

## MANAGEMENT DISCUSSION AND ANALYSIS



### 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:

	<b>For the 16-day period ended 31 December 2005</b>	For the 15-day period ended 30 September 2005	<b>Percentage change</b>
	<i>(in millions)</i>		
Registered IM user accounts (at end of period)	<b>492.6</b>	474.1	3.9%
Active user accounts (at end of period)	<b>201.9</b>	184.8	9.3%
Peak simultaneous online user accounts (for the quarter)	<b>18.4</b>	19.5	(5.6)%
Average daily user hours	<b>231.4</b>	291.8	(20.7)%
Average daily messages <sup>(1)</sup>	<b>2,502.4</b>	2,595.5	(3.6)%
Fee-based Internet value-added services registered subscriptions (at end of period)	<b>10.6</b>	10.1	5.0%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period) <sup>(2)</sup>	<b>8.1</b>	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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

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



## MANAGEMENT DISCUSSION AND ANALYSIS

*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
<i>(RMB in thousands, except percentages)</i>				
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	<u>429,430</u>	<u>100.0%</u>	<u>362,829</u>	<u>100.0%</u>

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

*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
<i>(RMB in thousands, except percentages)</i>				
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	<u>140,174</u>		<u>118,804</u>	

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 reflected 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 utilize 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 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 Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer") and Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan") of RMB12.9 million. These deferred tax assets relate to sales of self-developed software and technology by Tencent Technology (Shenzhen) Company Limited ("Tencent Technology") or Tencent Technology (Beijing) Company Limited ("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.

## MANAGEMENT DISCUSSION AND ANALYSIS

*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:

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





## MANAGEMENT DISCUSSION AND ANALYSIS

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

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

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

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.

