	12,243
Loss/(gain) on disposal of fixed assets	**108**	(2)
Other expenses	**166,001**	85,699
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**1,015,181**	700,752
Average number of full time employees during the year	**1,752**	883

Note: Research and development expenses were RMB162,544,000 (2004: RMB56,410,000) for the year ended 31 December 2005. These expenses included employee benefit expenses and depreciation totalling RMB156,997,000 (2004: RMB44,611,000) for the year ended 31 December 2005.

The Group did not capitalise any research and development expenses for the year ended 31 December 2005 (2004: Nil).

6 **Income tax benefit/(expenses)**

(i) *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 2005 (2004: Nil).

(ii) *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 2005 (2004: Nil).

(iii) *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.

There are five subsidiaries of the Company in the PRC, namely, Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan"), Shidai Zhaoyang Technology (Shenzhen) Company Limited ("Shidai Zhaoyang") and Tencent Technology (Beijing) Company Limited ("Tencent Beijing"). The EIT rates applicable to these five companies for the year ended 31 December 2005 range from 0% to 15%.

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

	2005	2004
	RMB'000	*RMB'000*
PRC current tax	**47,245**	23,522
Deferred income taxes	**(95,552)**	(988)
	(48,307)	22,534

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, the PRC, where the principal activities of the Group are conducted, as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**437,055**	463,653
Tax calculated at a tax rate of 15% (2004: 15%)	**65,558**	69,548
Effect of different tax rates available to different companies of the Group	**7,363**	(1,799)
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	**(38,021)**	(111,556)
Expenses not deductible for tax purposes	**9,463**	2,411
Utilisation of previously unrecognised tax assets/ deferred tax assets not recognised	**(6,760)**	61,596
Recognition of previously unrecognised deferred tax assets	**(88,638)**	–
Unrecognised tax losses	**2,728**	2,334
Income tax (benefit)/expenses	**(48,307)**	22,534

7 **Earnings per share ("EPS")**

Basic

Basic EPS 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.

	2005	2004
Profit attributable to the equity holders of the Company for the year (RMB'000) *(Note a)*	**485,362**	441,119
Weighted average number of ordinary shares in issue (thousands) *(Note b)*	**1,772,495**	1,523,376
Basic EPS (RMB)	**0.274**	0.290

Diluted

Diluted EPS 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 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 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).

	2005	2004
Profit attributable to the equity holders of the Company for the year (RMB'000) *(Note a)*	**485,362**	441,119
Weighted average number of ordinary shares in issue (thousands) *(Note b)*	**1,772,495**	1,523,376
Adjustments for share options (thousands) *(Note b)*	**46,482**	30,652
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands)	**1,818,977**	1,554,028
Diluted EPS (RMB)	**0.267**	0.284

Note a: Profit attributable to the equity holders of the Company for the year ended 31 December 2004 has been restated to reflect the retrospective adjustments on the effects of share-based payment by the adoption of IFRS2 (issued 2004).

Note b: All per share information has been adjusted retrospectively as if the effect of a split of the Company's shares had taken place on 1 January 2004.

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 2005	**For the 15-day period ended 30 September 2005**	**Percentage change**
	(in millions)		
Registered IM user accounts (at end of period)	**492.6**	474.1	3.9%
Active user accounts (at end of period)	**201.9**	184.8	9.3%
Peak simultaneous online user accounts (for the quarter)	**18.4**	19.5	(5.6)%
Average daily user hours	**231.4**	291.8	(20.7)%
Average daily messages(1)	**2,502.4**	2,595.5	(3.6)%
Fee-based Internet value-added services registered subscriptions (at end of period)	**10.6**	10.1	5.0%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)(2)	**8.1**	8.4	(3.6)%

(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 2005. With a view to facilitating healthy future growth of our IM platform, we implemented certain measures in the fourth quarter to reduce idle logins by users and to limit the usage of our platforms for "spam" message distribution by certain users. Our promotional ranking system, which encourages users to increase their usage of our services, had resulted in idle logins by some users for the sole purpose of increasing their ranking. Our efforts to eliminate these idle logins resulted in a decrease in the fourth quarter of 2005 in peak simultaneous online user accounts and average daily user hours. Our efforts to eliminate usage of our platforms to distribute "spam" messages caused a decrease in average daily messages. The "cleaning up" of inactive user accounts by mobile operators and ourselves resulted in a decrease in our fee-based mobile and telecommunications value-added services registered subscriptions.

FINANCIAL PERFORMANCE HIGHLIGHTS

Fourth Quarter of 2005

Our unaudited consolidated revenues for the fourth quarter of 2005 were RMB429.4 million, an increase of 36.6% over the same period in 2004 and an increase of 18.4% from the third quarter of 2005.

Revenues from our Internet value-added services for the fourth quarter of 2005 were RMB263.1 million, an increase of 110.2% over the same period in 2004 and an increase of 28.5% from the third quarter of 2005.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2005 were RMB125.3 million, a decrease of 25.7% over the same period in 2004 and an increase of 3.5% from the third quarter of 2005.

Revenues from online advertising for the fourth quarter of 2005 were RMB37.7 million, an increase of 112.4% over the same period in 2004 and an increase of 8.6% from the third quarter of 2005.

Cost of revenues were RMB140.2 million, an increase of 22.3% over the same period in 2004 and an increase of 18.0% from the third quarter of 2005.

Selling and marketing expenses for the fourth quarter of 2005 were RMB62.0 million, an increase of 95.0% over the same period in 2004 and an increase of 20.2% from the third quarter of 2005.

General and administrative expenses for the fourth quarter of 2005 were RMB112.4 million, an increase of 89.7% over the same period in 2004 and an increase of 23.2% from the third quarter of 2005.

Operating profit for the fourth quarter of 2005 was RMB145.0 million, representing an increase of 14.0% over the same period in 2004 and an increase of 23.6% quarter on quarter. As a percentage of revenues, operating profit accounted for 33.8% for the fourth quarter of 2005, compared to 40.4% for the same period of 2004 and 32.3% for the third quarter of 2005.

Profit for the fourth quarter of 2005 was RMB123.7 million, representing an increase of 6.3% from the same period in 2004 and an increase of 59.1% from the third quarter of 2005. As a percentage of revenues, profit for the period accounted for 28.8% for the fourth quarter of 2005, compared to 37.0% for the same period of 2004 and 21.4% for the third quarter of 2005.

Year Ended 31 December 2005

Our consolidated revenues for the year ended 31 December 2005 were RMB1,426.4 million, an increase of 24.7% over the year ended 31 December 2004.

Revenues from our Internet value-added services for the year ended 31 December 2005 were RMB786.7 million, an increase of 79.2% from the year ended 31 December 2004.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2005 were RMB517.3 million, a decrease of 19.3% from the year ended 31 December 2004.

Revenues from online advertising for the year ended 31 December 2005 were RMB112.8 million, an increase of 105.9% from the year ended 31 December 2004.

Cost of revenues were RMB469.9 million, an increase of 12.4% from the year ended 31 December 2004.

Selling and marketing expenses for the year ended 31 December 2005 were RMB197.6 million, an increase of 80.5% from the year ended 31 December 2004.

General and administrative expenses for the year ended 31 December 2005 were RMB347.7 million, an increase of 100.8% from the year ended 31 December 2004.

Operating profit for the year ended 31 December 2005 was RMB484.4 million, representing an increase of 3.3% over the year ended 31 December 2004. As a percentage of revenues, operating profit accounted for 34.0% for the year ended 31 December 2005, compared to 41.0% for the year ended 31 December 2004.

Profit for the year ended 31 December 2005 was RMB485.4 million, representing an increase of 10.0% from the year ended 31 December 2004. As a percentage of revenues, profit for the period accounted for 34.0% for the year ended 31 December 2005, compared to 38.6% for the year ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Effective from 1 January 2005, we have adopted International Financial Reporting Standard (IFRS) 2 "Share-based Payment" which resulted in a change in our accounting policy with respect to share option grants made to employees. The adoption of IFRS 2 requires a retrospective adjustment to the financial information for 2004. Accordingly, our financial information for 2004 sets forth below has been restated.

Fourth Quarter of 2005 Compared to Third Quarter of 2005

The following table sets forth the comparative figures for the fourth quarter of 2005 and the third quarter of 2005:

	Unaudited Three months ended	
	31 December 2005	**30 September 2005**
	(RMB in thousands)	
Revenues	**429,430**	362,829
Cost of revenues	**(140,174)**	(118,804)
Gross profit	**289,256**	244,025
Other gains, net	**30,095**	15,997
Selling and marketing expenses	**(62,010)**	(51,603)
General and administrative expenses	**(112,381)**	(91,182)
Operating profit	**144,960**	117,237
Finance costs	**(4,787)**	(42,351)
Profit before income tax	**140,173**	74,886
Income tax (expenses) / benefit	**(16,493)**	2,869
Profit for the period	**123,680**	77,755

Revenues. Revenues increased by 18.4% to RMB429.4 million for the fourth quarter of 2005 from RMB362.8 million for the third quarter of 2005. The following table sets forth our revenues by line of business for the fourth quarter of 2005 and the third quarter of 2005:

	Three months ended			
	31 December 2005		**30 September 2005**	
	Amount	*% of total revenues*	*Amount*	*% of total revenues*
	(RMB in thousands, except percentages)			
Internet value-added services	**263,075**	**61.2%**	204,658	56.4%
Mobile and telecommunications value-added services	**125,342**	**29.2%**	121,154	33.4%
Online advertising	**37,680**	**8.8%**	34,683	9.6%
Others	**3,333**	**0.8%**	2,334	0.6%
Total revenues	**429,430**	**100.0**	362,829	100.0%

Revenues from our Internet value-added services increased by 28.5% to RMB263.1 million for the fourth quarter of 2005 from RMB204.7 million for the third quarter of 2005. The increase reflected the significant growth in revenues from our online games by 94.7% to RMB65.5 million for the fourth quarter of 2005 from RMB33.7 million for the third quarter of 2005, driven by growth in QQ game portal, the commercialization of QQ Fantasy in December 2005 and growth in QQ Tang. The increase also reflected the continuing success of our online identity and community business. Several relatively new online identity and community products registered promising growth. Among these were QQ Pet, a PC-based electronic pet, and Qzone, a personal homepage that is bundled with avatars, web blog, photo album and online music.

Revenues from our mobile and telecommunications value-added services increased by 3.5% to RMB125.3 million for the fourth quarter of 2005 from RMB121.2 million for the third quarter of 2005. This increase reflected the recovery of our mobile IVR services after we temporarily suspended some IVR services to enhance the functionality of our platforms during the third quarter. The increase was partially offset by a slight decrease in revenues from our content-based SMS services and MMS services.

Revenues from online advertising increased by 8.6% to RMB37.7 million for the fourth quarter of 2005 from RMB34.7 million for the third quarter of 2005. The increase was mainly attributable to seasonal increases in revenues and increased marketing of our advertising services. New advertising revenues relating to the Internet searching functions that we initiated in early 2005 continued to grow at a healthy pace.

Cost of revenues. Cost of revenues increased by 18.0% to RMB140.2 million for the fourth quarter of 2005 from RMB118.8 million for the third quarter of 2005. The increase principally reflected the increase in staff costs directly attributable to the provision of our services as we offered a broader range of products and services. Telecommunications operators' revenue share and imbalance fees and bandwidth and server custody fees also increased as our business volume increased, and sharing costs increased due to increases in revenues and enrichment of content. As a percentage of revenues, cost of revenues remained stable at 32.6% for the fourth quarter of 2005 in comparison to 32.7% for the third quarter of 2005. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2005 and the third quarter of 2005:

	Three months ended			
	31 December 2005		**30 September 2005**	
	Amount	**% of segment revenues**	**Amount**	**% of segment revenues**
	(RMB in thousands, except percentages)			
Internet value-added services	**74,219**	**28.2%**	61,909	30.2%
Mobile and telecommunications value-added services	**48,389**	**38.6%**	44,274	36.5%
Online advertising	**12,430**	**33.0%**	9,533	27.5%
Others	**5,136**	**154.1%**	3,088	132.3%
Total cost of revenues	**140,174**		118,804	

Cost of revenues for our Internet value-added services increased by 19.9% to RMB74.2 million for the fourth quarter of 2005 from RMB61.9 million for the third quarter of 2005. The increase reflected the higher expenses associated with our bandwidth capacity and servers as we supported more bandwidth intensive services, such as Qzone and online games, and the higher amounts of telecommunications operators' revenue share as the volume of our Internet value-added services increased. We also recognized higher revenue sharing costs and content subscription costs for various content that we offered. In addition, staff costs increased as we continued to recruit additional staff to develop and support new products and services.

Cost of revenues for our mobile and telecommunications value-added services increased by 9.3% to RMB48.4 million for the fourth quarter of 2005 from RMB44.3 million for the third quarter of 2005. The increase mainly reflected the higher expenses associated with the content that we offered and increased staff costs.

Cost of revenues for our online advertising increased by 30.4% to RMB12.4 million for the fourth quarter of 2005 from RMB9.5 million for the third quarter of 2005. The increase mainly reflects increased staff costs as we continue to build our online advertising sales team as well as the increased amount of sales commission paid to advertising agencies corresponding to the increased volume of online advertising business. In addition, we began to utlize advertising agencies more in our selling process as the scale of our advertising business grew.

Other gains, net. Other gains reflects primarily the interest income generated from bank deposits and other interest-earning financial assets, fair value gains on financial instruments and financial subsidies that the local government granted to us as part of the government's efforts to promote development of the high-tech software business and new products. Other gains increased by 88.1% to RMB30.1 million for the fourth quarter of 2005 from RMB16.0 million for the third quarter of 2005. The increase was due to the increase in interest rates, particularly for US dollar-denominated cash and investments, and financial subsidies from the government in the amount of RMB9.75 million.

Selling and marketing expenses. Selling and marketing expenses increased by 20.2% to RMB62.0 million for the fourth quarter of 2005 from RMB51.6 million for the third quarter of 2005. The increase principally reflected higher promotional and advertising expenses and staff costs and related travel and entertainment costs. These expenses were incurred in order to launch new Internet value-added services and products, to diversify and explore new collection channels and to further enhance our strong brand recognition. We also incurred higher expenses to improve our customer care services. As a percentage of revenues, selling and marketing expenses increased to 14.4% in the fourth quarter of 2005 from 14.2% in the third quarter of 2005.

General and administrative expenses. General and administrative expenses increased by 23.2% to RMB112.4 million for the fourth quarter of 2005 from RMB91.2 million for the third quarter of 2005. The increase was mainly attributable to the continuing expansion of our strategic research and development staff as we focus on our various products and services, including IM functionalities, online games and our web portals. We also incurred increased staff expenses as the diversification and scale of our business increased. As a percentage of revenues, general and administrative expenses increased to 26.2% in the fourth quarter of 2005 from 25.1% in the third quarter of 2005.

Finance costs. We recorded finance costs of RMB4.8 million for the fourth quarter of 2005 compared to RMB42.4 million for the third quarter of 2005. The significant amount of finance costs recorded in the prior quarter related to the foreign exchange loss relating to our US dollar-denominated cash and investments in connection with the appreciation of Renminbi that occurred in July 2005 after the PRC changed its policy on valuing its currency. A significant portion of our cash and investments are subject to the same risk, and if Renminbi appreciates significantly again, we may incur foreign exchange losses.

Income tax (expenses)/benefit. We recorded income tax expenses of RMB16.5 million for the fourth quarter of 2005 compared to a net tax credit of RMB2.9 million for the third quarter of 2005. The net tax credit in the third quarter of 2005 related to the recognition of additional deferred tax assets by Tencent Computer and Shiji Kaixuan of RMB12.9 million. These deferred tax assets relate to sales of self-developed software and technology by Tencent Technology or Tencent Beijing to Tencent Computer or Shiji Kaixuan under our structure contracts. In the fourth quarter of 2005, we recognized a smaller amount of deferred tax assets relating to our structure contracts.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 59.1% to RMB123.7 million for the fourth quarter of 2005 from RMB77.8 million for the third quarter of 2005. Net margin was 28.8% for the fourth quarter of 2005 compared to 21.4% for the third quarter of 2005.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

The following discussion covers the results for the years ended 31 December 2005 and 2004. Our results, however, fluctuate from quarter to quarter. You should read the following discussion together with the quarterly discussion above.

The following table sets forth the comparative figures for the year ended 31 December 2005 and the year ended 31 December 2004:

	Year ended 31 December	
	2005	2004 (as restated*)
	(RMB in thousands)	
Revenues	**1,426,395**	1,143,533
Cost of revenues	**(469,869)**	(418,125)
Gross profit	**956,526**	725,408
Other gains, net	**73,145**	25,915
Selling and marketing expenses	**(197,627)**	(109,517)
General and administrative expenses	**(347,685)**	(173,110)
Operating profit	**484,359**	468,696
Finance costs	**(47,304)**	(5,043)
Profit before income tax	**437,055**	463,653
Income tax benefit/(expenses)	**48,307**	(22,534)
Profit for the year	**485,362**	441,119

* The adoption of IFRS 2 requires retrospective application to all share options granted to employees after 7 November 2002 and not vested as at 1 January 2005. As a result, profit for the year ended 31 December 2004 was reduced by RMB5.6 million.

Revenues. Revenues increased by 24.7% to RMB1,426.4 million for the year ended 31 December 2005 from RMB1,143.5 million for the year ended 31 December 2004, as a result of a significant increase in revenues from Internet value-added services and online advertising. The increase, however, was partially offset by the decrease in revenues from mobile and telecommunications value-added services. The following table sets forth our revenues by line of business for the year ended 31 December 2005 and the year ended 31 December 2004:

	Year ended 31 December			
		2005		2004
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**786,680**	**55.1%**	439,041	38.4%
Mobile and telecommunications value-added services	**517,265**	**36.3%**	641,190	56.1%
Online advertising	**112,826**	**7.9%**	54,801	4.8%
Others	**9,624**	**0.7%**	8,501	0.7%
Total revenues	**1,426,395**	**100.0%**	1,143,533	100.0%

Revenues from our Internet value-added services increased by 79.2% to RMB786.7 million for the year ended 31 December 2005 from RMB439.0 million for the year ended 31 December 2004. Revenues from our various online identity and community services and online games increased significantly as we enhanced our existing services such as avatars and our online game portal and launched new products such as Qzone, QQ Pet, QQ Tang and QQ Fantasy. These increases were partially offset by a decrease in revenues from our more mature products and services that faced significant competition, such as QQ Xing, online dating and e-cards.

Revenues from our mobile and telecommunications value-added services decreased by 19.3% to RMB517.3 million for the year ended 31 December 2005 from RMB641.2 million for the year ended 31 December 2004. The number of subscriptions decreased significantly due to the continuing "cleaning up" of inactive user accounts by mobile operators, our self-initiated clean-up of inactive or delinquent user accounts, the termination of the 161 Mobile Chat fee sharing arrangement with China Mobile, the change in China Mobile's MMS billing policy and increased competition. These decreases were partially offset by an increase in revenues from mobile voice value-added services due to high sales of ringback tones and mobile IVR services.

Revenues from online advertising increased by 105.9% to RMB112.8 million for the year ended 31 December 2005 from RMB54.8 million for the year ended 31 December 2004. The increase in revenues reflected our growing customer base, including some existing customers who began to place significantly larger orders as well as new customers, and some new advertising revenues relating to the Internet searching functions that we initiated in early 2005. In addition, our QQ.com portal continued to generate more advertising revenues.

Cost of revenues. Cost of revenues increased by 12.4% to RMB469.9 million for the year ended 31 December 2005 from RMB418.1 million for the year ended 31 December 2004. The increase principally reflected the increased bandwidth and server custody fees as we supported more bandwidth intensive services, and the increased content costs as we offered richer content on our online platforms. In addition, staff costs increased as we increased the number of employees to support our various services and products. These increases were partially offset by the lower telecommunications operators' revenue share and imbalance fees due to the diversification of some of our fee collection channels into non-mobile based channels and due to the termination of the 161 Mobile Chat fee sharing arrangement with China Mobile, which had a comparatively higher revenue sharing ratio than our other services. As a percentage of revenues, cost of revenues decreased to 32.9% in the year ended 31 December 2005 from 36.6% in the year ended 31 December 2004. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2005 and the year ended 31 December 2004:

	Year ended 31 December			
		2005		2004
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**231,480**	**29.4%**	143,425	32.7%
Mobile and telecommunications value-added services	**189,264**	**36.6%**	244,930	38.2%
Online advertising	**34,761**	**30.8%**	17,613	32.1%
Others	**14,364**	**149.3%**	12,157	143.0%
Total cost of revenues	**469,869**		418,125	

Cost of revenues for our Internet value-added services increased by 61.4% to RMB231.5 million for the year ended 31 December 2005 from RMB143.4 million for the year ended 31 December 2004. The increase mainly reflected expenses incurred to support more bandwidth intensive services, such as Qzone and online games, and increased content costs associated with the offering of richer content services, such as our avatars and music offerings. In addition, staff costs to support our growing range of Internet value-added services increased.

Cost of revenues for our mobile and telecommunications value-added services decreased by 22.7% to RMB189.3 million for the year ended 31 December 2005 from RMB244.9 million for the year ended 31 December 2004. The decline was due mainly to the significant decrease in fees retained by mobile operators for their share of revenues and imbalance fees due to the termination of the 161 Mobile Chat fee sharing arrangement with China Mobile, which had a comparatively higher revenue sharing ratio than our other services, and due to a decrease in our mobile and telecommunications value-added service business volume as a result of cleaning-up of inactive customer accounts by mobile operators, the MISC integration and increased competition. The decrease was partially offset by an increase in staff costs as we increased the number of staff to support our various new products and services and an increase in content fees as we enriched our content.

Cost of revenues for our online advertising increased by 97.4% to RMB34.8 million for the year ended 31 December 2005 from RMB17.6 million for the year ended 31 December 2004. The increase mainly reflected the increased sales commissions paid to advertising agencies as the volume of our advertising contracts increased. In addition, we increased the number of staff to drive the growth of our online advertising sales team, and incurred expenses to offer Internet searching functions beginning in early 2005 in order to create a new source of advertising revenues.

Other gains, net. We recorded other gains of RMB73.1 million for the year ended 31 December 2005 compared to RMB25.9 million for the year ended 31 December 2004. The increase mainly reflected additional interest income and fair value gains generated from increased cash investments into interest-earning financial assets due to the increase in US dollar-denominated interest rates and financial subsidies that the local government granted to us as part of the government's efforts to promote development of the high-tech software business and new products.

Selling and marketing expenses. Selling and marketing expenses increased by 80.5% to RMB197.6 million for the year ended 31 December 2005 from RMB109.5 million for the year ended 31 December 2004. The increase principally reflected increased promotional and advertising activities and higher staff costs as we launched and began marketing several new products and as we established new distribution channels. In addition, we increased our outsourcing as we expanded our customer support activities.

General and administrative expenses. General and administrative expenses increased by 100.8% to RMB347.7 million for the year ended 31 December 2005 from RMB173.1 million for the year ended 31 December 2004. 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 and IM functionalities. Staff cost also increased significantly as a result of a higher number of staff employed to support our business expansion and increased salaries. Moreover, we have incurred increased leasing and office expenses as we opened new offices and relocated some of our regional offices, and have incurred increased professional consulting fees and expenses as we expanded our operations.

Finance costs. Finance costs for the year ended 31 December 2005 represented foreign exchange loss. We recorded finance costs of RMB47.3 million for the year ended 31 December 2005. This was primarily due to the foreign exchange loss relating to our US dollar-denominated cash and investments in connection with the appreciation of Renminbi that occurred in July 2005 after the PRC changed its policy on valuing its currency. A significant portion of our cash and investments are subject to the same risk, and if Renminbi continues to appreciate, we may incur foreign exchange losses.

Income tax benefit/(expenses). We recorded an income tax benefit of RMB48.3 million for the year ended 31 December 2005 compared to income tax expenses of RMB22.5 million for the year ended 31 December 2004. The net tax credit related to the recognition of accumulated deferred tax assets of RMB88.6 million in the second quarter of 2005 and additional deferred tax assets of RMB21.3 million in the subsequent quarters of 2005 by Tencent Computer and Shiji Kaixuan. These deferred tax assets relate to sales of self-developed software and technology by Tencent Technology or Tencent Beijing to Tencent Computer or Shiji Kaixuan under our structure contracts. The cost of the software and technology, which is amortized as expenses at Tencent Computer and Shiji Kaixuan over its estimated contractual useful lives, is allowed for income tax deduction claims in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan. As a result, these intra-group arrangements give rise to a potential temporary difference between the accounting base in our consolidated financial statements and the tax base in the financial statements of Tencent Computer and Shiji Kaixuan.

Profit for the year. Profit for the year increased by 10.0% to RMB485.4 million for the year ended 31 December 2005 from RMB441.1 million for the year ended 31 December 2004. Net margin was 34.0% for the year ended 31 December 2005 compared to 38.6% for the year ended 31 December 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005 and 30 September 2005, we had the following major financial resources in the form of cash and investments:

	Audited 31 December 2005	**Unaudited 30 September 2005**
	(RMB in thousands)	
Cash and cash equivalents	**1,576,044**	1,605,883
Term deposits with original maturities of over three months	**445,725**	275,773
Financial assets held for trading	**383,887**	468,345
Held-to-maturity investments	**244,581**	244,357
Total	**2,650,237**	2,594,358

A large portion of our financial resources represent non-Renminbi denominated proceeds raised from our initial public offering in 2004, and is held in deposits and investments denominated in US dollars. Because 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 2005.

BUSINESS OUTLOOK

During 2005, we continued to witness rapid growth in the China Internet and wireless markets. According to China Internet Network Information Center ("CNNIC"), China's Internet population increased by 18% during 2005 and reached 111 million at the end of 2005. Despite the rapid multi-year growth, Internet penetration in China remained low at 8.5% as at 31 December 2005, providing potential additional growth. Also according to CNNIC, mobile population in China increased by 17% during 2005 and reached 393 million at the end of 2005. To cater for the user market and in anticipation of further growth, we invested heavily in R&D during 2005. During the year, we launched many new products and services in key business areas including new IM functionalities, Internet value-added services, online games and content for our QQ.com portal. In addition, we have also dedicated special efforts to strengthening our payment platforms to bill and collect revenues from our users. These efforts have helped us achieve significant growth in our Internet value-added services and doubled our online advertising revenue during the last 12 months. More importantly, these investments are intended to build a strong foundation for us to better serve our users and provide more compelling value-added services to them going forward. We believe that it is extremely important to keep strengthening our R&D and our pool of talents in order to stay ahead in this attractive yet increasingly competitive market.

In our core IM platform, our QQ IM service remained the most popular IM service in China and has achieved a new record of over 200 million active user accounts and our estimated active peak concurrent user accounts was 16.7 million. We aim to better serve this large community of users not only through enhancing the platform's functionalities and safety, but also through providing more value-added services that address the many facets of our users' online lives, including staying in touch with others, access to content, getting entertained and conducting commercial transactions.

During the fourth quarter of 2005, our Internet value-added services were driven by favorable user responses to our family of online identities products and strong growth in our online games business. In the area of online identities products, we built on the success of QQ Show and launched Qzone and QQ Pet in the course of 2005. Qzone and QQ Pet have received good initial response from our users and have accumulated a sizable user base. Our plan is to continue upgrading our technical platforms and refining our products accordingly such that we can provide better experiences to our users. In our online games business, QQ game portal remained the leading casual games platform in China with over 2 million peak concurrent user accounts. We aim to monetize its leadership by increasing paid subscriptions and game item sales. We also plan to leverage this popular platform to present advanced casual games, which generally have stronger monetization mechanism, to our users. In 2005, our first self-developed advanced casual game, QQ Tang, was quite successful in generating both user traffic and revenue. We plan to launch more advanced casual games, including both licensed and self-developed, during the course of 2006. In the fourth quarter of 2005, our first self-developed Massive Multi-player Online Game (MMOG), QQ Fantasy, made a remarkable debut by achieving 660,000 peak concurrent user accounts online during open beta testing. We began charging for the game in December and believe it will increase our online games revenue. After significant investments in online games, we expect our online games revenue to increase significantly.

During 2005, our mobile and telecommunications value-added services were negatively affected by changes in industry policies and intensifying competition. While visibility remains low in the near term, we are making proactive steps to manage these challenges by cooperating closely with telecom operators and strengthening our own competitiveness. We are looking into developing new features and products to create more value for our users. To prepare us for the advent of 3G, we are also customizing our Internet-based services, such as networked mini-casual games, music and online community services, for our wireless platforms.

The online advertising industry in China continued its secular growth trend in 2005 as the Internet gained increasing popularity as a mass media. We believe we will benefit from this secular trend. In addition, we also aim to grow our advertising revenue by developing better advertising solutions to leverage our unique suite of online properties, investing in the branding of QQ.com, building a strong sales team, and cultivating strong relationships with leading advertisers and media agencies in China.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2005, the Group had 2,274 employees (2004: 1,108), 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 2005 was RMB344.5 million (2004: RMB156.7 million).

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

During the year, the Company repurchased 14,266,000 shares on the Stock Exchange for an aggregate consideration of HKD117,980,109 before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase on the Stock Exchange in 2005	**Number of shares repurchased**	**Purchase consideration per share** Highest price paid *HKD*	Lowest price paid *HKD*	**Aggregate consideration paid** *HKD*
November 2005	447,000	8.5	8.2	3,751,651
December 2005	13,819,000	8.4	8.1	114,228,458
Total	14,266,000			117,980,109

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.

Intention to Repurchase the Company's Listed Securities

At the annual general meeting of the Company held on 27 April 2005, shareholders granted to the Board, among others, a general mandate to repurchase a maximum of 177,217,560 shares. On 23 November 2005, the Board passed a resolution to repurchase shares of the Company on-market for an amount up to USD30 million. For the period from the date of the abovementioned resolution to 21 March 2006, USD25.4 million was used for the repurchase of 22,321,000 shares all of which have been cancelled pursuant to the mandate. With a view to further enhance shareholders' value, the Board passed a further resolution on 22 March 2006 and intends to repurchase shares of the Company on-market for an additional amount up to USD30 million pursuant to the existing general mandate and in accordance with the Listing Rules.

Closure of Register of Members

The register of members will be closed from Wednesday, 17 May 2006 to Wednesday, 24 May 2006 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 Annual General Meeting 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 4:00p.m. on Tuesday, 16 May 2006.

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 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save for the deviation from code provision A.2.1 of Appendix 14 to the Listing Rules in respect of the segregation of the role of the chairman and chief executive officer ("CEO"), 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 2005, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

Code provision A.2.1 provides that the roles of the chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

During the year under review, Mr Ma Huateng was the Chairman and Chief Executive Officer of the Company. The Board considered that an abrupt segregation of the role of the chairman and CEO would involve a sharing of power and authority of the existing structure which might create turmoil on the daily operations of, and extra cost to, the Company. In addition, the chairman and CEO must be proficient in IT knowledge and be sensitive to the fast and myriad changes in the business in order to lead the Company to react swiftly to any market change, make timely decision in this fast-moving IT industry and ensure the sustainable development of the Company. Notwithstanding the above, the Board will review the current structure from time to time and shall make necessary amendments when the right time comes.

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 management and staff of the Group is an important ingredient necessary to meet the challenges and opportunities ahead. We would like to take this opportunity to record our cordial thanks to them all.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 22 March 2006

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

Executive Directors: Ma Huateng 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.

Please also refer to the published version of this announcement in The Standard.