1 GENERAL INFORMATION

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

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

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the "Registered Shareholders").

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which included activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), which is a wholly foreign owned enterprise incorporated in the PRC on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Certain contractual arrangements have been made among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders in order that the decision-making rights and operating and financing activities of Tencent Computer are ultimately controlled by the Company. The Company and Tencent Technology are also entitled to substantially all of the operating profits and residual benefits generated by Tencent Computer under these arrangements. In particular, the Registered Shareholders are required under their contractual arrangements with the Group to transfer these interests in Tencent Computer to the Group or the Group's designee upon the Group's request at a pre-agreed nominal consideration.

As a result, Tencent Computer is accounted for as a subsidiary and the formation of the Group was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. The financial statements are presented as if these three entities had always been combined. This approach was adopted because in the management's belief it best reflects the substance of the formation.

1 GENERAL INFORMATION (Cont'd)

During 2004, the Registered Shareholders established another company in the PRC, Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan"), in order to carry out certain business operations of the Group similar to Tencent Computer. The Company also incorporated another wholly foreign owned enterprise, Shidai Zhaoyang Technology (Shenzhen) Company Limited ("Shidai Zhaoyang"). Similar contractual arrangements have been made among the Company, Shidai Zhaoyang, Shiji Kaixuan and the Registered Shareholders. Shiji Kaixuan is also accounted for as a subsidiary of the Group for accounting purposes.

During 2006, the Group acquired full equity interests in Joymax Development Ltd. ("Joymax Development") and its subsidiaries (collectively, the "Joymax Group") and Nanjing Wang Dian Technology Company Limited ("Wang Dian") (Note 38), which are providers of mobile value-added services to users in the PRC and have contractual arrangements similar to those described above.

These consolidated financial statements have been approved for issue by the board of directors on 21 March 2007.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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

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

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

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

- IAS 19 (Amendment), IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions, IAS 39 and IFRS 4 (Amendment) - Financial Guarantee Contracts, are not relevant to the Group's operations.

- IAS 21 (Amendment) requires exchange difference arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. Management considered that this amendment did not have a significant impact on the Group's financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

i) Assessment and adoption of revised/new IFRS, interpretations and amendments effective in 2006 (Cont'd)

- IAS 39 (Amendment) - The Fair Value Option and IFRIC 4 did not result in substantial changes to the Group's accounting policies, as mentioned as follows:

  — IAS 39 (Amendment) - The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. Management considered that this amendment did not have a significant impact on the classification of financial instruments, as the Group was able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss; and

  — IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management considered that IFRIC 4 did not have a significant impact on the Group's operations.

ii) Standards, interpretations and amendments to published standards which are not yet effective

The following new standards, interpretations and amendments to the existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods.

IAS1 (Amendment)	Presentation of Financial Statements: Capital Disclosure
IFRS 7	Financial instruments: Disclosures
IFRS 8	Operating Segment
IFRIC 7	Applying the Restatement Approach under IAS29, Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The Group has not yet early adopted any of the above standards, interpretations or amendments. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact they would have on the Group's results of operations and financial position.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7(a)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Fixed assets

All fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Fixed assets (Cont'd)

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives or over the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains, net" in the income statement.

2.6 Leasehold land and land use rights

Leasehold land and land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and amortised over the remaining period of the lease on a straight-line basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGU or groups of CGU that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets

Other intangible assets mainly include computer software and technology, non-compete agreements, licenses and media advertising databases acquired from business combinations. They are initially recognised and measured at estimated fair value upon acquisition. Acquired computer software and technology are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Cost of computer software and technology purchased are being amortised on a straight-line basis over their estimated economic lives of three to five years; non-compete agreements are being amortised on a straight-line basis over the non-competition period; cost of licenses are being amortised on a straight-line basis over the licenses period; and media advertising databases are being amortised over their estimated economic lives.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "accounts receivable" and "other receivables" in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Financial assets (Cont'd)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement within "Other gains, net" in the period in which they arise.

Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Financial assets (Cont'd)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of accounts receivable is described in Note 2.12.

2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the year, the Group did not hold any derivative instruments designated as a hedging instrument but held certain derivative instruments which did not qualify for hedge accounting. The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit and loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the derivative financial instrument at fair value, which shall be stated at cost.

2.11 Inventories

Inventories are commodities purchased from third parties, and mainly consist of low value consumable gifts. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with initial term of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet, if any.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.15 Accounts payable

Accounts payable is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.17 Employee benefits (Cont'd)

(c) Share-based compensation benefits

The Group adopted two share option schemes (see Note 19). The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.19 Revenue recognition

The Group principally derives revenues from provision of Internet value-added services, mobile and telecommunications value-added services and online advertising services in the PRC.

(a) Internet value-added services and mobile and telecommunications value-added services

Revenue from Internet value-added services are derived from the provision of community and online entertainment services across various Internet platforms.

Mobile and telecommunications value-added services revenues are derived principally from providing users with mobile instant messaging services, mobile chat services, and other mobile value-added services such as mobile interactive voice response services, ringback tone services, music and image/picture downloads, mobile news and information content services and mobile game services.

Internet value-added services and mobile and telecommunications value-added services are either billed on a monthly subscription basis or on a per transaction/message basis. Certain of these services are delivered to the Group's customers through the platforms of various subsidiaries of mobile operators in the PRC, mainly China Mobile Communications Corporation ("China Mobile") and China United Communications Corporation ("China Unicom"), and these operators also collect certain service fees (the "Internet and Mobile Service Fees") on behalf of the Group.

In order to derive the Internet and Mobile Service Fees collected on behalf of the Group by China Mobile and China Unicom, the two mobile operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, a fixed per-message adjustment for the excess of messages sent over messages received between the platforms of the Group and these operators (collectively defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the two operators from the users, with the net amounts remitted to the Group.

The Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by subsidiaries of China Mobile and China Unicom to the Group on a monthly basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.19 Revenue recognition (Cont'd)

(a) Internet value-added services and mobile and telecommunications value-added services (Cont'd)

For the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent three-month history of the Internet and Mobile Service Fees actually derived from the operations, the number of subscriptions and the volume of data transmitted between the network gateways of the Group and the mobile operators. Adjustments are made in subsequent periods in the event that the actual revenue amounts are different from the original estimates.

In addition, the Internet value-added services can also be paid through prepaid cards and tokens sold by the Group through non-mobile channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "deferred revenue" in the consolidated balance sheet. The amounts are recognised as revenue of the Group based on the actual utilization for consumption of the respective services (see also Note 22).

(b) Online advertising

Online advertising revenues are mainly derived from fees for selling advertising space on the Group's websites, instant messaging windows and game portal in the forms of banners, links and logos, etc. and delivery of search-based advertising by various means throughout the community created by the Group.

For advertising contracts based on the actual time period that the advertisements appear on the Group's websites, instant messaging windows or game portal, the revenues are recognised ratably over the period in which the advertisements are displayed.

(c) Interest income

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement or capitalised in the construction in progress on a straight-line basis over the period of the lease.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. Other development expenditures that do not meet those criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually in accordance with IAS 36 - Impairment of Assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and price risk), credit risk and interest rate risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group.

(a) Market risk

i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government.

The proceeds derived from the initial public offering of the Company on the Main Board of the Stock Exchange on 16 June 2004 (the "IPO") are all denominated in Hong Kong Dollars ("HKD"). A large portion of them has already been invested into various investments denominated in US Dollars ("USD"). In addition, the Group is required to pay dividends in HKD in the future when dividends are declared.

The Group's USD and HKD monetary assets as at 31 December 2006 are listed below.

Monetary assets	**Currency denomination**	**As at 31 December 2006**	**2005**
		RMB'000	RMB'000
Non-current assets			
Held-to-maturity investments	USD	**234,261**	244,581
Current assets			
Financial assets held for trading	USD	**195,907**	383,887
Term deposits with initial term of over three months	USD	**17,261**	20,409
Term deposits with initial term of over three months	HKD	**314**	316
Cash and cash equivalents	USD	**612,790**	858,974
Cash and cash equivalents	HKD	**99,420**	86,982

The Group may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with its deposits and investments. The Group has not used any means to hedge the exposure to foreign exchange risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

During the year ended 31 December 2006, the Group suffered exchange losses of approximately RMB41,149,000 (2005: RMB47,304,000) as a result of RMB appreciation. The losses were recorded as finance costs in the consolidated income statement for the year ended 31 December 2006.

ii) Price risk

The Group is exposed to price risk because of investments held by the Group and classified as financial assets held for trading. They are stated at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

As mentioned in Note 2.19(a), a large portion of Internet and Mobile Service Fees is derived from co-operative arrangements with China Mobile and China Unicom. If the strategic relationship with either mobile operator is terminated or scaled-back; or if the mobile operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's mobile and telecommunications value-added services and Internet value-added services might be adversely affected in terms of recoverability of receivables.

However, in view of our history of cooperation with the mobile operators and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding accounts receivable balances.

(c) Interest rate risk

The Group has no interest-bearing borrowings. The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing assets including held-to-maturity investments, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 10, 15 and 16. Other financial assets and liabilities do not have material interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of accounts receivable and payable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is applicable for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Recognition of Internet value-added services and mobile and telecommunications value-added services

As mentioned in Note 2.19(a), for the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

As at 31 December 2006, the balance of accounts receivable due from China Mobile and China Unicom, which had not been confirmed, was estimated to be RMB51,020,000 (31 December 2005: RMB50,112,000).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

As mention in Note 2.17(c), the Company has granted share options to its employees. The directors have used the Black-Scholes valuation model (the "BS Model") to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors as the parameters for applying the BS Model (Note 19).

The fair value of options granted for the year ended 31 December 2006 determined using the BS Model was approximately HKD103,161,000 (2005: HKD120,742,000).

In addition, the Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting period ("expected turnover rate of grantees") to determine the amount of share-based compensation expenses charged into income statement. As at 31 December 2006, the expected turnover rate of grantees is assessed to be 87% (31 December 2005: 87%).

(c) Determination of contingent consideration and fair values of identifiable intangible assets arising from the Joymax Acquisition (Note 38(a))

As disclosed in Note 38(a), the Group acquired 100% equity interest in Joymax Development and the business conducted by the Joymax Group (Note 38(a)) during the year. According to the provisions of the acquisition, the purchase consideration is payable by the Group by three installments and the magnitude of the second and third installments (referred to as "Earn-out Considerations") are determined with reference to the net profits of a subsidiary of Joymax Development for the years ended/ending 31 December 2006 and 2007.

In accordance with IFRS 3 - Business Combination, the directors of the Company are required to make best estimate to determine the present value of contingent purchase consideration of the acquisition upon the initial acquisition date. Based on the Group's assessment, the total purchase consideration for the Joymax Acquisition to be approximately RMB205 million, of which approximately RMB181 million was the present value of the Earn-out Considerations as at the acquisition date.

In addition, the acquired identifiable assets and liabilities and contingent liabilities assumed had to be measured at their respective fair values as at the date of acquisition. The difference between the cost of acquisition and the fair value of the Group's share of net assets so acquired should be recognised as goodwill on the balance sheet or recognised in the income statement. In the absence of an active market for the business combination/acquisition transactions undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made their estimates according to valuation results produced by an external valuer.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(c) Determination of contingent consideration and fair values of identifiable intangible assets arising from the Joymax Acquisition (Note 38(a)) (Cont'd)

In accordance with the results stated above, a goodwill of RMB84,432,000 was determined to be arising from the Joymax Acquisition at the acquisition date (Note 38(a)).

IFRS 3 requires that the contingent consideration shall be further assessed based on the results of future events. Based on the 2006 operating results and the 2007 profit forecast of a subsidiary of Joymax Development, the Group re-assessed the present value of Earn-out Considerations as at 31 December 2006 and reduced both the Earn-out Considerations and the related goodwill by RMB62,901,000.

4.2 Critical judgments in applying the Group's accounting policies

Recognition of deferred tax assets

Certain intragroup software and technology sales have been transacted within the Group. The costs of the self-developed software and technology purchased by two subsidiary companies, Tencent Computer and Shiji Kaixuan, from other group companies have been amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements.

The Amortisation is treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan following an approval issued by the local tax bureau in 2005. As a result, the Group has recognised deferred tax assets relating to such intragroup software and technology sales. As at 31 December 2006, the carrying amount of the deferred tax assets was approximately RMB130,522,000 (31 December 2005: RMB96,362,000). The directors consider that there would be adequate tax assessable profits to be generated by both Tencent Computer and Shiji Kaixuan in the future in order to utilise such tax benefits recognised and no realisation loss is expected.

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

For the year ended 31 December 2006, the Group was principally engaged in the provision of the following services:

- Internet value-added services
- Mobile and telecommunications value-added services
- Online advertising

Other operations of the Group mainly comprised provision of trademark licensing and instant messaging services in business enterprise solution. Neither of these constitutes a separately reportable segment.

5 SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format – business segments (Cont'd)

The segment results and other segment items of the Group for the years ended 31 December 2006 and 2005 are presented as follows:

Year ended 31 December 2006	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	1,825,343	700,114	266,684	8,300	2,800,441
Gross profit/(loss)	1,399,152	427,556	172,744	(16,073)	1,983,379
Other gains, net					83,195
Selling and marketing expenses					(293,247)
General and administrative expenses					(610,022)
Operating profit					1,163,305
Finance costs, net					(46,534)
Profit before income tax					1,116,771
Income tax expenses					(52,971)
Profit for the year					1,063,800
Segment assets	439,138	120,155	104,861	12,937	677,091
Unallocated assets					3,973,481
Total assets					4,650,572
Segment liabilities	408,558	34,770	46,149	6,067	495,544
Unallocated liabilities					437,272
Total liabilities					932,816
Other segment items					
Capital expenditure	119,657	162,682	7,287	5,757	295,383
Unallocated capital expenditure					182,738
Total capital expenditure					478,121
Depreciation	42,287	8,584	2,663	2,075	55,609
Unallocated depreciation					50,807
Total depreciation					106,416
Amortisation	–	20,223	–	–	20,223
Unallocated amortisation					7,911
Total amortization					28,134

5 SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format – business segments (Cont'd)

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

5 SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format – business segments (Cont'd)

There were no transactions between the business segments. Unallocated costs represent corporate expenses.

Segment assets consist primarily of fixed assets and receivables. Segment liabilities comprise operating liabilities and exclude items such as tax and other current liabilities. Capital expenditures represent additions to fixed assets, construction in progress, leasehold land and land use rights and intangible assets. Unallocated assets consist primarily of corporate assets such as held-to-maturity investments, financial assets held for trading, available-for-sale financial assets, prepayments, deposits and other receivables, term deposits with initial term of over three months and cash and cash equivalents. Unallocated liabilities consist primarily of other payables and accruals and tax liabilities.

(b) Secondary reporting format – geographical segments

The Group mainly operates its businesses in the PRC (excluding Hong Kong) and all related assets are located in the PRC. The Group also held financial instruments as investments which were traded in other territories.

	Revenue		Total assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Operating assets						
- The PRC	**2,800,441**	1,426,395	**3,476,381**	1,821,898	**478,121**	301,988
Investments						
- Hong Kong	**–**	–	**231,386**	282,157	**–**	–
- United States	**–**	–	**566,695**	862,921	**–**	–
- Europe	**–**	–	**301,549**	376,891	**–**	–
- Other countries	**–**	–	**74,561**	83,255	**–**	–
Consolidated	**2,800,441**	1,426,395	**4,650,572**	3,427,122	**478,121**	301,988

Revenue is presented based on the countries/geographical regions in which the services are provided. Segment assets are presented according to where the risks and returns of these assets are located. Assets located in the PRC mainly relate to provision of Internet and mobile value-added services and online advertising. Assets outside PRC are mainly held-to-maturity investments, financial assets held for trading, term deposits and cash and cash equivalents. Capital expenditures are presented according to where the assets are physical located.

6 FIXED ASSETS

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005						
Cost	–	160,565	9,703	2,591	16,118	188,977
Accumulated depreciation	–	(40,901)	(2,084)	(563)	(3,349)	(46,897)
Net book amount	–	119,664	7,619	2,028	12,769	142,080
Year ended 31 December 2005						
Opening net book amount	–	119,664	7,619	2,028	12,769	142,080
Business combination	–	200	–	–	–	200
Additions	65,762	178,528	5,403	1,131	27,189	278,013
Disposals	–	(103)	(166)	–	–	(269)
Depreciation charge	–	(41,886)	(2,009)	(544)	(10,538)	(54,977)
Closing net book amount	65,762	256,403	10,847	2,615	29,420	365,047
At 31 December 2005						
Cost	65,762	338,462	14,678	3,722	43,307	465,931
Accumulated depreciation	–	(82,059)	(3,831)	(1,107)	(13,887)	(100,884)
Net book amount	65,762	256,403	10,847	2,615	29,420	365,047
Year ended 31 December 2006						
Opening net book amount	**65,762**	**256,403**	**10,847**	**2,615**	**29,420**	**365,047**
Acquisitions of subsidiaries (Note 38(a) & (b))	–	**527**	**26**	**–**	**8**	**561**
Additions	**37,137**	**232,819**	**4,734**	**1,809**	**14,480**	**290,979**
Disposals	–	**(694)**	**(368)**	**–**	**–**	**(1,062)**
Depreciation charge	**(1,797)**	**(83,033)**	**(1,502)**	**(819)**	**(19,265)**	**(106,416)**
Closing net book amount	**101,102**	**406,022**	**13,737**	**3,605**	**24,643**	**549,109**
At 31 December 2006						
Cost	**102,899**	**569,728**	**19,114**	**5,531**	**56,797**	**754,069**
Accumulated depreciation	**(1,797)**	**(163,706)**	**(5,377)**	**(1,926)**	**(32,154)**	**(204,960)**
Net book amount	**101,102**	**406,022**	**13,737**	**3,605**	**24,643**	**549,109**

7 LEASEHOLD LAND AND LAND USE RIGHTS

	2006	2005
	RMB'000	RMB'000
Opening net book amount	–	–
Additions	10,206	–
Amortisation		
- Capitalised in construction in progress	(188)	–
Closing net book amount	10,018	–

8 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Non-compete agreements	Licenses	Media advertising databases	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005							
Cost	–	–	–	–	–	–	–
Accumulated amortization and impairment	–	–	–	–	–	–	–
Net book amount	–	–	–	–	–	–	–
Year ended 31 December 2005							
Opening net book amount	–	–	–	–	–	–	–
Business combination	3,010	6,715	5,865	–	–	67	15,657
Additions	–	7,709	–	–	–	409	8,118
Amortisation charge	–	(1,203)	(1,140)	–	–	–	(2,343)
Closing net book amount	3,010	13,221	4,725	–	–	476	21,432
At 31 December 2005							
Cost	3,010	14,424	5,865	–	–	476	23,775
Accumulated amortization and impairment	–	(1,203)	(1,140)	–	–	–	(2,343)
Net book amount	3,010	13,221	4,725	–	–	476	21,432

8 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Non-compete agreements	Licenses	Media advertising databases	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006							
Opening net book amount	3,010	13,221	4,725	–	–	476	21,432
Acquisitions of subsidiaries (Note 38(a)&(b))	87,358	–	80,525	14,770	17,442	1,189	201,284
Decrease arising from the revision of the Earn-out Considerations of Joymax Acquisition (Note 38(a))	(62,901)	–	–	–	–	–	(62,901)
Additions	–	23,137	–	–	–	581	23,718
Amortisation charge	–	(5,635)	(16,718)	(2,116)	(3,198)	(279)	(27,946)
Closing net book amount	27,467	30,723	68,532	12,654	14,244	1,967	155,587
At 31 December 2006							
Cost	27,467	37,561	86,390	14,770	17,442	2,246	185,876
Accumulated amortisation and impairment	–	(6,838)	(17,858)	(2,116)	(3,198)	(279)	(30,289)
Net book amount	27,467	30,723	68,532	12,654	14,244	1,967	155,587

Amortisation of RMB27,946,000 (2005: RMB2,343,000) was charged to general and administrative expenses for the year ended 31 December 2006.

8 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to business segment or the operations of the respective company acquired.

	2006	2005
	RMB'000	RMB'000
Joymax Acquisition (Note (i))	**21,531**	–
Acquisition of Wang Dian (Note (ii))	**2,926**	–
Acquisition of operating assets from Boda Investments Holdings Limited (Note (ii))	**3,010**	3,010
	27,467	3,010

Note:

(i) The acquired Joymax Group is treated as a separate CGU. The recoverable amount of the Joymax Group is determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on profit forecast approved by management and is covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business operated by Joymax Group.

The key assumptions used for value-in-use calculation are as follows:

Gross margin (a)	70%
Growth rate (b)	3%
Discount rate (c)	15%

(a) Estimated gross margin

(b) Weighted average growth rate used to extrapolate cash flow beyond five years

(c) Pre-tax discount rate applied to the cash flow projections

Management determined estimated gross margin based on past performance and its expectations for the market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to business operated by the Joymax Group.

According to the valuation results produced by an external valuer based on the above assumptions, management considered that there was no impairment charge needed to be made against goodwill arising from Joymax Acquisition as at 31 December 2006.

(ii) Based on the similar assessment made by management, no impairment of goodwill was required as at 31 December 2006.

9 INTERESTS IN SUBSIDIARIES

(a) Investment in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	2006	2005
	RMB'000	RMB'000
Investments in equity interests:		
- at cost, unlisted	**11**	8
- investments arising from share-based compensation (Note i)	**118,078**	40,109
- amounts due from subsidiaries (Note iii)	**28,272**	28,272
	146,361	68,389

The following is a list of principal subsidiaries of the Company as at 31 December 2006:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company 2006 Direct	2006 Indirect	2005 Direct	2005 Indirect	Principal activities
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB20,000,000	**–**	**100% (Note ii)**	–	100% (Note ii)	Provision of Internet instant messaging and value-added services and of Internet advertisement service
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	**–**	**100%**	–	100%	Development of computer software and provision of Internet information service
Tencent Limited	Established on 14 March 1997 in BVI, private limited liability company	USD1	**100%**	**–**	100%	–	Investment holding
Realtime Century Technology Limited	Established on 14 March 1997 in BVI, private limited liability company	USD1	**100%**	**–**	100%	–	Investment holding

9 INTERESTS IN SUBSIDIARIES (Cont'd)

(a) Investment in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2006		2005		
			Direct	Indirect	Direct	Indirect	
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of Internet instant messaging and value-added services and of Internet advertisement service
Shidai Zhaoyang	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD500,000	–	100%	–	100%	Provision of technical and management consultancy services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Assets management
Best Logistic Developments Limited	Established on 5 May 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Investment holding
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
TCH Theta Limited	Established on 30 August 2005 in BVI, private limited liability company	USD100	100%	–	100%	–	Investment holding
High Morale Developments Limited	Established on 13 October 2005 in Hong Kong, private limited liability company	HKD2	100%	–	100%	–	Provision of VOIP services

9 INTERESTS IN SUBSIDIARIES (Cont'd)

(a) Investment in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2006		2005		
			Direct	**Indirect**	Direct	Indirect	
Joymax Development	Established on 4 January 2005 in BVI, private limited liability company	USD50,000	**–**	**100%**	–	–	Investment holding
Beijing Joymax Development Limited ("Joymax Beijing")	Established on 14 June 2005 in the PRC, private limited liability company	USD150,000	**–**	**100%**	–	–	Development of computer software and provision of technical consulting services
Beijing Emark Information and Technology Co., Ltd. ("Beijing Emark")	Established on 8 January 2003 in the PRC, private limited liability company	RMB19,000,000	**–**	**100% (Note ii)**	–	–	Provision of mobile and telecommunications value-added services
Shenzhen Tenpay Technology Limited ("Tenpay Technology")	Established on 25 August 2006 in the PRC, private limited liability company	RMB100,000,000	**–**	**100%**	–	–	Provision of e-Commerce, electronic payment and settlement services
Wang Dian	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	**–**	**100% (Note ii)**	–	–	Provision of mobile and telecommunications value-added services

9 INTERESTS IN SUBSIDIARIES (Cont'd)

(a) Investment in subsidiaries (Cont'd)

Note i: The amount represents share-based compensation expenses arising from grant of share options of the Company to employees of subsidiaries in exchange for their services offered to the subsidiaries.

Note ii: As described in Note 1 and Note 38, the Company lacks equity ownership in these subsidiaries. Nevertheless, under certain contractual agreements enacted among the registered owners of these subsidiaries, the Company and its other subsidiaries, the Company controls these companies by way of controlling more than one half of the voting rights of them, governing their financial and operating policies and appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company. As a result, they are presented as consolidating subsidiaries of the Company.

Note iii: The amounts due from subsidiaries mainly represent advances made for investments in Shidai Zhaoyang, Tencent Beijing and the Foxmail Acquisition (defined in the consolidated financial statements for the year ended 31 December 2005). All these balances are unsecured and interest free and their settlements are neither planned nor likely to occur in the foreseeable future. The directors consider that it is appropriate to treat the balances as quasi equities in these companies and record them as non-current assets of the Company.

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries represent current account balances within the Group. All balances are unsecured and interest free and are expected to be repayable within one year.

10 HELD-TO-MATURITY INVESTMENTS

The amount as at 31 December 2006 represents two 3-Year notes and one 2-Year note (the "Notes") at variable annual coupon rates over the period of the Notes and with maturity in 2007. Embedded in the Notes are call options (the "Option") which entitle the issuers to repurchase the Notes at par from the Group after specified periods are lapsed until maturity of the Notes. Upon the exercise of the Option, the issuers are required to pay to the Group the principal together with the accrued interest.

There were no disposals or impairment provision made against held-to-maturity investments for the year ended 31 December 2006.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	RMB'000	RMB'000
Beginning of the year	36,073	–
Additions	20,367	36,073
End of the year	56,440	36,073
Non-current portion	56,440	36,073
Included equity interests in:		
Shenzhen Domain (Note (a))	29,850	29,850
GoPets Ltd. ("GoPets") (Note (b))	23,842	6,223
Others	2,748	–
	56,440	36,073

Note:

(a) The amount represents 19.9% of the equity interest in Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"), a limited liability company incorporated in the PRC. According to the purchase agreement, the Company is entitled to certain options to acquire additional equity interest up to 60% ("Call options") in Shenzhen Domain from the original owners ("Sellers"), within a specified period, at consideration payable based on the future profit that would be achieved by Shenzhen Domain ("Predetermined Considerations"). In addition, upon the occurrence of certain triggering events, the Sellers may also require the Company to acquire the remaining outstanding equity interest of Shenzhen Domain (the "Put Option") at the Predetermined Considerations.

The directors of the Company consider that, based on the results of consultation with an external valuer according to the requirements of IFRS, the Company cannot reasonably determine and separate the fair values of the Call Options and the Put Option from the total consideration paid by the Group. The effect to the Financial Statements is considered to be immaterial.

(b) The amount represents equity investments in 0.1% of the ordinary shares and 16.8% of the preferred shares in GoPets, a limited liability company incorporated in Korea. The preferred shares are redeemable and convertible into ordinary shares.

Based on the assessment made by the directors, the carrying amounts of above available-for-sale financial assets approximate their fair values and no revaluation reserve or impairment provision was required to be recognised at 31 December 2006 as no significant matter occurred during the year that would lead to material changes in their fair values.

12 ACCOUNTS RECEIVABLE

	2006	2005
	RMB'000	RMB'000
0 - 30 days	**180,304**	125,323
31 days - 60 days	**81,462**	30,637
61 days - 90 days	**38,450**	17,362
Over 90 days but less than a year	**99,121**	49,432
	399,337	222,754

The Group has no formal credit periods communicated to its major customers but the customers usually settle the amounts due to it within a period of 30 to 90 days. A substantial balance of the receivable balances as at 31 December 2006 and 31 December 2005 were due from China Mobile, China Unicom and China Telecommunications Corporation and their respective branches, subsidiaries and affiliates. The directors consider that the carrying value of the receivable balance approximates its fair value as at 31 December 2006.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006	2005
	RMB'000	RMB'000
Prepaid expenses	**17,301**	9,318
Advances to suppliers	**4,100**	5,897
Rental deposits and other deposits	**32,131**	7,800
Interest receivable	**20,349**	3,569
Staff advances	**3,034**	908
Refundable value added tax ("VAT") (Note)	**28,000**	–
Others	**8,853**	5,078
	113,768	32,570

Note: According to a notice of the relevant government authorities in the PRC, Caishui 2000 No. 25, the portion of VAT paid in excess of 3% of the consideration of the software products developed and sold by an ordinary VAT payer would be immediately refunded by the tax bureau ("Tax Rebate"). During the year, certain intragroup software sales had been transacted within the Group, and this resulted in Tax Rebate of approximately RMB37,800,000 (2005: RMB7,000,000). The amounts as at 31 December 2006 represented the amounts not yet settled by the local tax authority.

In addition, the respective VAT paid/payable in these intragroup transactions, net of the amounts of Tax Rebate receivable, in the amount of approximately RMB8,100,000 (2005: RMB1,500,000) (Note 27), had been recorded as part of the general and administrative expenses of the Group during the year.

14 FINANCIAL ASSETS HELD FOR TRADING

	2006	2005
	RMB'000	RMB'000
Investment portfolio (Note)	**156,645**	302,948
Floating rate debt instruments (Note)	**39,262**	80,939
	195,907	383,887

Note: The fair values of the respective underlying financial instruments in the portfolio and the floating rate debt instruments as at 31 December 2006 were determined with reference to the respective published price quotations in an active market.

Changes in fair values of financial assets held for trading are recorded in "Other gains, net" in the income statement. Movements in financial assets held for trading have been presented as changes in operating activities in the consolidated cash flow statement of the Group (Note 35).

15 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rates of the term deposits of the Group and the Company with initial term of over three months for the year ended 31 December 2006 were 2.20% (2005: 2.15%) and 5.24% (2005: 2.75%), respectively.

As at 31 December 2006, the Group's term deposits denominated in USD and HKD with initial term of over three months are presented in Note 3.1(a). The term deposit balance of the Company denominated in USD as at 31 December 2006 was RMB15,618,000 (2005: RMB20,176,000).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,239,663**	1,170,360	**59,490**	52,672
Term deposits with initial term within three months	**604,657**	405,684	**7,904**	9,684
	1,844,320	1,576,044	**67,394**	62,356

The effective interest rates of the term deposits of the Group and the Company with initial term within three months for the year ended 31 December 2006 were 1.73% (2005: 1.66%) and 5.00% (2005: 3.15%), respectively.

Details of the balances maintained by the Group which were denominated in USD and HKD as at 31 December 2006 are presented in Note 3.1(a). Approximately RMB1,132,110,000 (2005: RMB630,088,000) of the total balance was denominated in RMB and deposited with banks in the PRC. The balances maintained by the Company denominated in USD and HKD were RMB11,168,000 (2005: RMB11,281,000) and RMB56,226,000 (2005: RMB51,075,000), respectively as at 31 December 2006. The Company had no material balance denominated in RMB.

17 SHARE CAPITAL, SHARE PREMIUM AND SHARE-BASED COMPENSATION RESERVE

	Number of ordinary shares	Issued share capital	Share premium	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	1,764,904,410	192	1,777,721	5,583	1,783,496
Employees share option scheme:					
- value of employee services	–	–	–	34,526	34,526
- number of shares issued and proceeds received	18,605,658	1	11,408	–	11,409
Repurchase and cancellation of shares	(14,266,000)	(1)	(123,085)	–	(123,086)
At 31 December 2005 / 1 January 2006	**1,769,244,068**	**192**	**1,666,044**	**40,109**	**1,706,345**
Employees share option scheme:					
- value of employee services	–	–	–	**77,969**	**77,969**
- number of shares issued and proceeds received (Note)	**17,564,700**	**2**	**34,052**	–	**34,054**
Repurchase and cancellation of shares	**(18,357,000)**	**(2)**	**(241,076)**	–	**(241,078)**
At 31 December 2006	**1,768,451,768**	**192**	**1,459,020**	**118,078**	**1,577,290**

The total authorised number of ordinary shares is 10,000,000,000 shares (2005: 10,000,000,000 shares) with par value of HKD0.0001 per share (2005: HKD0.0001 per share).

As at 31 December 2006, all issued shares were fully paid.

Note: During the year of 2006, a total of 12,377,973 Pre-IPO options were exercised at exercise prices ranging from USD0.0497 to USD0.4396 (Note 19(b)). In addition, a total of 5,186,727 Post-IPO options were exercised at exercise prices ranging from HKD3.6650 to HKD 8.3500 (Note 19(b)).

18 OTHER RESERVES

(a) Group

		PRC statutory reserves			
	Capital reserve	**Statutory surplus reserve fund** (Note)	**Statutory public welfare fund** (Note)	**Reserve fund** (Note)	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005	20,000	10,000	14,175	8,267	52,442
Profit appropriations to statutory reserves	–	171	13,996	–	14,167
Balance at 31 December 2005/ 1 January 2006	**20,000**	**10,171**	**28,171**	**8,267**	**66,609**
Profit appropriations to statutory reserves	–	**4,100**	**6,078**	**4,138**	**14,316**
Balance at 31 December 2006	**20,000**	**14,271**	**34,249**	**12,405**	**80,925**

Note: In accordance with the Companies Laws of the PRC and the provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds, the Statutory Public Welfare Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentages of appropriation to Statutory Surplus Reserve Fund and Statutory Public Welfare Fund are 10% and 5 - 10%, respectively. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners meetings of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the paid up/registered capital, such transfer needs not be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital. However, the Statutory Public Welfare Fund is only available to provide collective staff welfare benefits. As at 31 December 2006, the balance of the Statutory Surplus Reserve Fund of Tencent Computer has reached 50% of the paid up/registered capital.

18 OTHER RESERVES (Cont'd)

(a) Group (Cont'd)

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds and Staff Bonus and Welfare Funds before distributions are made to the owners. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. The percentage to be appropriated to the Staff Bonus and Welfare Fund is determined by the boards of directors of these companies. When the balance of the Reserve Fund reaches 50% of the paid up share capital, such transfer needs not be made. As at 31 December 2006, the balances of the Reserve Fund of Tencent Technology and Tencent Beijing have reached 50% of the paid up share capital.

The Staff Bonus and Welfare Fund is designated for funding the payments of special bonuses approved for employees and collective staff welfare benefits. With an approval obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Company

During the year ended 31 December 2004, the Company transferred all its equity investment (the "Transfer") in its wholly owned subsidiary, Tencent Technology, to another wholly owned subsidiary at a consideration of USD1 (equivalent to approximately RMB8). Since it was a reorganisation under common control of the same shareholder, the difference between the original cost of investment in Tencent Technology and the consideration received by the Company for the Transfer in the amount of RMB16,534,000 was recorded as a debit to the capital reserve of the Company and no gain or loss had been recognised by the Company in the transaction.

19 SHARE OPTION

(a) Share option schemes

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

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

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

The total number of shares in respect of which options were granted under the Pre-IPO Option Scheme was not permitted to exceed 7.5% of the shares in issue on the date the offer of the grant of an option was made. The number of ordinary shares in respect of which options were granted to any individual was not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme. As at the effective date of the IPO of the Company on 16 June 2004, all options under this scheme had been granted.

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

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

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

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

19 SHARE OPTION (Cont'd)

(a) Share option schemes (Cont'd)

(ii) Post-IPO Share Option Scheme (the "Post-IPO Option Scheme") (Cont'd)

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

In the event of any alterations made to the capital structure of the Company whilst any options granted remain exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, sub-division, or reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements or in any event of any distribution of the Company's capital assets to its shareholders on a pro rata basis (whether in cash or in species) other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company, such corresponding alterations shall be made to: (i) the number or nominal amount of shares subject to the options of the scheme so far unexercised; (ii) the subscription price; or (iii) the method of exercise of the option.

(b) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme		Total
	Average exercise price	No. of options	Average exercise price	No. of options	number of options
At 1 January 2005	USD 0.0849	50,406,917	HKD 3.6650	6,300,961	56,707,878
Granted	–	–	HKD 6.3772	48,209,268	48,209,268
Exercised	USD 0.0661	(18,189,710)	HKD 3.6650	(415,948)	(18,605,658)
Lapsed	USD 0.2069	(642,850)	HKD 4.6071	(2,800,635)	(3,443,485)
At 31 December 2005	USD 0.0933	31,574,357	HKD 6.1627	51,293,646	82,868,003
At 1 January 2006	**USD 0.0933**	**31,574,357**	**HKD 6.1627**	**51,293,646**	**82,868,003**
Granted	**–**	**–**	**HKD 13.5351**	**18,433,600**	**18,433,600**
Exercised	**USD 0.0799**	**(12,377,973)**	**HKD 4.8948**	**(5,186,727)**	**(17,564,700)**
Lapsed	**USD 0.1967**	**(189,420)**	**HKD 5.2645**	**(2,177,744)**	**(2,367,164)**
At 31 December 2006	**USD 0.1010**	**19,006,964**	**HKD 8.4787**	**62,362,775**	**81,369,739**

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

19 SHARE OPTION (Cont'd)

(c) Outstanding share options

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

Details of the expiry dates, exercise price and the respective number of share options which remained outstanding as at 31 December 2006 and 2005 are as follows:

Expiry Date	Range of exercise price	Number of options 2006	2005
31 December 2011	USD0.0497	**13,734,725**	23,774,550
(Pre-IPO options)	USD0.1967-USD0.4396	**5,272,239**	7,799,807
10 years commencing from the adoption date of 24 March 2004 (Post-IPO options)	HKD3.665-HKD18.10	**62,362,775**	51,293,646
		81,369,739	82,868,003

(d) Fair values of options

The fair values of the options granted to the employees, determined using the BS Model, during the period from 1 January 2005 to 31 December 2006 are as follows:

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
26/1/2005	HKD27,864,000	16,006,530	HKD 4.4850	HKD 4.4750	3.305%	1.4%	55%	Based on the commencement date of employment or based on option grant date (Note (iv)&(v))
3/2/2005	HKD8,360,000	4,513,600	HKD 4.8000	HKD 4.8000	3.349%	1.4%	55%	Based on option grant date (Note (v))

19 SHARE OPTION (Cont'd)

(d) Fair values of options (Cont'd)

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
23/3/2005	HKD1,489,000	660,000	HKD 5.5500	HKD 5.5500	4.199%	1.4%	55%	Based on option grant date or based on the commencement date of employment (Note (iv) & (v))
6/4/2005	HKD1,954,000	810,918	HKD 5.6700	HKD 5.5500	4.086%	1.4%	55%	Based on the commencement date of employment (Note(iv))
19/5/2005	HKD1,222,000	500,000	HKD 5.6000	HKD 5.6000	3.793%	1.4%	55%	Based on the commencement date of employment (Note(iv))
7/7/2005	HKD9,961,000	4,799,920	HKD 6.0100	HKD 5.9000	3.463%	1.4%	50%	Based on option grant date (Note (v))
19/10/2005	HKD16,535,000	5,365,000	HKD 8.2400	HKD 8.0000	4.176%	1.4%	55%	Based on option grant date (Note (v))
20/12/2005	HKD51,437,000	15,053,300	HKD 8.3500	HKD 8.3500	4.219%	1.4%	58%	Based on option grant date (Note (v))
20/12/2005	HKD1,920,000	500,000	HKD 8.3500	HKD 8.3500	4.219%	1.4%	58%	Based on option grant date (Note (vi))
23/3/2006	HKD51,697,000	10,950,000	HKD 11.55	HKD 11.55	4.40%	1.4%	57%	Based on option grant date (Note (v))
17/07/2006	HKD27,083,000	4,073,600	HKD 15.05	HKD 15.05	4.72%	1.16%	58%	Based on option grant date (Note (v))

19 SHARE OPTION (Cont'd)

(d) Fair values of options (Cont'd)

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
13/10/2006	HKD4,121,000	600,000	HKD 18.10	HKD 18.10	3.94%	1.16%	49%	Based on option grant date (Note (v))
13/10/2006	HKD20,260,000	2,810,000	HKD 18.10	HKD 18.10	3.94%	1.16%	49%	Based on option grant date (Note (vii))

Note:

(i) The risk free rate was determined based on the yield to maturity of Hong Kong Government Bonds with maturity in December 2011 or June 2012 as at the date of valuation.

(ii) Dividend yield is calculated using the average price to earnings ratio of 17 of comparable companies and a dividend payout ratio ranging from 10% to 25% or estimated based on the Company's historical dividend yield.

(iii) Volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company and comparable companies since their IPO to the valuation date.

(iv) For options granted with exercisable date determined based on the commencement date of employment, the first 25% of the options can be exercised two years after the commencement date, and 25% each of the total options will become exercisable in each subsequent year.

(v) For options granted with exercisable date determined based on the grant date of the options, the first 25% of the option can be exercised one year after the grant date, and 25% each of the total options will become exercisable in each subsequent year.

(vi) For options granted with exercisable date determined based on the grant date of the options, the first 25% of the option can be exercised two years after the grant date, and 25% each of the total options will become exercisable in each subsequent year.

(vii) For options granted with exercisable date determined based on the grant date of the options, the first 20% of the option can be exercised one year after the grant date, and 20% each of the total options will become exercisable in each subsequent year.

(e) Expected turnover rate of grantees

The expected yearly percentage of employees that will stay within the Group at the end of the vesting period is estimated with reference to the historical employee information, which is assessed to be 87%. The rate has been used to determine the amount of share-based compensation expenses reported in the consolidated financial statements.

20 ACCOUNTS PAYABLES

Accounts payable and their ageing analysis are as follows:

	2006 RMB'000	2005 RMB'000
0 - 30 days	**24,254**	8,704
31 days - 60 days	**2,894**	15,126
61 days - 90 days	**2,638**	25
Over 90 days but less than a year	**9,148**	1,700
	38,934	25,555

21 OTHER PAYABLES AND ACCRUALS

	2006 RMB'000	2005 RMB'000
Current portion of present value of Earn-out Considerations payable of the Joymax Acquisition	**39,951**	–
Staff costs and welfare accruals	**201,204**	100,097
Marketing and administrative expenses accruals	**85,791**	40,062
Prepayments received from customers	**44,985**	25,153
Deposits from customer-to-customer business	**30,035**	2,206
Professional fees accruals	**11,105**	10,223
Others	**31,316**	18,446
	444,387	196,187

22 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain Internet value-added services in the forms of prepaid cards and tokens of which the related services have not been rendered as at 31 December 2006.

23 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The gross movements of the deferred income tax account were as follows:

	2006	2005
	RMB'000	RMB'000
At beginning of year	**95,552**	–
Acquisition of subsidiaries (Note 38(a)&(b))	**(13,731)**	–
Credit to income statement	**63,983**	110,234
Charge to income statement	**(32,103)**	(14,682)
At end of year	**113,701**	95,552

The movements of deferred tax assets were as follows:

Deferred tax assets:

	Deferred tax assets arising from intra-group software and technology sales
	RMB'000
At 1 January 2005	–
Credit to income statement	110,020
Charge to income statement	(13,658)
At 31 December 2005	**96,362**
Credit to income statement	**62,385**
Charge to income statement	**(28,225)**
At 31 December 2006	**130,522**

23 DEFERRED INCOME TAXES (Cont'd)

The deferred tax assets recognised are related to the temporary differences arising from certain intra-group software and technology sales transactions enacted (Note 4.2). The credits to the income taxes represent originating temporary differences arising from these software sales while the charge to income statement represents the reversal of the temporary differences as a result of the amortisation of the costs of these softwares and technologies.

The movements of deferred tax liabilities were as follows:

Deferred tax liabilities:

	Transfer of surplus cash RMB'000 (Note)	Intangible assets acquired in business combination at fair values RMB'000	Total RMB'000
At 1 January 2005	–	–	–
Credit to income statement	214	–	214
Charge to income statement	(1,024)	–	(1,024)
At 31 December 2005	**(810)**	–	**(810)**
Acquisition of subsidiaries (Note 38(a)&(b))	**–**	**(13,731)**	**(13,731)**
Credit to income statement	**–**	**1,598**	**1,598**
Charge to income statement	**(3,878)**	**–**	**(3,878)**
At 31 December 2006	**(4,688)**	**(12,133)**	**(16,821)**

Note: The Group recognised deferred tax liabilities in respect of the relevant taxes that may arise from the transfer of surplus cash generated from profits derived from Tencent Computer and Shiji Kaixuan, in which the Company has indirect beneficial interests, to the Company and its other subsidiaries.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits in probable. The Group did not recognise deferred income tax assets of approximately RMB5,062,000 in respect of losses amounting to approximately RMB21,469,000 that can be carried forward against future taxable income.

24 LONG TERM PAYABLE

The long term payable represents the non-current portion of the present value of Earn-out Considerations payable as at 31 December 2006 of the Joymax Acquisition, which is expected to be paid by the Group after 31 December 2007.

25 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (mentioned in Note 2.19(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred in deriving the revenues.

26 OTHER GAINS, NET

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

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

27 EXPENSES BY NATURE

	2006	2005
	RMB'000	RMB'000
Employee benefits expenses (Note) (Note 28)	**584,789**	344,460
Mobile and telecommunications charges and bandwidth and server custody fees	**462,634**	279,699
Promotion and advertising expenses	**155,696**	91,066
Depreciation of fixed assets (Note)	**106,416**	54,977
Travelling and entertainment expenses	**66,990**	51,884
Amortisation of intangible assets	**27,946**	2,343
Operating lease rentals in respect of office buildings	**38,775**	23,143
VAT paid upon transfer of software within the Group (Note 13)	**8,100**	1,500
Loss on disposals of fixed assets	**1,062**	108
Other expenses	**267,923**	166,001
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**1,720,331**	1,015,181

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

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

28 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	RMB'000	RMB'000
Wages, salaries and bonuses	**454,312**	278,025
Welfare, medical and other expenses	**28,120**	20,256
Share-based compensation expenses	**77,736**	34,526
Contributions to pension plans (Note)	**18,341**	9,703
Training expenses	**6,280**	1,950
	584,789	344,460

Note: All local employees of the subsidiaries in the PRC participate in employee social security plans enacted in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the welfare benefits provided by these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below.

	Percentage
Pension insurance	9 – 23%
Medical insurance	6.5 – 12%
Unemployment insurance	0.4 – 2%

29 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid/payable to directors of the Company for the year ended 31 December 2006 and 2005 are as follows:

	2006 RMB'000	2005 RMB'000
Fees - independent non-executive directors	603	624
Salaries, bonuses, allowances and benefits in kind	13,341	8,310
Contributions to pension plans	34	30
	13,978	8,964
Number of directors		
- with emoluments	5	5
- without emoluments	2	2
Number of directors	7	7

During the year, no share option had been granted to the directors (2005: Nil).

The remuneration of every director for the year ended 31 December 2006 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Total RMB'000
Ma Huateng	–	7,028	17	7,045
Zhang Zhidong	–	6,313	17	6,330
Iain Ferguson Bruce	201	–	–	201
Ian Charles Stone	201	–	–	201
Li Dong Sheng	201	–	–	201
Antonie Andries Roux	–	–	–	–
Charles St Leger Searle	–	–	–	–
	603	13,341	34	13,978

29 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2005 is set out below.

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Ma Huateng	–	4,155	15	4,170
Zhang Zhidong	–	4,155	15	4,170
Iain Ferguson Bruce	208	–	–	208
Ian Charles Stone	208	–	–	208
Li Dong Sheng	208	–	–	208
Antonie Andries Roux	–	–	–	–
Charles St Leger Searle	–	–	–	–
	624	8,310	30	8,964

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the year (2005: Nil).

30 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included two (2005: two) directors whose details have been reflected in the analysis presented above (Note 29). The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**12,930**	10,764
Share-based compensation expenses charged to income statement	**12,858**	3,652
Contributions to pension plans	**49**	45
	25,837	14,461

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
RMB3,516,451- RMB4,018,800 (equivalent to HKD3,500,001 - HKD4,000,000)	**–**	1
RMB4,018,801- RMB4,521,150 (equivalent to HKD4,000,001 - HKD4,500,000)	**–**	1
RMB5,023,501- RMB5,525,850 (equivalent to HKD5,000,001 – HKD5,500,000)	**1**	–
RMB6,028,201 - RMB6,530,550 (equivalent to HKD6,000,001 – HKD6,500,000)	**–**	1
RMB8,037,601- RMB8,539,950 (equivalent to HKD8,000,001 – HKD8,500,000)	**1**	–
RMB12,056,401 – RMB12,558,750 (equivalent to HKD12,000,001 – HKD12,500,000)	**1**	–

31 FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest expenses	**5,385**	–
Exchange losses	**41,149**	47,304
	46,534	47,304

Interest expenses mainly arose from the discounting of Earn-out Considerations of the Joymax Acquisition. The exchange losses mainly arose from the translations of non-RMB denominated monetary assets.

32 TAX EXPENSES

(a) Income tax

(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 2006 (2005: 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 2006 (2005: 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.

Subsidiaries established in the Shenzhen Special Economic Zone and Beijing High Technology Zone, the PRC, are subject to EIT at a rate of 15%. Wang Dian which was established in Nanjing of the PRC is subject to EIT at a rate of 33%.

Tencent Technology was approved by the relevant tax authorities as an enterprise with foreign investment with productive sales income under the provisions stipulated in the tax circular, Shendishuiwaihan 2003 No. 413. Accordingly, Tencent Technology is exempt from EIT for two years commencing from the first year of profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years if its annual productive sales income exceeds 50% of its reported total sales income. 2003 is the first profit-making year of Tencent Technology. During the current year, it adopted a rate of 15% (2005: 15%) in accruing its EIT liability and will revise it to 7.5% in the subsequent period when approval is obtained from the local tax bureau. The treatment is consistent with that of 2005.

32 TAX EXPENSES (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Enterprise Income Tax ("EIT") (Cont'd)

Shiji Kaixuan is exempt from EIT for two years starting from the first year of operation according to the provisions stipulated in the tax circular, Shenguoshuifujianmian 2004 No. 0272. 2004 was the first year of operation of Shiji Kaixuan and accordingly, EIT was levied at 15% on its assessable profits for the year ended 31 December 2006 (2005: Nil).

Tencent Beijing was incorporated in Beijing High Technology Zone, the PRC as a hi-tech enterprise. According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from EIT for three years starting from the first year of commercial operation followed by a 50% reduction for the next three years. 2005 is the first year of operation for Tencent Beijing and accordingly, no provision for EIT was required for the year ended 31 December 2006 (2005: Nil).

Beijing Emark was registered in the Beijing High Technology Zone, the PRC as a hi-tech enterprise. According to the special tax incentives granted by the local tax authority in Beijing, it is exempt from EIT for three years starting from the first year of commercial operation followed by a 50% reduction for the next three years. 2003 is the first year of operation for Beijing Emark. Therefore, EIT is levied at 7.5% on its assessable profits for 2006 (2005: Nil).

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

	2006	2005
	RMB'000	RMB'000
PRC current tax	**84,851**	47,245
Deferred income taxes (Note 23)	**(31,880)**	(95,552)
	52,971	(48,307)

32 TAX EXPENSES (Cont'd)

(a) Income tax (Cont'd)

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

	2006	2005
	RMB'000	RMB'000
Profit before income tax	**1,116,771**	437,055
Tax calculated at a tax rate of 15% (2005: 15%)	**167,516**	65,558
Effect of different tax rates available to different companies of the Group	**22,878**	7,363
Effects of tax holiday on assessable profits of subsidiaries incorporated in the PRC	**(152,591)**	(38,021)
Expenses not deductible for tax purposes	**14,877**	9,463
Unrecognised tax losses	**291**	2,728
Utilisation of previously unrecognised tax assets/ deferred tax assets not recognised	**–**	(6,760)
Recognition of previously unrecognised deferred tax assets (Note 4.2(a))	**–**	(88,638)
Tax charge/(credit)	**52,971**	(48,307)

(b) VAT, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	**Tax rate**	**Basis of levy**
VAT	17%	Sales value of goods sold, offsetting by VAT on purchases
Business tax ("BT")	3-5%	Services fee income
City construction tax	1%	Net VAT and BT payable amount
Educational surcharge	3%	Net VAT and BT payable amount

33 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

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

33 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

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

34 DIVIDENDS

The dividends paid in 2006 and 2005 were RMB145,402,000 and RMB132,181,000, respectively (Note 35(b)). A final dividend in respect of the year ended 31 December 2006 of HKD0.12 (2005: HKD0.08) per share, was proposed pursuant to a resolution passed by the Board on 21 March 2007 and subject to the approval of the shareholders in the annual general meeting to be held on 16 May 2007. These financial statements do not reflect this dividend payable.

35 CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2006 RMB'000	2005 RMB'000
Profit for the year	**1,063,800**	485,362
Adjustments for:		
Income tax expenses/(benefit)	**52,971**	(48,307)
Depreciation of fixed assets	**106,416**	54,977
Amortisation of intangible assets	**27,946**	2,343
Loss on disposals of fixed assets	**1,062**	108
Fair value gains on financial assets held for trading	**(12,202)**	(17,308)
Interest income	**(75,782)**	(45,355)
Interest expenses	**5,385**	–
Share-based compensation expenses	**77,736**	34,526
Exchange losses	**41,149**	19,713
Changes in working capital:		
Inventories	**181**	2,647
Accounts receivable	**(158,048)**	(30,029)
Prepayments, deposits and other receivables	**(60,463)**	14,846
Financial assets held for trading	**200,182**	300,321
Accounts payable	**10,732**	466
Other payables and accruals and other tax liabilities	**207,552**	72,410
Deferred revenue	**85,204**	170,913
Cash generated from operations	**1,573,821**	1,017,633

In the consolidated cash flow statement, proceeds from disposals of fixed assets comprise:

	2006 RMB'000	2005 RMB'000
Net book amount	**1,062**	269
Loss on disposals of fixed assets	**(1,062)**	(108)
Proceeds from disposals of fixed assets	**–**	161

35 CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(b) Analysis of changes in financing during the years are as follows:

	Dividends payable	Share capital including premium	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2005	145	1,781,094	1,781,239
Proceeds from issue of shares and share options	–	11,409	11,409
Payments for share issuance expenses	–	(3,181)	(3,181)
Payments for repurchase of issued shares	–	(123,086)	(123,086)
Proposed dividends	132,036	–	132,036
Payment of dividends	(132,181)	–	(132,181)
At 31 December 2005 / 1 January 2006	**–**	**1,666,236**	**1,666,236**
Proceeds from issue of shares and share options	**–**	**34,054**	**34,054**
Payments for repurchase of issued shares	**–**	**(241,078)**	**(241,078)**
Proposed dividends	**145,402**	**–**	**145,402**
Payment of dividends	**(145,402)**	**–**	**(145,402)**
At 31 December 2006	**–**	**1,459,212**	**1,459,212**

(c) Major non-cash transactions

There were no material non-cash transactions for the year ended 31 December 2006.

36 CONTINGENCIES

Save as disclosed in Note 38(a), the Group has no material contingent liabilities outstanding as at 31 December 2006.

37 COMMITMENTS

(a) Capital commitments

Capital commitments as at the balance sheet date are analysed as follows:

	2006 RMB'000	2005 RMB'000
Contracted:		
Construction of buildings	**16,523**	–
Purchase of other fixed assets	**10,546**	13,491
	27,069	13,491
Authorised but not contracted:		
Construction of buildings	**773,918**	80,702
	800,987	94,193

(b) Operating lease commitments

The future aggregate minimum lease payments committed or authorised under operating leases in respect of buildings are as follows:

	2006 RMB'000	2005 RMB'000
Not later than one year	**25,710**	20,519
Later than one year and not later than five years	**34,513**	5,458
Later than five years	**8,515**	–
	68,738	25,977

37 COMMITMENTS (Cont'd)

(c) Other commitments

The future aggregate authorised minimum lease payments under bandwidth and server custody leases are as follows:

	2006 RMB'000	2005 RMB'000
Contracted:		
Not later than one year	**42,961**	37,190
Later than one year and not later than five years	**8,521**	81
	51,482	37,271

38 BUSINESS COMBINATIONS

(a) Acquisition of 100% equity interest of Joymax Development

Joymax Development, which was established in the British Virgin Islands on 4 January 2005, and its subsidiaries are providers of mobile and telecommunications value-added services to users in the PRC. The operations of Joymax Group were initially conducted through Beijing Emark, a limited liability company established in the PRC, which is owned by certain individual owners.

Based on the provisions of certain contractual arrangements enacted among Joymax Group, the decision making rights and operating and financing activities of Beijing Emark are ultimately controlled by Joymax Development. Joymax Development and its direct subsidiary are also entitled to substantively all of the operating profits and residual benefits generated by Beijing Emark under these agreements. As a result, Beijing Emark is accounted for as a subsidiary of the Joymax Group.

On 15 January 2006, TCH Theta Limited, a subsidiary of the Company, entered into an agreement with the equity owners of Joymax Development and Beijing Emark and its equity owners to acquire all the equity interest of Joymax Development and the business conducted by the Joymax Group (the "Joymax Acquisition").

According to the terms of the agreement, the total consideration of the acquisition is payable by three installments. The initial consideration is determined based on the aggregate amount of net tangible assets reported in the accounting books of Beijing Emark as at 31 December 2005 and the amount of paid-in capital of a subsidiary of Joymax Development contributed by Joymax Development. The second and third installments (referred to as "Earn-out Considerations") to certain multiples of the operating results to be achieved by Beijing Emark for the years ended/ending 31 December 2006 and 2007, respectively.

As a result of the Joymax Acquisition, companies within Joymax Group became wholly owned subsidiaries of the Company on 24 January 2006.

The acquired business contributed to the Group a revenue of RMB107,283,000 and net profit of RMB16,550,000 for the period from 24 January 2006 (date of acquisition) to 31 December 2006.

38 BUSINESS COMBINATIONS (Cont'd)

(a) Acquisition of 100% equity interest of Joymax Development (Cont'd)

An initial assessment of the total consideration paid/payable for the Joymax Acquisition and the allocation of such consideration to the fair value of the net assets acquired and goodwill are shown below.

	RMB'000
Purchase consideration:	
- Initial Consideration	23,010
- Present value of the Earn-out Considerations	181,389
- Direct costs relating to the Joymax Acquisition	742
Total purchase consideration	205,141
Fair value of net assets acquired - details shown below	(120,709)
Goodwill on initial assessment	84,432

In the opinion of the directors of the Company, the goodwill is attributable to the anticipated profitability of Joymax Group's operation and the anticipated future operating synergies.

The acquired net assets comprised the following assets and liabilities:

	Fair value RMB'000	Carrying amount RMB'000
Cash and cash equivalents	11,495	11,495
Accounts receivable	18,050	18,050
Prepayments, deposits and other receivables	6,534	6,534
Accounts payable	(10,077)	(10,077)
Other payables and accruals	(102)	(102)
Current income tax liabilities	(218)	(218)
Other tax liabilities	(439)	(439)
Fixed assets(Note 6)	450	450
Identified intangible assets (Note)	106,196	–
Net deferred tax liabilities (Note 23)	(11,180)	–
Net assets	120,709	25,693

Note: Identified intangible assets included license for wireless value-added service operations, media advertising database, customer database and non-compete agreement.

38 BUSINESS COMBINATIONS (Cont'd)

(a) Acquisition of 100% equity interest of Joymax Development (Cont'd)

After the above initial recognition, the Group re-assessed the estimation of Earn-out Considerations as at 31 December 2006 based on the 2006 operating result and the 2007 profit forecast of Beijing Emark and reduced the total purchase consideration and goodwill by RMB62,901,000 (Note 8) as follows:

	Total purchase consideration RMB'000	Goodwill RMB'000
Amounts based on the initial assessment	**205,141**	**84,432**
Reduction arising from the revision of the Earn-out Considerations	**(62,901)**	**(62,901)**
Amounts revised	**142,240**	**21,531**

	RMB'000
Purchase consideration settled in cash during 2006	**59,526**
Cash and cash equivalents in subsidiaries acquired	**(11,495)**
Net cash outflow on acquisition	**48,031**

(b) Acquisition of 100% equity interest in Wang Dian

On 25 October 2006, the Group acquired 100% equity interest in Wang Dian from its original owners. Wang Dian is a provider of mobile and telecommunications value-added services in the PRC. The Group has assigned its designees to legally own the equity interest in Wang Dian, and through the similar contractual arrangements (as described in Note 1) enacted among Wang Dian, the Group and the Group's designees, the Group controlled and is entitled to substantially all the operating profits and residual benefit generated by Wang Dian.

The acquired business contributed to the Group a revenue of RMB179,000 and incurred a net loss of RMB182,000 for the period from 25 October 2006 (date of acquisition) to 31 December 2006.

38 BUSINESS COMBINATIONS (Cont'd)

(b) Acquisition of 100% equity interest in Wang Dian (Cont'd)

An initial assessment of the total consideration and the allocation of such consideration to the fair value of the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
- Cash paid	7,587
- Included in other payables	763
Total purchase consideration	8,350
Fair value of net assets acquired	(5,424)
Goodwill	2,926

In the opinion of the directors of the Company, the goodwill is attributable to the anticipated profitability of Wang Dian's operation and the anticipated future operating synergies.

The acquired net assets comprised the following assets and liabilities:

	Fair value RMB'000	Carrying amount RMB'000
Cash and cash equivalents	542	542
Accounts receivable	485	485
Prepayments, deposits and other receivables	257	257
Accounts payable	(1,031)	(1,031)
Other payables and accruals	(106)	(106)
Other tax liabilities	(13)	(13)
Fixed assets (Note 6)	111	111
Identified intangible assets (Note)	7,730	–
Net deferred tax liabilities (Note 23)	(2,551)	–
Net assets	5,424	245

Note: The identified intangible assets include licenses for wireless value-added service operations and business relationship.

38 BUSINESS COMBINATIONS (Cont'd)

(b) Acquisition of 100% equity interest in Wang Dian (Cont'd)

	RMB'000
Purchase consideration settled in cash	**7,587**
Cash and cash equivalents in subsidiary acquired	**(542)**
Net cash outflow on acquisition	**7,045**

If the above two acquisitions had occurred on 1 January 2006, the Group revenue would have been RMB2,809,412,000; net profit would have been RMB1,058,426,000. These amounts have been calculated based on the Group's accounting policies and by adjusting the results of the acquired subsidiaries to reflect the additional amortisation that would have been charged assuming the fair value adjustments made to the identifiable intangible assets applied from 1 January 2006, together with the consequential tax effects.

39 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 29 (Directors' emoluments) and Note 19 (Share option) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2006.

40 COMPARATIVES

Certain comparative figures have been reclassified to conform to the presentation of the current year.

41 SUBSEQUENT EVENTS

(a) Acquisition of 100% equity interest in Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")

On 9 January 2007, the Group acquired 100% equity interest of Beijing BIZCOM at a consideration comprising RMB20,000,000 plus certain amount determined with reference to the book value of the net assets of Beijing BIZCOM as at the acquisition date. Beijing BIZCOM is a provider of mobile and telecommunications value-added services in the PRC. The Group is in the process of assessing the fair value of acquired identified assets and liabilities and not yet in a position to determine the final amounts.

41 SUBSEQUENT EVENTS (Cont'd)

(b) New enterprise income tax law

On 16 March 2007, the Tenth National People's Congress ("NPC") plenary session passed the enterprise income tax law ("New Tax Law") that imposes a unified income tax rate of 25% for most enterprises. The New Tax Law will be effective from 1 January 2008 and will have impact on the preferential tax policies available in special economic or high technology zones in which certain subsidiaries are located. As the implementation measures on the various transitional periods and rules for existing preferential tax policies have not yet been announced, the Group cannot reasonably estimate the financial impact on the New Tax Law at this stage.