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 2007

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 2007. 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 attributable to equity holders of the Company for the year ended 31 December 2007 was RMB1,566 million, an increase of 47.2 % compared with the results for the year ended 31 December 2006. Basic and diluted earnings per share for the year ended 31 December 2007 were RMB0.880 and RMB0.853 respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.16 per share (2006: HKD0.12) for the year ended 31 December 2007, subject to the approval of the shareholders at the Annual General Meeting ("AGM") to be held on 14 May 2008. Such proposed dividend will be payable on 28 May 2008 to shareholders whose names appear on the register of members of the Company on 14 May 2008.

FINANCIAL INFORMATION
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Fixed assets	**839,256**	549,109
Construction in progress	**112,232**	14,462
Investment property	**66,414**	–
Leasehold land and land use rights	**36,796**	10,018
Intangible assets	**670,692**	155,587
Investment in a jointly controlled entity	**179**	–
Deferred income tax assets	**287,652**	130,522
Held-to-maturity investments	**73,046**	–
Available-for-sale financial assets	**63,605**	56,440
	2,149,872	916,138
Current assets		
Inventories	**1,701**	2,466
Accounts receivable	**535,528**	399,337
Prepayments, deposits and other receivables	**130,406**	113,768
Financial assets held for trading	**266,495**	195,907
Derivative financial instruments	**47,759**	–
Held-to-maturity investments	**–**	234,261
Term deposits with initial term of over three months	**604,486**	944,375
Restricted cash	**300,000**	–
Cash and cash equivalents	**2,948,757**	1,844,320
	4,835,132	3,734,434
Total assets	**6,985,004**	4,650,572

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	**194**	192
Share premium	**1,455,854**	1,459,020
Share-based compensation reserve	**220,230**	118,078
Other reserves	**93,712**	80,925
Retained earnings	**3,413,823**	2,059,541
	5,183,813	3,717,756
Minority interests in equity	**91,630**	–
Total equity	**5,275,443**	3,717,756
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	**59,944**	16,821
Long-term payable	**–**	48,148
	59,944	64,969
Current liabilities		
Accounts payable	**117,062**	38,934
Other payables and accruals	**669,194**	444,387
Short term bank borrowing	**292,184**	–
Derivative financial instruments	**30,060**	–
Current income tax liabilities	**71,133**	47,472
Other tax liabilities	**134,746**	17,715
Deferred revenue	**335,238**	319,339
	1,649,617	867,847
Total liabilities	**1,709,561**	932,816
Total equity and liabilities	**6,985,004**	4,650,572
Net current assets	**3,185,515**	2,866,587
Total assets less current liabilities	**5,335,387**	3,782,725

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

		Year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Revenues			
Internet value-added services		**2,513,728**	1,825,343
Mobile and telecommunications value-added services		**807,645**	700,114
Online advertising		**493,018**	266,684
Others		**6,532**	8,300
		3,820,923	2,800,441
Cost of revenues	5	**(1,117,557)**	(817,062)
Gross profit	2	**2,703,366**	1,983,379
Other gains, net	4	**69,212**	83,195
Selling and marketing expenses	5	**(297,439)**	(293,247)
General and administrative expenses	5	**(840,113)**	(610,022)
Operating profit	*	**1,635,026**	1,163,305
Finance costs	**	**(100,192)**	(46,534)
Share of loss of a jointly controlled entity		**(331)**	–
Profit before income tax		**1,534,503**	1,116,771
Income tax benefit/(expense)	6	**33,505**	(52,971)
Profit for the year		**1,568,008**	1,063,800
Attributable to:			
Equity holders of the Company		**1,566,020**	1,063,800
Minority interests		**1,988**	–
		1,568,008	1,063,800

		Year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
- basic	7	**0.880**	0.603
- diluted	7	**0.853**	0.585

* After deduction of share-based compensation charge amounting to RMB101,433,000 for the year ended 31 December 2007 (2006: RMB77,736,000).

** Included foreign exchange losses of RMB98,603,000 for the year ended 31 December 2007 (2006: RMB41,149,000).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company							
	Share capital	Share premium	Share-based compensation reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2006	192	1,666,044	40,109	66,609	1,155,459	2,928,413	–	2,928,413
Profit for the year	–	–	–	–	1,063,800	1,063,800	–	1,063,800
Employees share option scheme:								
- value of employee services	–	–	77,969	–	–	77,969	–	77,969
- proceeds from shares issued	2	34,052	–	–	–	34,054	–	34,054
Repurchase and cancellation of shares	(2)	(241,076)	–	–	–	(241,078)	–	(241,078)
Profit appropriations to statutory reserves	–	–	–	14,316	(14,316)	–	–	–
Dividend relating to 2005	–	–	–	–	(145,402)	(145,402)	–	(145,402)
Balance at 31 December 2006	192	1,459,020	118,078	80,925	2,059,541	3,717,756	–	3,717,756
Balance at 1 January 2007	**192**	**1,459,020**	**118,078**	**80,925**	**2,059,541**	**3,717,756**	**–**	**3,717,756**
Profit for the year	**–**	**–**	**–**	**–**	**1,566,020**	**1,566,020**	**1,988**	**1,568,008**
Employees share option scheme:								
- value of employee services	**–**	**–**	**102,152**	**–**	**–**	**102,152**	**–**	**102,152**
- proceeds from shares issued	**3**	**104,087**	**–**	**–**	**–**	**104,090**	**–**	**104,090**
Repurchase and cancellation of shares	**(1)**	**(107,253)**	**–**	**–**	**–**	**(107,254)**	**–**	**(107,254)**
Profit appropriations to statutory reserves	**–**	**–**	**–**	**5,544**	**(5,544)**	**–**	**–**	**–**
Dividend relating to 2006	**–**	**–**	**–**	**–**	**(210,211)**	**(210,211)**	**–**	**(210,211)**
Business combinations	**–**	**–**	**–**	**7,243**	**4,017**	**11,260**	**89,642**	**100,902**
Balance at 31 December 2007	**194**	**1,455,854**	**220,230**	**93,712**	**3,413,823**	**5,183,813**	**91,630**	**5,275,443**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net cash flows from operating activities	**1,535,704**	1,507,458
Net cash flows used in investing activities	**(434,247)**	(862,729)
Net cash flows from/(used in) financing activities	**78,809**	(352,426)
Net increase in cash and cash equivalents	**1,180,266**	292,303
Cash and cash equivalents at beginning of the year	**1,844,320**	1,576,044
Exchange losses on cash and cash equivalents	**(75,829)**	(24,027)
Cash and cash equivalents at end of the year	**2,948,757**	1,844,320

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 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, financial assets held for trading and derivative financial instruments.

Assessment and adoption of new IFRS, interpretations and amendments

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the financial year ended 31 December 2007.

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

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:

1) IAS 1 (Amendment) requires an entity to disclose the information that enables users of its financial statements to evaluate the entity's objectives, policies and process of managing capital. The Group has applied this amendment from 1 January 2007;

2) IFRS 7 introduced new disclosures relating to financial instruments and the Group has applied this standard from 1 January 2007;

3) IFRIC 7 is not relevant to the Group's operations;

4) IFRIC 8, IFRIC 9 and IFRIC 10 did not have a significant impact on the Group's financial statements.

2 **Segment information**

Business segment is the Group's primary basis of segment reporting.

The segment results of the Group for the years ended 31 December 2007 and 2006 are presented as follows:

Year ended 31 December 2007	**Internet value-added services**	**Mobile and telecommunications value-added services**	**Online advertising**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenues	**2,513,728**	**807,645**	**493,018**	**6,532**	**3,820,923**
Segment results	**1,885,746**	**497,535**	**346,301**	**(26,216)**	**2,703,366**
Other gains, net					**69,212**
Selling and marketing expenses					**(297,439)**
General and administrative expenses					**(840,113)**
Operating profit					**1,635,026**
Finance costs					**(100,192)**
Share of loss of a jointly controlled entity					**(331)**
Profit before income tax					**1,534,503**
Income tax benefit					**33,505**
Profit for the year					**1,568,008**

Year ended 31 December 2006	Internet value-added services	Mobile and telecommunications value-added services	Online advertising	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenues	1,825,343	700,114	266,684	8,300	2,800,441
Segment results	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					(46,534)
Profit before income tax					1,116,771
Income tax expense					(52,971)
Profit for the year					1,063,800

3 Share option and share award scheme

(a) *Share option schemes*

The Company adopted three share option schemes for the purpose of providing incentives and rewards to its directors, executives or officers, employees, consultants and other eligible persons:

The Pre-IPO Share Option Scheme (the "Pre-IPO Option") was adopted by the Company on 27 July 2001. As at the listing date of the Company on 16 June 2004, all options under Pre-IPO Option had been granted. On 24 March 2004, the Company adopted the Post-IPO Share Option Scheme I (the "Post-IPO Option I"). The Post-IPO Option I has been terminated upon the adoption of the Post-IPO Share Option II (the "Post-IPO Option II") on 16 May 2007. The Board may, in its absolute discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option II shall be valid and effective for a period of 10 years commencing after its date of adoption.

The maximum number of the shares in respect of which options may be granted under the Post-IPO Option II and any other share option schemes of the Company shall not exceed 5% of the issued shares as at the date of shareholders' approval of the Post-IPO Option II (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Post-IPO Option II shall not be counted for the purpose of calculating the 5% limit. The Company may refresh the Scheme

Mandate Limit by ordinary resolution of the shareholders in general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 5% of the issued shares as at the date of shareholders' approval of the refreshing of the Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option II will be expired in any event not later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the Post-IPO Option II).

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option II and any other share option schemes of the Company (including Pre-IPO Option and Post-IPO Option I) must not in aggregate exceed 30% of issued shares from time to time.

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Post-IPO Option II and any other share options schemes of the Company (whether exercised, cancelled or outstanding) to any eligible person in any 12-month period shall not exceed 1% of issued shares from time to time unless such grant has been duly approved by ordinary resolution of the shareholders in general meeting at which the relevant eligible person and his associates abstained from voting. In calculating the aforesaid limit of 1%, options that have lapsed shall not be counted.

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

	Pre-IPO Option		**Post-IPO Option I**		**Post-IPO Option II**		**Total**
	Average exercise price	**No. of options**	**Average exercise price**	**No. of options**	**Average exercise price**	**No. of options**	**No. of options**
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
At 1 January 2007	**USD0.1010**	**19,006,964**	**HKD8.4787**	**62,362,775**	**–**	**–**	**81,369,739**
Granted	**–**	**–**	**HKD25.2600**	**3,110,000**	**HKD32.4634**	**17,518,146**	**20,628,146**
Exercised	**USD0.0955**	**(9,958,188)**	**HKD7.2811**	**(13,602,691)**	**–**	**–**	**(23,560,879)**
Lapsed	**USD0.1965**	**(299,914)**	**HKD9.3727**	**(1,674,002)**	**HKD31.7500**	**(82,470)**	**(2,056,386)**
At 31 December 2007	**USD0.1039**	**8,748,862**	**HKD9.8131**	**50,196,082**	**HKD32.4668**	**17,435,676**	**76,380,620**

During the year ended 31 December 2007, 6,000,000 (2006: Nil) options were granted to an executive director of the Company, who was appointed on 21 March 2007 and a total of 300,000 (2006: Nil) options were granted to the independent directors of the Company.

Of 76,380,620 options outstanding as at 31 December 2007 (2006: 81,369,739 options), 16,944,746 options (2006: 21,697,357 options) were currently exercisable.

Options exercised during the year ended 31 December 2007 resulted in 23,560,879 ordinary shares issued. The weighted average price of the shares at the time these options were exercised was HKD35.8795 (equivalent to approximately RMB33.60) per share.

(b) *Share award scheme*

On 13 December 2007 (the "Adoption Date"), the Company adopted a share award scheme ("Share Scheme"). The Board may, at its absolute discretion, select any eligible persons ("Awarded Persons") for participation in the Share Scheme.

Pursuant to the Share Scheme, ordinary shares of the Company will be acquired by an independent Trustee (the "Trustee") at the cost of the Company or shares will be allotted to the Trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time and be held in trust for the Awarded Persons until the end of each vesting period. Vested shares will be transferred at no cost to the Awarded Persons.

Unless early termination by the Board, the Share Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

The number of shares to be awarded under the Share Scheme throughout its duration shall not exceed 2% of the issued share capital of the Company as at the Adoption Date. The maximum number of shares which may be awarded to an Awarded Person under the Share Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

During the year ended 31 December 2007, no shares under the Share Scheme were granted.

4 Other gains, net

	2007	2006
	RMB'000	*RMB'000*
Interest income	**85,744**	75,782
Government subsidies	**33,156**	15,231
Gains from revision of the Earn-out Considerations of Joymax Acquisition	**28,274**	–
Gains from derivative financial instruments	**17,699**	–
Impairment charge for intangible assets	**(60,525)**	–
Impairment charge for available-for-sale financial assets	**(23,842)**	–
Donation to a charity fund established by the Group	**(12,000)**	(20,000)
Loss on disposals of fixed assets	**(5,344)**	(1,062)
(Losses)/gains on financial assets held for trading	**(1,914)**	12,202
Others	**7,964**	1,042
	69,212	83,195

5 Expenses by nature

	2007	2006
	RMB'000	*RMB'000*
Employee benefits expenses (Note)	**727,468**	584,789
Mobile and telecommunications charges and bandwidth and server custody fees	**650,318**	462,634
Promotion and advertising expenses	**161,711**	155,696
Depreciation of fixed assets (Note)	**146,551**	106,416
Depreciation of investment property	**775**	–
Amortisation of intangible assets	**45,286**	27,946
Amortisation of leasehold land and land use right	**319**	–
Travelling and entertainment expenses	**78,846**	66,990
Operating lease rentals in respect of office buildings	**76,386**	38,775
VAT paid upon transfer of software within the Group	**4,452**	8,100
Auditors' remuneration	**4,519**	4,050
Other expenses	**358,478**	264,935
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**2,255,109**	1,720,331

Note: Research and development expenses for the year ended 31 December 2007 were RMB376,120,000 (2006: RMB297,320,000) which included employee benefit expenses of RMB304,545,000 and depreciation of fixed assets of RMB64,778,000 (2006: RMB247,986,000 and RMB40,216,000) respectively.

The Group did not capitalise any research and development expenses for the year ended 31 December 2007 (2006: Nil).

6 Income tax expense

(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 2007 (2006: 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 2007 (2006: 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.

For the year ended 31 December 2007, subsidiaries established in the Shenzhen Special Economic Zone and the Beijing High Technology Zone of the PRC were subject to EIT at a rate of 15% (2006: 15%), certain of them can enjoy tax preferential treatment according to related regulations. Nanjing Wang Dian Technology Company Limited, which was established in Nanjing of the PRC, was subject to EIT at a rate of 33% (2006: 33%).

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax for domestic and foreign enterprises is unified at 25%, effective from 1 January 2008. In addition, The PRC Enterprise Income Tax Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 31 March 2007 would be 18%, 20%, 22%, 24% and 25% in the year of 2008, 2009, 2010, 2011 and 2012 respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rate in that year.

The income tax (benefits)/ charges of the Group for the year ended 31 December 2007 and 2006 are analysed as follows:

	2007	2006
	RMB'000	*RMB'000*
PRC current tax	**129,256**	84,851
Deferred income taxes relating to the origination and reversal of temporary differences	**(74,369)**	(31,880)
Deferred income taxes resulting from change in the tax rates	**(88,392)**	–
	(33,505)	52,971

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 the Beijing High Technology Zone of the PRC, where the principal activities of the Group are conducted. The difference is analysed as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**1,534,503**	1,116,771
Add: Share of loss of a jointly controlled entity	**331**	–
	1,534,834	1,116,771
Tax calculated at a tax rate of 15% (2006: 15%)	**230,225**	167,516
Effect of different tax rates available to different companies of the Group	**2,971**	22,878
Effect of change in tax rate	**(88,392)**	–
Effects of tax holiday on assessable profits of subsidiaries	**(192,619)**	(152,591)
Expenses not deductible for tax purposes	**15,701**	14,877
Unrecognized tax assets/(utilisation of previously unrecognised tax assets)	**(1,391)**	291
Tax (benefit)/charge	**(33,505)**	52,971

7 Earnings per share

(a) *Basic*

Basic earnings per share("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.

	2007	2006
Profit attributable to equity holders of the Company for the year (RMB'000)	**1,566,020**	1,063,800
Weighted average number of ordinary shares in issue (thousands)	**1,779,906**	1,764,337
Basic EPS (RMB per share)	**0.880**	0.603

(b) *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 as the average market price of the Company's shares during the year) 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).

	2007	2006
Profit attributable to equity holders of the Company for the year (RMB'000)	**1,566,020**	1,063,800
Weighted average number of ordinary shares in issue (thousands shares)	**1,779,906**	1,764,337
Adjustments for share options (thousands shares)	**57,058**	54,198
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	**1,836,964**	1,818,535
Diluted EPS (RMB per share)	**0.853**	0.585

8 Dividends

The dividends paid in 2007 and 2006 were RMB210,211,000 and RMB145,402,000, respectively. A final dividend in respect of the year ended 31 December 2007 of HKD0.16 (2006: HKD0.12) per share, was proposed pursuant to a resolution passed by the Board on 19 March 2008 and subject to the approval of the shareholders in the AGM to be held on 14 May 2008. These financial statements do not reflect this dividend payable.

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 2007	For the 15-day period ended 30 September 2007	Percentage Change
	(in millions)		
Registered IM user accounts (at end of period)	**741.7**	715.3	3.69%
Active user accounts (at end of period)	**300.2**	288.7	3.98%
Peak simultaneous online user accounts (for the quarter)	**36.1**	32.6	10.74%
Average daily user hours	**496.6**	449.1	10.58%
Average daily messages[1]	**3,727.5**	3,842.9	(3.00)%
Fee-based Internet value-added services registered subscriptions (at end of period)	**17.6**	17.7	(0.56)%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)[2]	**10.9**	10.3	5.83%

(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.

Registered IM user accounts, active user accounts, peak simultaneous online user accounts and average daily user hours increased in the fourth quarter of 2007 as a result of our continuing organic growth, together with enhancements in our service features and functions. In the fourth quarter of 2007, we recorded a decrease in our average daily messages due mainly to the negative seasonal impact of end-of-semester examinations affecting usage among students, who are typically the most active users of our IM services. Fee-based Internet value-added services registered subscriptions recorded a slight decrease as subscriptions for QQ Show decreased as it reached a comparatively mature stage, and subscriptions for Qzone and QQ Pet, were adversely affected by seasonal factors. These decreases were partially offset by an increase in subscriptions for our Premium QQ services. Fee-based registered subscriptions for our mobile and telecommunications value-added services increased as a result of more effective promotional activities undertaken by us.

FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2007

Our consolidated revenues for the year ended 31 December 2007 were RMB3,820.9 million, an increase of 36.4% from the year ended 31 December 2006.

Revenues from our Internet value-added services for the year ended 31 December 2007 were RMB2,513.7 million, an increase of 37.7% from the year ended 31 December 2006.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2007 were RMB807.6 million, an increase of 15.4% from the year ended 31 December 2006.

Revenues from online advertising for the year ended 31 December 2007 were RMB493.0 million, an increase of 84.9% from the year ended 31 December 2006.

Cost of revenues for the year ended 31 December 2007 were RMB1,117.6 million, an increase of 36.8% from the year ended 31 December 2006.

Other gains, net for the year ended 31 December 2007 were RMB69.2 million, a decrease of 16.8% from the year ended 31 December 2006.

Selling and marketing expenses for the year ended 31 December 2007 were RMB297.4 million, an increase of 1.4% from the year ended 31 December 2006.

General and administrative expenses for the year ended 31 December 2007 were RMB840.1 million, an increase of 37.7% from the year ended 31 December 2006.

Operating profit for the year ended 31 December 2007 was RMB1,635.0 million, representing an increase of 40.6% over the year ended 31 December 2006. As a percentage of revenues, operating profit accounted for 42.8% for the year ended 31 December 2007, compared to 41.5% for the year ended 31 December 2006.

Profit for the year ended 31 December 2007 was RMB1,568.0 million, representing an increase of 47.4% from the year ended 31 December 2006. As a percentage of revenues, profit for the period accounted for 41.0% for the year ended 31 December 2007, compared to 38.0% for the year ended 31 December 2006.

Profit attributable to equity holders for the year ended 31 December 2007 was RMB1,566.0 million, representing an increase 47.2% from the year ended 31 December 2006.

Fourth Quarter of 2007

Our unaudited consolidated revenues for the fourth quarter of 2007 were RMB1,122.2 million, an increase of 57.3% over the same period in 2006 and an increase of 6.1% from the third quarter of 2007.

Revenues from our Internet value-added services for the fourth quarter of 2007 were RMB748.0 million, an increase of 71.3% over the same period in 2006 and an increase of 4.2% from the third quarter of 2007.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2007 were RMB211.6 million, an increase of 9.6% over the same period in 2006 and an increase of 9.4% from the third quarter of 2007.

Revenues from online advertising for the fourth quarter of 2007 were RMB159.7 million, an increase of 95.9% over the same period in 2006 and an increase of 10.4% from the third quarter of 2007.

Cost of revenues for the fourth quarter of 2007 were RMB318.9 million, an increase of 36.5% over the same period in 2006 and an increase of 8.1% from the third quarter of 2007.

Other gains, net for the fourth quarter of 2007 were RMB6.9 million, a decrease of 62.7% over the same period of 2006 and an increase 36.1% from the third quarter of 2007.

Selling and marketing expenses for the fourth quarter of 2007 were RMB78.3 million, an increase of 6.7% over the same period in 2006 and an increase of 0.4% from the third quarter of 2007.

General and administrative expenses for the fourth quarter of 2007 were RMB256.9 million, an increase of 42.5% over the same period in 2006 and an increase of 17.2% from the third quarter of 2007.

Operating profit for the fourth quarter of 2007 was RMB475.0 million, representing an increase of 94.5% over the same period in 2006 and an increase of 1.0% from the third quarter of 2007. As a percentage of revenues, operating profit accounted for 42.3% for the fourth quarter of 2007, compared to 34.2% for the same period of 2006 and 44.5% for the third quarter of 2007.

Profit for the fourth quarter of 2007 was RMB517.0 million, representing an increase of 96.1% over the same period in 2006 and an increase of 21.3% from the third quarter of 2007. As a percentage of revenues, profit for the period accounted for 46.1% for the fourth quarter of 2007, compared to 37.0% for the same period of 2006 and 40.3% for the third quarter of 2007.

Profit attributable to equity holders of the Company for this quarter was RMB515.0 million, an increase of 95.3% over the same period in 2006 and an increase of 20.8% from the third quarter of 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2007 Compared to Third Quarter of 2007

The following table sets forth the comparative figures for the fourth quarter of 2007 and the third quarter of 2007:

	Unaudited Three months ended 31 December 2007	30 September 2007
	(RMB in thousands)	
Revenues	**1,122,220**	1,057,626
Cost of revenues	**(318,885)**	(295,112)
Gross profit	**803,335**	762,514
Other gains, net	**6,851**	5,033
Selling and marketing expenses	**(78,320)**	(78,039)
General and administrative expenses	**(256,884)**	(219,235)
Operating profit	**474,982**	470,273
Finance costs	**(58,860)**	(12,137)
Share of loss of a jointly controlled entity	**(317)**	(14)
Profit before income tax	**415,805**	458,122
Income tax benefit / (expense)	**101,239**	(31,813)
Profit for the period	**517,044**	426,309
Attributable to:		
Equity holders of the Company	**514,964**	426,401
Minority interest	**2,080**	(92)

Revenues. Revenues increased by 6.1% to RMB1,122.2 million for the fourth quarter of 2007 from RMB1,057.6 million for the third quarter of 2007. The following table sets forth our revenues by line of business for the fourth quarter of 2007 and the third quarter of 2007:

	Three months ended			
	31 December 2007		30 September 2007	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**747,988**	**66.6%**	717,718	67.9%
Mobile and telecommunications value-added services	**211,584**	**18.9%**	193,481	18.3%
Online advertising	**159,708**	**14.2%**	144,643	13.6%
Others	**2,940**	**0.3%**	1,784	0.2%
Total revenues	**1,122,220**	**100.0%**	1,057,626	100.0%

Although the fourth quarter in general is adversely affected by seasonal factors, revenues from our Internet value-added services grew by 4.2% to RMB748.0 million for the fourth quarter of 2007 from RMB717.7 million for the third quarter of 2007. Revenues from our online identity and community business, particularly QQ Pet and QQ Show, decreased. The decrease in revenues from QQ Pet was mainly due to seasonal factors, while revenues from QQ Show decreased as the service reached a comparatively mature stage in addition to seasonal factors. However, such decrease was offset by an increase in revenues from Premium QQ as we continued to enhance user loyalty through bundling more functionalities. Revenues from online games increased by 22.2% to RMB281.7 million for the fourth quarter of 2007 from RMB230.6 million for the third quarter of 2007 due in particular to the growing popularity of games, such as QQ Game, QQ SanGuo and QQ Huaxia, and the launch in the fourth quarter of a free-to-play, itemized-charge version of QQ Fantasy to supplement the time-charge version. In addition, we exercised our pre-negotiated right to acquire a majority stake in an investee company that co-launched QQ Huaxia with us and began to consolidate 100% of the revenues from QQ Huaxia as well as other revenues attributable to the investee company in our consolidated financial results starting from late November 2007, as opposed to recognizing only the shared portion of revenues from QQ Huaxia prior to the acquisition.

Revenues from our mobile and telecommunications value-added services increased by 9.4% to RMB211.6 million for the fourth quarter of 2007 from RMB193.5 million for the third quarter of 2007. This increase mainly resulted from our successful marketing, aimed at both promoting new bundled services and retaining existing users. As a result of these marketing activities, revenues from communication-based SMS services grew, despite a migration of some users to a new technical platform.

Revenues from online advertising increased by 10.4% to RMB159.7 million for the fourth quarter of 2007 from RMB144.6 million for the third quarter of 2007. The increase was mainly attributable to the improved recognition by customers of our brand as an effective advertising platform.

Cost of revenues. Cost of revenues increased by 8.1% to RMB318.9 million for the fourth quarter of 2007 from RMB295.1 million for the third quarter of 2007. The increase principally reflected increased bandwidth and server custody fees, increased telecommunications operators' revenue share, higher staff costs as our business volume expanded and an increased amount of sales commissions paid to advertising agencies. As a percentage of revenues, cost of revenues increased slightly to 28.4% for the fourth quarter of 2007 from 27.9% for the third quarter of 2007. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2007 and the third quarter of 2007:

	Three months ended			
	31 December 2007		30 September 2007	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**187,342**	**25.0%**	171,860	23.9%
Mobile and telecommunications value-added services	**79,803**	**37.7%**	76,544	39.6%
Online advertising	**42,218**	**26.4%**	38,848	26.9%
Others	**9,522**	**323.9%**	7,860	440.6%
Total cost of revenues	**318,885**		295,112	

Cost of revenues for our Internet value-added services increased by 9.0% to RMB187.3 million for the fourth quarter of 2007 from RMB171.9 million for the third quarter of 2007. The increase reflected higher expenses associated with our bandwidth capacity and servers as usage increased as a result of our business growth and as we continued to increase bandwidth and storage intensive services. In addition, telecommunications operators' revenue share and staff costs increased as we expanded our business volume.

Cost of revenues for our mobile and telecommunications value-added services increased by 4.3% to RMB79.8 million for the fourth quarter of 2007 from RMB76.5 million for the third quarter of 2007. The cost of revenues increased mainly as a result of the increase in telecommunications operators' revenue share resulting from the increase in our business volume.

Cost of revenues for our online advertising increased by 8.7% to RMB42.2 million for the fourth quarter of 2007 from RMB38.8 million for the third quarter of 2007. The increase mainly reflected an increased amount of sales commissions paid to advertising agencies as the volume of our advertising business grew.

Other gains, net. Other gains during the reported periods reflected primarily the interest income generated from bank deposits and other interest-earning financial assets, fair value gains on financial instruments, government subsidies received and impairment charges. We recorded other gains of RMB6.9 million for the fourth quarter of 2007 compared to RMB5.0 million for the third quarter of 2007, an increase of 36.1%. The increase mainly reflected increases in fair value gains on financial instruments, interest income and government subsidies. These increases were partially offset by net losses of RMB32.3 million relating to an acquisition completed in early 2006, consisting of impairment charges with respect to intangible assets partially offset by gains recognized from the revision of relating earn-out consideration, and an impairment charge of RMB23.8 million with respect to an investment in a nascent game company.

Selling and marketing expenses. Selling and marketing expenses increased slightly by 0.4% to RMB78.3 million for the fourth quarter of 2007 from RMB78.0 million for the third quarter of 2007. As a percentage of revenues, selling and marketing expenses decreased to 7.0% in the fourth quarter of 2007 from 7.4% in the third quarter of 2007 as we spread the expenses over a larger revenue base.

General and administrative expenses. General and administrative expenses increased by 17.2% to RMB256.9 million for the fourth quarter of 2007 from RMB219.2 million for the third quarter of 2007. The increase was mainly due to the continuing expansion of our strategic research and development staff as we focused on the enhancement of our various products and services, including IM functionalities and online games, and as we increased our longer term research activities which focus on further enhancing our technological platform so that we may be able to capitalize on future innovations in technology. The increase was also attributable to the increased staff expenses as the scope and scale of our business increased and increased amortization expenses of intangible assets following the acquisition of several subsidiaries. As a percentage of revenues, general and administrative expenses increased to 22.9% in the fourth quarter of 2007 from 20.7% in the third quarter of 2007.

Finance costs. Finance costs during the reported periods mainly represented foreign exchange losses. We recorded a significant increase in finance costs of RMB58.9 million for the fourth quarter of 2007 compared to RMB12.1 million for the third quarter of 2007. The increase in finance costs recorded was mainly due to the foreign exchange losses as the Renminbi appreciated against the US dollar, particularly because we held a larger amount of US dollar-denominated attributable to the amount of intra-group dividends remitted by our PRC subsidiaries to our offshore subsidiaries, which amount was increased in order to reduce the possible withholding tax that would be levied on dividends paid in 2008 or later upon the implementation of the new enterprise income tax regulations.

Income tax benefit/(expense). We recorded income tax benefit of RMB101.2 million for the fourth quarter of 2007 compared to income tax expense of RMB31.8 million for the third quarter of 2007. The higher income tax benefit was mainly due to the higher deferred tax assets of RMB146.4 million recorded in the fourth quarter of 2007 as the volume of intra-group sales of self-developed software and technology increased and the applicable tax rates became higher under the new PRC enterprise income tax regulations that will become effective in 2008, while deferred tax assets in the third quarter of 2007 was RMB24.0 million. Pursuant to this new tax regulations and subsequent circular issued, companies will be subject to a higher rate up to 25% with certain transitional arrangements for companies established before 16 March 2007.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 21.3% to RMB517.0 million for the fourth quarter of 2007 from RMB426.3 million for the third quarter of 2007. Net margin was 46.1% for the fourth quarter of 2007 compared to 40.3% for the third quarter of 2007.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 20.8% to RMB515.0 million for this quarter from RMB426.4 million for the third quarter of 2007.

Year Ended 31 December 2007

The following table sets forth the comparative figures for the year ended 31 December 2007 and the year ended 31 December 2006:

	Year ended 31 December	
	2007	2006
	(RMB in thousands)	
Revenues	**3,820,923**	2,800,441
Cost of revenues	**(1,117,557)**	(817,062)
Gross profit	**2,703,366**	1,983,379
Other gains, net	**69,212**	83,195
Selling and marketing expenses	**(297,439)**	(293,247)
General and administrative expenses	**(840,113)**	(610,022)
Operating profit	**1,635,026**	1,163,305
Finance costs	**(100,192)**	(46,534)
Share of loss of a jointly controlled entity	**(331)**	–
Profit before income tax	**1,534,503**	1,116,771
Income tax benefit / (expense)	**33,505**	(52,971)
Profit for the period	**1,568,008**	1,063,800
Attributable to:		
Equity holders of the Company	**1,566,020**	1,063,800
Minority interest	**1,988**	–

Revenues. Revenues increased by 36.4% to RMB3,820.9 million for the year ended 31 December 2007 from RMB2,800.4 million for the year ended 31 December 2006. The following table sets forth our revenues by line of business for the year ended 31 December 2007 and the year ended 31 December of 2006:

	Year ended 31 December			
	2007		2006	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,513,728**	**65.8%**	1,825,343	65.2%
Mobile and telecommunications value-added services	**807,645**	**21.1%**	700,114	25.0%
Online advertising	**493,018**	**12.9%**	266,684	9.5%
Others	**6,532**	**0.2%**	8,300	0.3%
Total revenues	**3,820,923**	**100.0%**	2,800,441	100.0%

Revenues from our Internet value-added services increased by 37.7% to RMB2,513.7 million for the year ended 31 December 2007 from RMB1,825.3 million for the year ended 31 December 2006. Revenues from our online identity and community services, Premium QQ and various online games increased as we continued to enhance our established services such as our QQ game portal and Premium QQ, built on the success of our online identity and community services such as Qzone and QQ Pet, and introduced a variety of competitive new products such as QQ SanGuo and QQ Huaxia. The increase was partially offset by a decrease in revenues from QQ Show, which suffered as a more mature product that required revitalization. In the third quarter of 2007, we initiated the first phase of upgrading our QQ Show products and services as part of an effort to revitalize QQ Show.

Revenues from our mobile and telecommunications value-added services increased by 15.4% to RMB807.6 million for the year ended 31 December 2007 from RMB700.1 million for the year ended 31 December 2006. The increase mainly reflected an increase in revenues from bundled SMS services due to the enhancement of the functionalities of our products and services. The increase was partially offset by the decrease in revenues from individual content-based SMS services due to the impact of ongoing changes in the regulatory environment.

Revenues from online advertising increased by 84.9% to RMB493.0 million for the year ended 31 December 2007 from RMB266.7 million for the year ended 31 December 2006. The increase reflected the growth in reach and traffic on our primary advertising platforms, QQ IM, QQ.com and QQ game portal, our increased brand awareness as a result of advertising activities associated with our QQ.com branding, and our growing customer base as we enhanced our advertising sales team. In addition, advertising revenues relating to our search functions and other value-added advertising, such as in-game advertising or QQ Live advertising, also contributed to the increase in revenues.

Cost of revenues. Cost of revenues increased by 36.8% to RMB1,117.6 million for the year ended 31 December 2007 from RMB817.1 million for the year ended 31 December 2006. The increase principally reflected increased bandwidth and server custody fees as we supported more bandwidth and storage intensive services, higher amounts of telecommunications operators' revenue share, increased staff costs as we increased the number of employees to support our various services and products and increased sharing costs due to increases in revenues and enrichment of content. As a percentage of revenues, cost of revenues remained stable at 29.2% for both the year ended 31 December 2007 and the year ended 31 December 2006. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2007 and the year ended 31 December 2006:

	Year ended			
	31 December 2007		31 December 2006	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**627,982**	**25.0%**	426,191	23.3%
Mobile and telecommunications value-added services	**310,110**	**38.4%**	272,558	38.9%
Online advertising	**146,717**	**29.8%**	93,940	35.2%
Others	**32,748**	**501.3%**	24,373	293.7%
Total cost of revenues	**1,117,557**		817,062	

Cost of revenues for our Internet value-added services increased by 47.3% to RMB628.0 million for year ended 31 December 2007 from RMB426.2 million for the year ended 31 December 2006. The increase mainly reflected higher expenses associated with our bandwidth capacity and servers as usage increased as a result of our business growth and as we continued to increase bandwidth and storage intensive services, increased telecommunications operators' revenue share and increased staff costs to support our growing range of Internet value-added services. In addition, sharing and subscription costs, in particular with respect to our licensed games and QQ Live, increased.

Cost of revenues for our mobile and telecommunications value-added services increased by 13.8% to RMB310.1 million for the year ended 31 December 2007 from RMB272.6 million for the year ended 31 December 2006. The increase was mainly due to increased telecommunications operators' revenue share as our business volume grew.

Cost of revenues for our online advertising increased by 56.2% to RMB146.7 million for the year ended 31 December 2007 from RMB93.9 million for the year ended 31 December 2006. The increase mainly reflected the increased sales commissions paid to advertising agencies as the volume of our advertising contracts increased. In addition, we continued to increase the number of staff on our online advertising team, and incurred higher expenses associated with our bandwidth capacity and servers as we supported more bandwidth intensive advertising format and enhanced the capacity of our online advertising platform.

Other gains, net. We recorded other gains of RMB69.2 million for the year ended 31 December 2007 compared to RMB83.2 million for the year ended 31 December 2006, a decrease of 16.8%. For the year ended 31 December 2007, we recognized net losses of RMB32.3 million relating to an acquisition completed in early 2006, consisting of impairment charges with respect to intangible assets partially offset by gains recognized from the revision of relating earn-out consideration, and an impairment charge of RMB23.8 million with respect to an investment in a nascent game company. The net losses and impairment charge were partially offset by an increase in government subsidies from RMB15.2 million for the year ended 31 December 2006 to RMB33.2 million for the year ended 31 December 2007 and an increase in interest income and fair value gains on financial instruments. In addition, charitable donations decreased from RMB20.0 million for the year ended 31 December 2006 to RMB12.0 million for the year ended 31 December 2007.

Selling and marketing expenses. Selling and marketing expenses increased by 1.4% to RMB297.4 million for the year ended 31 December 2007 from RMB293.2 million for the year ended 31 December 2006. The increase principally reflected increased promotional and advertising activities in connection with our QQ.com branding and increased outsourcing expenses as we expanded our customer support activities, partly offset by the reduced marketing spend in relation to wireless value-added services amid a challenging industry environment. As a percentage of revenues, selling and marketing expenses decreased to 7.8% in the year ended 31 December 2007 from 10.5% in the year ended 31 December 2006.

General and administrative expenses. General and administrative expenses increased by 37.7% to RMB840.1 million for the year ended 31 December 2007 from RMB610.0 million for the year ended 31 December 2006. 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 for developing new products and services to drive our future growth, including IM functionalities and online games, and as we increased our longer-term research activities which focus on further enhancing our technological platform so that we may be able to capitalize on future innovations in technology. Staff costs and our operating lease expenses also increased as a result of a higher number of staff employed to support our business expansion. In addition, we had higher amortization expenses of intangible assets following the acquisition of several subsidiaries. As a percentage of revenues, general and administrative expenses increased slightly to 22.0% in the year ended 31 December 2007 from 21.8 % in the year ended 31 December 2006.

Finance costs. Finance costs represent foreign exchange losses 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 RMB100.2 million for the year ended 31 December 2007 compared to RMB46.5 million for the year ended 31 December 2006. The increase in finance costs recorded was mainly due to the foreign exchange loss as the Renminbi appreciated against the US dollar, particularly because we held a larger amount of US dollar-denominated attributable to the amount of intra-group dividends remitted by our PRC subsidiaries to our offshore subsidiaries, which amount was increased in order to reduce the possible withholding tax that would be levied on dividends paid in 2008 or later upon the implementation of the new enterprise income tax regulations.

Income tax benefit/(expense). We recorded income tax benefit of RMB33.5 million for the year ended 31 December 2007 compared to income tax expense of RMB53.0 million for the year ended 31 December 2006. The higher income tax benefit was mainly due to the recognition of RMB198.6 million of deferred tax assets in the year ended 31 December 2007 compared to RMB62.4 million of deferred tax assets recognized in the year ended 31 December 2006. We recognized a significantly higher amount of deferred tax assets as the volume of intra-group sales of self-developed software and technology increased and the applicable tax rates became higher under the new enterprise income tax law that will become effective in 2008.

Profit for the period. Profit for the period increased by 47.4% to RMB1,568.0 million for the year ended 31 December 2007 from RMB1,063.8 million for the year ended 31 December 2006. Net margin was 41.0% for the year ended 31 December 2007 compared to 38.0% for the year ended 31 December 2006.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 47.2% to RMB1,566.0 million for the year ended 31 December 2007 from RMB1,063.8 million for the year ended 31 December 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007 and 30 September 2007, we had the following major financial resources in the form of cash and investments:

	31 December 2007	30 September 2007
	(RMB in thousands)	
	(Audited)	*(Unaudited)*
Cash and cash equivalents	**2,948,757**	2,320,844
Term deposits with initial term of over three months	**604,486**	914,240
Financial assets held for trading	**266,495**	221,914
Held-to-maturity investments	**73,046**	150,216
Total	**3,892,784**	3,607,214

Note: The above table excludes RMB300.0 million of restricted deposits pledged as part of a US$40.0 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amounts at the maturity of the loan.

A large portion of our financial assets are held in deposits and investments denominated in US dollars. Since there are no cost-effective hedges against the appreciation of Renminbi and no effective manner to generally convert a significant amount of US dollar into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments, especially when more money has been repatriated out of China into US dollar and the depreciation trend of US dollar against Renminbi has accelerated in the first quarter of 2008.

We had no other interest-bearing borrowings as at 31 December 2007.

CAPITAL EXPENDITURES

In the year ended 31 December 2007, our capital expenditures consisted of additions to fixed assets, investment property, construction in progress, leasehold land and land use rights and intangible assets totalling RMB1,288.0 million (including capital expenditures in relation to acquisition of subsidiaries amounting to RMB313.0 million). In the year ended 31 December 2006, our capital expenditures consisted of similar items totalling RMB 478.1 million.

BUSINESS OUTLOOK

2007 was an exciting year for the Internet industry in China. During 2007, the number of Internet users in China exceeded 200 million for the first time, reaching 210 million by the end of 2007, according to China Internet Network Information Center. This represented a year-on-year growth rate of 53%, compared to 23% in the year of 2006. Despite the increased user base, growth rate in Internet users has actually accelerated as opposed to decelerated, reflecting the vibrant underlying trend in the industry. In addition to growth in Internet users, we believe Internet has increasingly become a part of everyday life for Chinese people. The widespread availability of broadband connections has given rise to a multitude of broadband applications that allow people to stay connected with each other, to get entertained, and to get access to information. In the area of online communication and communities, social networking, an Internet service that allows users to share their profiles, diaries, photos and other information with their network of friends, has become very popular, supplementing traditional communication services such as instant messaging and email. In the area of online entertainment, online games have seen another year of strong growth, with the number of online game players in China growing 23% from last year to reach 40 million in 2007, according to the General Administration of Press and Publication of the People's Republic of China. Online games have increasingly become a mainstream entertainment for young people in China. User demand for online music and online video has also increased significantly, although lack of proper regulations for intellectual property continued to be the main constraints for sustainable growth in the industry. In the area of providing useful information to users, portals continued to gain traction as a media for people to get access to news and other organized content, while search has also grown as a means for people to get access to unorganized information. During the year of 2007, e-commerce has also started to emerge as a mainstream Internet application as e-commerce enabling infrastructure, such as supplier network, online payment and logistics in China, keeps improving.

At Tencent, we believe Internet technology and applications can significantly improve the quality of human life. Since 2005, we have been implementing our "Online Lifestyle" strategy which strives to utilize our online platforms and applications to cater to four basic needs of our users — communication and community, entertainment, information and e-commerce. We believe by providing an integrated suite of services, we can deliver increased levels of convenience, data integration and data sharing that individual services cannot provide on a standalone basis. While our services in certain areas, such as e-commerce, remained at a nascent stage of development, we have made significant progress in 2007 in many areas of our "Online Lifestyle" strategy which will be described in later sections.

As an emerging industry, Internet presents many challenges along with the opportunities. During the past year, we continued to face a challenging security environment with criminals spreading Trojan horses and viruses aimed at stealing users' various account information. As the largest registered Internet service provider in China, our services were their primary target. Although the account security for our users has improved significantly since we introduced an all-out battle against account theft in 2006, the struggle is ongoing. In addition to account security, we also faced an increasingly competitive environment with competitive pressure coming from integrated Internet companies expanding their scope of business as well as specialized companies competing in specific industry segments that we operated in. To stay competitive, we continued to invest in research and development in order to improve the quality of our existing products, as well as to develop new features and new products to cater to the changing needs of our users. We also placed tremendous focus on building a stronger organization that can attract, develop and retain the best engineering and business talents. By focusing on our users and our people, and taking a long-term approach in building our business franchises, we believe we can capitalize on the long-term growth potential in the Internet industry.

In 2007, our diversified business portfolio once again delivered solid results as a whole, although different business lines fluctuated at different times. During the year, our Internet value-added service ("IVAS") business, particularly non-game IVAS, and online advertising business grew strongly. On the other hand, our wireless business faced a depressive industry environment as operators and regulators stepped up restrictions on the service providers. We were able to register a modest growth amid a contraction of the entire industry as we strengthened our execution and enhanced value to users through bundling of our various products and services. For the fourth quarter of 2007, we experienced negative seasonality in our non-game IVAS business while our online game business grew, driven by new features in our games, growth in newly launched games, and consolidation of an affiliate game studio which we increased our stake to control position during the quarter. Both of our online advertising business and wireless value-added service business registered solid growth during the quarter. As we step into the first quarter of 2008, we expect to see a more favorable seasonality for our IVAS business as a result of winter break for students and the Chinese New Year holidays. On the other hand, our online advertising business will experience a slow season as advertising activities are generally dampened around the Chinese New Year holidays. For 2008, our financial results will generally be subject to higher staff costs as we strive to retain, reward and attract the best talents, higher tax rate as a result of tax reform, and higher foreign exchange losses as US dollar continued its depreciation against the Renminbi.

In our core IM platform, we have focused our efforts in 2007 to improve account security, enhance performance of the service, and introduce new functionalities. We have also improved the integration of our IM service with other Internet services that we provide, including email, social networking and e-commerce. As a result of our efforts, user security has improved significantly during 2007 and both active user accounts and peak concurrent users ("PCU") for our IM service grew during the year. On the other hand, we anticipate renewed challenges on account security as criminals upgrade their technology. We also expect to see more intensive competition in the IM space as specialized IM services catering to specialized applications, such as VOIP and e-commerce, gain traction, and as new entrants enter into the market. We plan to continue strengthening our account security team, account protection system, and user education on account security. We also plan to improve the architecture of our IM services such that users can customize the IM services to fit their different tastes and needs more easily.

In 2007, our portal QQ.com solidified its position as the most visited portal in China. To build its brand recognition, we have focused on improving the quality of the portal and investing in branding initiatives. In addition to strengthening our editor team, we signed up as the exclusive Internet partner to many major events during the year, such as the Boao Forum and the World Economic Forum (Summer Summit in Dalian), and as the official supporter for FIFA Women's World Cup during the year. We also invested in a branding campaign that involved display of our brand in major cities and major business publications. In 2008, we will continue to improve the day-to-day quality of our portal. We will also provide extensive and differentiated coverage of the Beijing Olympics, as well as invest in sponsoring major events and branding program to further build recognition of QQ.com as a mainstream and influential media.

In our non-game IVAS, a major achievement for us in 2007 was the development of Qzone into a very significant social networking platform with more than 105 million active users by the end of the year. In addition to contributing substantial revenue growth, Qzone complements QQ's ability to facilitate communications and sharing among our users. In view of the strategic value of Qzone, we plan to pace the monetization of Qzone such that there is a balance between paying users and non-paying users. We will also continue to improve the basic performance of Qzone service and introduce differentiated applications on top of the Qzone platform to cater to different social networking needs of our users. For example, we are developing an application that will allow students to better network with each other in the school environment. During 2007, Premium QQ registered strong organic growth as a result of our bundling strategy in which we kept adding functionalities and privileges to its subscribers to increase loyalty. In 2008, we plan to build on this success and continue to develop new functionalities as well as expand its privileges through working with external partners who want to get access to our Premium QQ users as a means to market their own products and services. QQ Pet was also a contributor to our revenue growth in 2007. During the year, we test introduced a new pet, the Piggy, with mixed results because it was difficult for users to keep two pets running at the same time. In 2008, we plan to upgrade the system to accommodate a multi-pet setting for users more smoothly. We continue to view QQ Pet as an innovative product that requires much experimenting. QQ Show was the only major identities product that experienced decline in 2007. During 2007, we embarked on a comprehensive initiative to revamp the product as it had grown old after being introduced for 4 years. During the year, we have upgraded the technology platform from GIF to Flash, which will allow us to develop richer and more interactive features for QQ Show in 2008. During the fourth quarter, our online identities business was negatively impacted by unfavorable seasonality compared to the school holiday season in the third quarter. We expect to see more favorable seasonality in the first quarter of 2008.

In our online game business, 2007 was a year of foundation building. During the year, we focused on three areas: 1. building our user platform and exploring different ways to leverage our platform to promote new games; 2. strengthening our internal research and development capability; and 3. building partnership with high quality game studios to publish their games on our platform. We have made progress in all three areas. Our QQ Game platform saw its PCU growing 40% to reach 3.8 million by the end of 2007. We believe our user platform allows users to learn about, test play and pay for a game very easily and facilitates the spread of the game through community effect, which constitutes the most significant differentiation of our game business from pure-play companies. Our ability to leverage this platform effect was demonstrated in the successful launch of QQ SanGuo, a self-developed MMOG, and QQ Huaxia, an MMOG we co-launched with our investee company. In addition to the success of QQ SanGuo, the progress in our internal research and development capability was further demonstrated in our successful launch of QQ Speed during the first quarter of 2008, a self-developed car racing game, which exceeded 400,000 PCU in March. During 2007, we have also secured supply of a number of new titles through partnership with other studios, including the acquisition of a majority stake in Shenzhen Domain Computer Network Company Limited, the licensing of Dungeon and Fighter, a highly anticipated game, from Neople and Samsung, the licensing of Cross Fire from Neowiz, among others. In 2008, we plan to launch three additional MMOGs and three additional advanced casual games licensed from our partners or produced by our investee companies. Although licensed games carry lower margin and investing in game studios at nascent stage carries relatively high risks, we believe they are important means through which we can broaden our access to high quality games and creative talent in the very competitive online game industry.

Our wireless business endured a challenging year in 2007 as the entire industry faced a slump due to increased regulatory restrictions from operators and regulators. While the restrictions were intended to clean up improper activities in the industry, all service providers were negatively impacted to certain extent. Despite the depressive industry environment, we were able to achieve modest growth in our business by building stronger cooperative relationship with operators, leveraging our strong execution capability and bundling various services and features to increase value and stickiness of our services. In particular, we were able to transition our Mobile QQ onto China Mobile's Fetion platform by introducing Fetion QQ in a relatively smooth process. In the area of wireless Internet, traffic in our wireless WAP portal grew significantly during the year, benefiting from higher penetration of 2.5G mobile subscribers. In 2008, we expect the industry environment for wireless value-added services to remain uncertain due to potential regulatory policies, and the cannibalization of free WAP services. In view of this, we will continue to improve our products and services to provide more features and value to subscribers while at the same time further enhance the content of our free WAP portal to attract more users to use our portal as their gateway to wireless Internet.

We achieved above-industry growth in our online advertising business in 2007, as our increasingly more professional team were able to leverage our leading and diversified Internet platforms to generate more sales to existing customers as well as develop new customers. Our advertising business also benefited from the QQ.com branding campaign we launched during the year, which increased the recognition of our various Internet platforms among advertisers. In terms of customer categories, while we continued to build on our success in online game, food and beverage, and apparel industries, we also focused on building inroads into consumer electronics and automobile industries. For 2008, we continue to see favorable industry trend as number of Internet users grows and Internet average usage time for users increases. We believe the growth of the online advertising industry can be further catalyzed if the effectiveness of online advertising can be better quantified and further improved. Hence we launched Tencent MIND (Measurability, Interactivity, Navigation and Differentiation) as a new framework to improve the effectiveness of online advertising for our advertisers. By working closely with our customers, leveraging our diversified Internet platforms, and utilizing new advertising technologies, we hope to bring tangible benefits envisioned in Tencent MIND to our advertisers. Although the first quarter of 2008 will be weak season for advertising, we anticipate our online advertising revenue will rebound in the second quarter.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2007, the Group had 4,344 employees (2006: 3,017) including about 500 employees from a new subsidiary acquired in November 2007, 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 2007 was RMB731.5 million (2006: RMB585.6 million).

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

During the year, the Company repurchased 3,438,000 shares on the Stock Exchange for an aggregate consideration of HKD110,585,000 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 2007	*No. of shares purchased*	*Highest price paid HKD*	*Lowest price paid HKD*	*Aggregate consideration paid HKD*
July	948,000	33.20	32.40	31,235,000
August	2,490,000	34.45	28.90	79,350,000
Total	3,438,000			110,585,000

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 Thursday, 8 May 2008 to Wednesday, 14 May 2008 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 4:30 p.m. on Wednesday, 7 May 2008.

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 2007.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In relation to the deviation from code provision A.4.2 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") , according to the articles of association of the Company ("Articles of Association"), at each AGM held after 23 March 2007, one-third of the directors shall retire from office by rotation, provided that the chairman of the Board shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

The chairman of the Board is one of the core founders of the Company and plays a leading role in the growth and development of the Company and his continuing presence adds positive value and assurance to the sustainable development of the Company. The Board considered that the existing provision of retirement and re-election in the Articles of Association shall not have a material impact on the operation of the Company as a whole. Notwithstanding the above, the Board will review the current provision in the Articles of Association from time to time and shall make necessary amendments at the appropriate time.

Save as disclosed above and those in the 2006 annual report of the Company which was the position as at 31 December 2006, 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 2007, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to 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 (www.hkexnews.hk) and the Company (www.tencent.com) in due course.

APPRECIATION

I would like to extend my deepest gratitude, on behalf of the Board, to all our employees for their efforts, dedication and commitment; and to our shareholders for their continuous support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 19 March 2008

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.