Tencent 腾讯

Tencent Holdings Limited
騰訊控股有限公司

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立的有限公司
Stock Code 股份代號：700

腾讯网
QQ.com

smart communication inspires
智慧溝通 靈感無限

10th 週年 Anniversary

2008 年報
Annual Report


Tencent 腾讯
THE AIM TO CREATE VALUE FOR OUR USER BASE
简体中文 | English
HOME
ABOUT TENCENT
PRODUCTS & SERVICES
INVESTOR RELATIONS
CULTURE
other sites
1998年
2008年
QQ十年 · 网友故事

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

AUDIT COMMITTEE

Iain Ferguson Bruce *(Chairman)*
Ian Charles Stone
Charles St Leger Searle

REMUNERATION COMMITTEE

Antonie Andries Roux *(Chairman)*
Li Dong Sheng
Ian Charles Stone

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY 1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th to 10th Floors
FIYTA Hi-tech Building
Gaoxinnanyi Avenue
Southern District of Hi-tech Park
Shenzhen, 518057
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3002, 30th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

WEBSITE

www.tencent.com

STOCK CODE

700

FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				
	2004 RMB'000 (Restated)	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Revenues	1,143,533	1,426,395	2,800,441	3,820,923	**7,154,544**
Gross profit	725,408	956,526	1,983,379	2,703,366	**4,984,123**
Profit before income tax	463,653	437,055	1,116,771	1,534,503	**3,104,895**
Profit for the year	441,119	485,362	1,063,800	1,568,008	**2,815,650**
Profit attributable to equity holders of the Company	441,119	485,362	1,063,800	1,566,020	**2,784,577**

CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000 (Restated)	**2008** **RMB'000**
Assets					
Non-current assets	309,454	763,495	916,138	2,090,312	**3,359,696**
Current assets	2,553,867	2,663,627	3,734,434	4,835,132	**6,495,861**
Total assets	2,863,321	3,427,122	4,650,572	6,925,444	**9,855,557**
Equity and liabilities					
Equity attributable to the Company's equity holders	2,652,238	2,928,413	3,717,756	5,170,396	**7,020,926**
Minority interests in equity	–	–	–	64,661	**98,406**
Total equity	2,652,238	2,928,413	3,717,756	5,235,057	**7,119,332**
Non-current liabilities	–	810	64,969	40,770	**644,628**
Current liabilities	211,083	497,899	867,847	1,649,617	**2,091,597**
Total liabilities	211,083	498,709	932,816	1,690,387	**2,736,225**
Total equity and liabilities	2,863,321	3,427,122	4,650,572	6,925,444	**9,855,557**

Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2008 to the shareholders.

RESULTS

Total revenues for the year ended 31 December 2008 increased by 87.2% to RMB7,154.5 million, compared with the same period last year. Revenues from our Internet value-added services increased by 95.5% to RMB 4,915.0 million. Revenues from our mobile and telecommunications value-added services increased by 73.2% to RMB1,399.0 million and revenues from online advertising increased by 67.5% to RMB826.0 million.

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2008 was RMB2,784.6 million, an increase of 77.8% compared with the results for the year ended 31 December 2007. Basic and diluted earnings per share for the year ended 31 December 2008 were RMB1.552 and RMB1.514 respectively.

BUSINESS REVIEW AND OUTLOOK

2008 was another exciting year for the Internet market in China. According to China Internet Network Information Center, total number of Internet users in China reached 298 million at the end of 2008, representing a year-on-year growth of 42%. While China has already surpassed the US and become the largest Internet market in the world by number of users, its Internet penetration was only 23% at the end of 2008. This is significantly lower than that for developed markets, reflecting that China is still a nascent market with strong potential for future growth. More importantly, Internet has increasingly become an indispensable part of everyday life for people in China, thanks to the increasing adoption of broadband and mobile Internet connectivity as well as the emergence of a broad range of applications that allow people to stay in touch with each other, to get entertained, to get access to information and to conduct business transactions.

For Tencent, 2008 was a year of challenges and opportunities. The Sichuan earthquake shocked the whole nation and we immediately took action to play an active role in the reporting and relief of the tragedy, as well as orchestrated the largest ever online donation in China. During the Beijing Olympics, one of the most historically important events for China in recent history, we demonstrated solid execution and teamwork across the whole company, resulting in record-breaking traffic and top positioning in terms of reach and unique users for Olympic-related content. Our involvement and the significant impact generated in these key social events have undoubtedly enhanced our position and influence as a major media in China. Towards the end of 2008, financial markets worldwide were severely impaired by the financial tsunami which originated from the sub-prime mortgage crisis in the US. As financial markets experienced volatilities unseen in recent history, financial assets depreciated across the board and credit shrank. The financial tsunami quickly degenerated into a global recession. There are increasing signs that the Chinese economy is also slowing down. While it is difficult to assess the ultimate impact of the global recession, we believe the value of the Internet as an enabling technology that enhances efficiency and saves costs for people and its long-term prospect will remain intact. We also believe that our diversified business model puts us in a more resilient position compared to many other industries. For example, our Internet and mobile value-added services, which are characterized by user-paid small ticket consumption items, are relatively less vulnerable to an economic downturn. Nevertheless, we are not immune to the global economic crisis. Our online advertising business has already been affected by the downturn towards the end of the fourth quarter when advertisers reduced their spending under a worsening economic environment. As we have just started to experience the rippling effect of the global recession on China, we believe that the negative impact on our advertising business will be substantial in 2009 and it is very difficult to predict the timing of recovery. Facing a more challenging environment, we have been controlling our expenses and managing our risks rigorously. At the same time, we are committed to making necessary investments in our business such that we can take advantage of the downturn to enhance our market position and emerge as an even stronger company when the macroeconomic environment improves.

In 2008, Tencent delivered strong financial and operating results, leveraging our diversified, platform-based business model which is unique in China's Internet market. During the year, our Internet value-added services ("IVAS") and wireless business grew significantly. Meanwhile, our online advertising business also registered healthy full-year growth, although experiencing negative pressure towards the end of the year. For the fourth quarter of 2008, we experienced incremental growth in our IVAS business despite negative seasonality, on the back of the rising popularity of our online games and QQ Membership. Our wireless business also grew during the quarter, driven by our bundled SMS packages and mobile games. Our online advertising business was affected by the economic downturn as our customers became cautious on advertising spending. Looking into the first quarter of 2009, we expect to see a more favorable seasonality for our IVAS business, especially for online games, as a result of winter break for students and the Chinese New Year holidays. On the other hand, our online advertising business would face severe pressure as more and more advertisers scale down or delay their spending under a worsening economic environment. In addition, the first quarter is generally a seasonally weak quarter as advertising activities slow around Chinese New Year holidays.

IM platform

In 2008, our core IM platform continued to grow, further consolidating our position as the largest IM platform in China. Active users increased by 25.4% on a year-on-year basis to 376.6 million at the end of 2008 and peak concurrent users ("PCU") registered a 37.7% growth to 49.7 million at the end of 2008. During the year, we continued to improve the user experience of our IM platform through enhancing user security, software performance and functionalities. We are working on a major upgrade to improve the architecture and customizability of our IM service based on different needs of our significant user base. We also focus on maximizing the user stickiness and overall user value by enhancing the integration between our IM platform and other key products, especially our Qzone and QQmail services.

QQ.com

The year saw our portal QQ.com further solidify its position as the most visited Internet portal in China with significant growth in traffic as a result of our continuing effort in improving the quality and comprehensiveness of our content. The extensive and timely coverage of major social events by QQ.com during the year has also enhanced its influence as a mainstream online media. For instance, in the second quarter of 2008, QQ.com played an important role in the reporting and relief of the earthquake in Sichuan. During the tragic event, we provided the most comprehensive and up-to-date coverage to our users, to assist people in the affected region to communicate with their relatives and friends, and to orchestrate the largest ever online donation in China which raised more than RMB23 million from over 300,000 users. During the Beijing Olympics in August 2008, QQ.com acted as the focal point in integrating our various Internet platforms, including our Qzone and WAP portal, and provided a comprehensive coverage of the event that included live video broadcast and on-demand video clips, live interviews of 26 Chinese gold medalists and more than 100,000 news articles. As a result of our efforts, content traffic of QQ.com reached a record-breaking 1.1 billion page views a day during the event. Based on a survey conducted by AC Nielson, QQ.com claimed the No. 1 spot in terms of reach and unique users during the Beijing Olympics.

During the year, we continued to invest in enhancing the brand and awareness of QQ.com through a series of advertising campaigns and sponsorship events. In April 2008, we signed up as the exclusive Internet service sponsor to the 2010 World Exposition in Shanghai. We believe that our involvement in this important event would further reinforce our market position and further enhance media influence of QQ.com.

Internet value-added services

For our non-game IVAS, QQ Membership grew strongly during the year as we continued to build user loyalty and stickiness with enhanced functionalities and bundled privileges. We are seeking opportunities to extend this service offline to include privileges for lifestyle products. Qzone registered significant growth in 2008 and consolidated its position as the largest social networking service ("SNS") platform in China. At the end of 2008, it had 150.1 million active users, representing a year-on-year growth of 42.3%. During the year, we launched a major upgrade to Qzone, enhancing its functionality and interactivity. New applications have also been added to deepen interaction among users. In addition, Xiaoyou, a real-name SNS service, was officially launched in January 2009 to target the needs of university students with enhanced features. For QQ Show, the transition from item sale to monthly subscription was completed in 2008. This new business model has been successful in increasing user activity and loyalty as well as reducing seasonal volatility. For QQ Pets, we focused on the long-term overhaul of the product, platform and user experience in 2008. A new multi-player community model, which will enhance cross interaction among users, is being developed and will be launched in 2009.

For online gaming, after years of planning and execution, we have started to reap the benefits of our strategy of building a diversified product portfolio leveraging the advantage of our massive online platform. In 2008, we launched a range of popular MMOGs and advanced casual games, which not only made a significant contribution to the robust growth of our online gaming business, but also significantly enhanced Tencent's standing in the online gaming industry. QQ Game, the largest mini-casual game portal in China, continued to grow in both usage and monetization, with PCU growing 23.7% year-on-year to 4.7 million at the end of 2008. For MMOG, we launched a blockbuster game, Dungeon and Fighter ("DNF"), in June 2008. Its PCU reached 1.2 million in the fourth quarter of 2008 and exceeded 1.5 million in the first quarter of 2009. On the other hand, we have reduced the monetization of QQ SanGuo to ensure its long-term sustainability. QQ Fantasy has showed signs of maturity and will be revamped with expansion packs. For advanced casual games, we launched a number of new titles in 2008, including Cross Fire, QQ Speed and QQ Dancer, all of which were well received by the market.

We believe our platform strategy differentiates us from stand-alone pure-play companies. Our leading Internet and mini-casual game platforms were very effective in attracting new gamers, retaining existing gamers and encouraging them to recommend games they are playing to their friends. In addition, our extensive experiences of both development and operation of successful games across the mini-casual, advanced casual and MMOG categories give us a unique ability to diversify our pipeline in an otherwise hit-drive industry. The successful launch of games across a broad range of genres during the year demonstrated the significant advantage of our platform strategy as well as our strong execution capabilities. We will continue to leverage our core strengths to launch attractive games through a combination of self-development, licensing and investments, despite lower margins of licensed games. Our preliminary pipeline includes three MMOGs and one advanced casual game for 2009 as well as up to six MMOGs for the first half of 2010.

Mobile and telecommunications value-added services

Our wireless business registered strong growth in 2008 as the operating environment became more favorable. During the year, we continued to grow our wireless Internet platforms as extensions of existing Internet applications. Our WAP portal consolidated its position as the leading wireless portal in China with strong growth in traffic. Our bundled SMS packages and mobile gaming services also registered significant growth. In addition, we won the bid in August 2008 to build the national WAP / WEB portal for China Telecom, reflecting our experience and expertise in wireless data services. Looking ahead, while the launch of 3G networks and more affordable data packages by telecom operators will stimulate the growth of wireless data services, we remain cautious on the regulatory environment as the telecom sector is in the midst of transition. We will seek to create more value for our users and maintain a close relationship with all telecom operators in order to position us for longer term growth.

Online advertising

Our online advertising business achieved healthy full-year growth in 2008 despite negative pressure towards the end of the year, leveraging our leading and diversified Internet platforms. During the year, we continued to promote Tencent MIND (Measurability, Interactivity, Navigation and Differentiation) as a framework for advertisers to increase the effectiveness of their online advertising campaigns. Building on our success in online gaming, food and beverage and apparel industries, we are beginning to make inroads into other major industry segments including automobile and IT products. We also benefited from the QQ.com branding campaign which has enhanced the recognition of the strengths of our Internet platforms among advertisers. Looking forward, the global recession is causing unprecedented pressure and uncertainties on the online advertising market. While we remain confident on the long-term prospect of the industry, we believe 2009 will be a very challenging year for our online advertising business. We will be very vigilant in serving our clients, especially in more resilient advertising segments, including food and beverages, apparels and online gaming. We will continue to cautiously make investments in our sales organization, technology platform, content, branding and relationship with advertisers to position ourselves well when growth returns to the market.

DIVIDENDS

The Board has recommended the payment of a final dividend of HKD0.25 per share (2007: HKD0.16) for the year ended 31 December 2008 and a special dividend of HKD0.10 per share to celebrate the tenth year anniversary of the Group, subject to the approval of the shareholders at the annual general meeting of the Company to be held on 13 May 2009. Such proposed dividends will be payable on 27 May 2009 to shareholders whose names appear on the register of members of the Company on 13 May 2009.

APPRECIATION

On behalf of the Board, I would like to thank all our employees for their efforts, dedication and commitment, all of which contributed to the growth of the Group, as well as our shareholders for their continuous support and confidence in our Group.

Ma Huateng
Chairman

Hong Kong, 18 March 2009

OPERATING INFORMATION

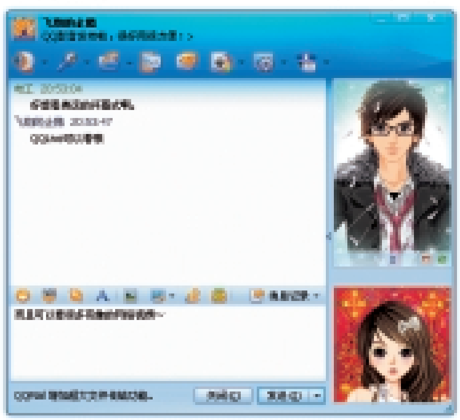
The following table sets forth certain operating statistics relating to our IM community and value-added services as at the dates and for the periods presented:

	For the 16-day period ended 31 December 2008	For the 15-day period ended 30 September 2008	Percentage change
	(in millions)		
Registered IM user accounts (at end of period)	**891.9**	856.2	4.17%
Active user accounts (at end of period)	**376.6**	355.1	6.05%
Peak simultaneous online user accounts (for the quarter)	**49.7**	45.3	9.71%
Average daily user hours	**710.9**	642.2	10.70%
Average daily messages[(1)]	**4,282.6**	4,361.0	(1.80)%
Fee-based Internet value-added services registered subscriptions (at end of period)	**31.4**	30.3	3.63%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)[(2)]	**14.7**	14.8	(0.68)%

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

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

Our IM platform continued to grow in the fourth quarter of 2008. Registered IM user accounts, active user accounts, peak simultaneous online user accounts and average daily user hours increased, mainly driven by the continuing growth of the Internet market in China as well as enhancements in our service features and functions. Average daily messages decreased slightly mainly due to the seasonal impact of end-of-semester examinations affecting usage among students, who are typically the most active group of users of our IM services. The growth in registered subscriptions to our fee-based Internet value-added services was primarily driven by QQ Membership and QQ Game. Registered subscriptions to our fee-based mobile and telecommunications value-added services declined slightly as continuing growth in our bundled SMS packages was offset by reduction in other stand-alone SMS services.



FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2008

Consolidated revenues for the year ended 31 December 2008 were RMB7,154.5 million, an increase of 87.2% from the year ended 31 December 2007.

Revenues from our Internet value-added services for the year ended 31 December 2008 were RMB4,915.0 million, an increase of 95.5% from the year ended 31 December 2007.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2008 were RMB1,399.0 million, an increase of 73.2% from the year ended 31 December 2007.

Revenues from online advertising for the year ended 31 December 2008 were RMB826.0 million, an increase of 67.5% from the year ended 31 December 2007.

Cost of revenues for the year ended 31 December 2008 were RMB2,170.4 million, an increase of 94.2% from the year ended 31 December 2007.

Other gains, net for the year ended 31 December 2008 were RMB112.2 million, an increase of 62.1% from the year ended 31 December 2007.

Selling and marketing expenses for the year ended 31 December 2008 were RMB518.1 million, an increase of 74.2% from the year ended 31 December 2007.

General and administrative expenses for the year ended 31 December 2008 were RMB1,332.2 million, an increase of 58.6% from the year ended 31 December 2007.

Operating profit for the year ended 31 December 2008 was RMB3,246.0 million, representing an increase of 98.5% over the year ended 31 December 2007. As a percentage of revenues, operating profit accounted for 45.4% for the year ended 31 December 2008, compared to 42.8% for the year ended 31 December 2007.

Profit for the year ended 31 December 2008 was RMB2,815.7 million, representing an increase of 79.6% from the year ended 31 December 2007. As a percentage of revenues, profit for the period accounted for 39.4% for the year ended 31 December 2008, compared to 41.0% for the year ended 31 December 2007.

Profit attributable to equity holders of the Company for the year ended 31 December 2008 was RMB2,784.6 million, representing an increase of 77.8% from the year ended 31 December 2007.

Fourth Quarter of 2008

Unaudited consolidated revenues for the fourth quarter of 2008 were RMB2,097.4 million, an increase of 86.9% over the same period in 2007 and an increase of 3.6% from the third quarter of 2008.

Revenues from our Internet value-added services for the fourth quarter of 2008 were RMB1,478.6 million, an increase of 97.7% over the same period in 2007 and an increase of 5.6% from the third quarter of 2008.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2008 were RMB399.9 million, an increase of 89.0% over the same period in 2007 and an increase of 7.4% from the third quarter of 2008.

Revenues from online advertising for the fourth quarter of 2008 were RMB209.6 million, an increase of 31.2% over the same period in 2007 and a decrease of 15.8% over the third quarter of 2008.

Cost of revenues for the fourth quarter of 2008 were RMB683.1 million, an increase of 114.2% over the same period in 2007 and an increase of 5.8% from the third quarter of 2008.

Other gains, net of RMB45.8 million were recorded for the fourth quarter of 2008, compared to other gains, net of RMB6.9 million for the same period in 2007 and other losses, net of RMB6.9 million for the third quarter of 2008.

Selling and marketing expenses for the fourth quarter of 2008 were RMB147.3 million, an increase of 88.0% over the same period in 2007 and a decrease of 20.3% over the third quarter of 2008.

General and administrative expenses for the fourth quarter of 2008 were RMB379.9 million, an increase of 47.9% over the same period in 2007 and an increase of 0.9% from the third quarter of 2008.

Operating profit for the fourth quarter of 2008 was RMB932.9 million, representing an increase of 96.4% over the same period in 2007 and an increase of 15.1% from the third quarter of 2008. As a percentage of revenues, operating profit accounted for 44.5% for the fourth quarter of 2008, compared to 42.3% for the same period of 2007 and 40.0% for the third quarter of 2008.

Profit for the fourth quarter of 2008 was RMB876.1 million, representing an increase of 69.5% over the same period in 2007 and an increase of 17.6% from the third quarter of 2008. As a percentage of revenues, profit for the period accounted for 41.8% for the fourth quarter of 2008, compared to 46.1% for the same period of 2007 and 36.8% for the third quarter of 2008.

Profit attributable to equity holders of the Company for the fourth quarter of 2008 was RMB869.1 million, an increase of 68.8% over the same period in 2007 and an increase of 17.9% from the third quarter of 2008.

Fourth Quarter of 2008 Compared to Third Quarter of 2008

The following table sets forth the comparative figures for the fourth quarter of 2008 and the third quarter of 2008:

	Unaudited Three months ended **31 December 2008**	 30 September 2008
	(RMB in thousands)	
Revenues	**2,097,381**	2,024,474
Cost of revenues	**(683,139)**	(645,748)
Gross profit	**1,414,242**	1,378,726
Other gains / (losses), net	**45,804**	(6,902)
Selling and marketing expenses	**(147,271)**	(184,730)
General and administrative expenses	**(379,921)**	(376,585)
Operating profit	**932,854**	810,509
Finance income / (costs)	**2,596**	(7,944)
Share of profit / (loss) of associates / a jointly controlled entity	**1,387**	(176)
Profit before income tax	**936,837**	802,389
Income tax expense	**(60,688)**	(57,099)
Profit for the period	**876,149**	745,290
Attributable to:		
Equity holders of the Company	**869,097**	737,123
Minority interests	**7,052**	8,167

Revenues. Revenues increased by 3.6% to RMB2,097.4 million for the fourth quarter of 2008 from RMB2,024.5 million for the third quarter of 2008. The following table sets forth our revenues by line of business for the fourth quarter of 2008 and the third quarter of 2008:

	Three months ended			
	31 December 2008		30 September 2008	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,478,601**	**70.5%**	1,400,598	69.2%
Mobile and telecommunications value-added services	**399,884**	**19.1%**	372,498	18.4%
Online advertising	**209,611**	**10.0%**	249,068	12.3%
Others	**9,285**	**0.4%**	2,310	0.1%
Total revenues	**2,097,381**	**100.0%**	2,024,474	100.0%

Revenues from our Internet value-added services increased by 5.6% to RMB1,478.6 million for the fourth quarter of 2008 from RMB1,400.6 million for the seasonally strong third quarter of 2008. Online gaming revenues increased with the rising popularity of QQ Game as well as recently launched games, including DNF, Cross Fire and QQ Dancer. This was partly offset by lower revenues from QQ SanGuo and QQ Fantasy. Revenues from QQ Membership registered growth due to increased user loyalty and stickiness as the service was enhanced with differentiated value-added functions and privileges across our platforms. Revenues from online identity and community business decreased during the quarter with weaker seasonality.

Revenues from our mobile and telecommunications value-added services increased by 7.4% to RMB399.9 million for the fourth quarter of 2008 from RMB372.5 million for the third quarter of 2008. This was driven by higher revenues from our bundled SMS packages, for which users spend more to enjoy broader and richer set of services, reflecting our continuing effort in product enhancements and promotions. In addition, mobile gaming revenues increased as a result of the growing popularity of our mobile gaming services.

Revenues from online advertising decreased by 15.8% to RMB209.6 million for the fourth quarter of 2008 from RMB249.1 million for the third quarter of 2008. The decline mainly reflected a tougher economic environment and a significant reduction in advertising spending by our customers. Quantity of rush orders declined during the quarter.

Cost of revenues. Cost of revenues increased by 5.8% to RMB683.1 million for the fourth quarter of 2008 from RMB645.7 million for the third quarter of 2008. This mainly reflected increase in sharing costs driven by higher revenues from licensed games, and increase in telecommunications operators' revenue share due to the continuing expansion of our business. As a percentage of revenues, cost of revenues increased to 32.6% for the fourth quarter of 2008 from 31.9% for the third quarter of 2008. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2008 and the third quarter of 2008:

	Three months ended			
	31 December 2008		30 September 2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**463,721**	**31.4%**	426,371	30.4%
Mobile and telecommunications value-added services	**151,634**	**37.9%**	141,315	37.9%
Online advertising	**54,466**	**26.0%**	64,276	25.8%
Others	**13,318**	**143.4%**	13,786	596.8%
Total cost of revenues	**683,139**		645,748	

Cost of revenues for our Internet value-added services increased by 8.8% to RMB463.7 million for the fourth quarter of 2008 from RMB426.4 million for the third quarter of 2008. The increase mainly reflected higher sharing costs driven by increased revenues from successful licensed games, such as DNF and Cross Fire. Telecommunications operators' revenue share as well as bandwidth and server custody fees also increased as a result of the continuing expansion of our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 7.3% to RMB151.6 million for the fourth quarter of 2008 from RMB141.3 million for the third quarter of 2008. The increase primarily reflected higher amount of revenue share paid to telecommunications operators due to the growth in our business volume. Sharing costs related to licensed mobile games also increased as a result of the growth of our mobile gaming services.

Cost of revenues for our online advertising decreased by 15.3% to RMB54.5 million for the fourth quarter of 2008 from RMB64.3 million for the third quarter of 2008. This mainly reflected lower amount of sales commissions paid to advertising agencies and was in line with the decline in advertising revenues.

Other gains / (losses), net. We recorded other gains of RMB45.8 million for the fourth quarter of 2008 compared to other losses of RMB6.9 million for the third quarter of 2008. The change primarily reflected increase in government subsidies and interest income, as well as the recognition of fair value gains on financial assets held for trading. Furthermore, we recognized an impairment loss of RMB18.7 million with respect to one of our investees and made a donation of RMB10.0 million to the Tencent Charity Fund in the third quarter of 2008. Such impairment loss and donation were not repeated in the fourth quarter of 2008. The aforementioned factors were partially offset by the recognition of an impairment charge of RMB11.3 million for leasehold improvements, which was due to planned offices relocation.

Selling and marketing expenses. Selling and marketing expenses decreased by 20.3% to RMB147.3 million for the fourth quarter of 2008 from RMB184.7 million for the third quarter of 2008. The decrease was mainly due to expenses of around RMB56 million incurred in the third quarter of 2008 in relation to the reporting of Beijing Olympics in August 2008. As a percentage of revenues, selling and marketing expenses decreased to 7.0% in the fourth quarter of 2008 from 9.1% in the third quarter of 2008.

General and administrative expenses. General and administrative expenses increased slightly by 0.9% to RMB379.9 million for the fourth quarter of 2008 from RMB376.6 million for the third quarter of 2008. This primarily reflected higher expenses as a result of our continuing business growth partially offset by more stringent cost control measures implemented under a challenging economic environment. As a percentage of revenues, general and administrative expenses decreased to 18.1% in the fourth quarter of 2008 from 18.6% in the third quarter of 2008.

Finance income / (costs). We recorded finance income of RMB2.6 million for the fourth quarter of 2008, which represents foreign exchange gains associated with our US dollar-denominated cash and investments due to depreciation of Renminbi during the period, while finance costs of RMB7.9 million was recognized for the third quarter of 2008. As we hold a large amount of US dollar-denominated instruments, a significant amount of our cash and investments is subject to foreign exchange risk.

Income tax expense. Income tax expense increased by 6.3% to RMB60.7 million for the fourth quarter of 2008 from RMB57.1 million for the third quarter of 2008. The increase mainly reflected higher profit before tax as well as recognition of deferred tax liabilities totalling RMB50 million in relation to intra-group dividend expected to be paid by our PRC subsidiaries to their overseas parent companies as a result of the new enterprise income tax law that became effective as of 1 January 2008. This was largely offset by lower enterprise income tax rates applicable to certain subsidiaries which were qualified as high / new technology or key software enterprises during the quarter.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 17.6% to RMB876.1 million for the fourth quarter of 2008 from RMB745.3 million for the third quarter of 2008. Net margin was 41.8% for the fourth quarter of 2008 compared to 36.8% for the third quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 17.9% to RMB869.1 million for the fourth quarter of 2008 from RMB737.1 million for the third quarter of 2008.

Year Ended 31 December 2008 Compared to Year Ended 31 December 2007

The following table sets forth the comparative figures for the year ended 31 December 2008 and the year ended 31 December 2007:

	Year ended 31 December	
	2008	2007
	(RMB in thousands)	
Revenues	**7,154,544**	3,820,923
Cost of revenues	**(2,170,421)**	(1,117,557)
Gross profit	**4,984,123**	2,703,366
Other gains, net	**112,205**	69,212
Selling and marketing expenses	**(518,147)**	(297,439)
General and administrative expenses	**(1,332,207)**	(840,113)
Operating profit	**3,245,974**	1,635,026
Finance costs	**(140,732)**	(100,192)
Share of loss of associates / a jointly controlled entity	**(347)**	(331)
Profit before income tax	**3,104,895**	1,534,503
Income tax (expense) / benefit	**(289,245)**	33,505
Profit for the year	**2,815,650**	1,568,008
Attributable to:		
Equity holders of the Company	**2,784,577**	1,566,020
Minority interests	**31,073**	1,988

Revenues. Revenues increased by 87.2% to RMB7,154.5 million for the year ended 31 December 2008 from RMB3,820.9 million for the year ended 31 December 2007. The following table sets forth our revenues by line of business for the year ended 31 December 2008 and the year ended 31 December 2007:

	Year ended 31 December			
	2008		2007	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**4,914,974**	**68.7%**	2,513,728	65.8%
Mobile and telecommunications value-added services	**1,398,984**	**19.6%**	807,645	21.1%
Online advertising	**826,049**	**11.5%**	493,018	12.9%
Others	**14,537**	**0.2%**	6,532	0.2%
Total revenues	**7,154,544**	**100.0%**	3,820,923	100.0%

Revenues from our Internet value-added services increased by 95.5% to RMB4,915.0 million for the year ended 31 December 2008 from RMB2,513.7 million for the year ended 31 December 2007. Online gaming revenues increased, driven by the rising popularity of QQ Game, new games launched during 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, as well as the full year impact of QQ Huaxia and QQ SanGuo. Revenues from QQ Membership enjoyed continuing organic growth due to increased user loyalty and stickiness as the service was enhanced with differentiated value-added functions and privileges across our platforms. There was an encouraging increase in revenues from the online identity and community business as we enhanced the functionalities and user experience of Qzone and transformed the revenue model of QQ Show from item sale into monthly subscription. Revenues from QQ Music also increased, driven by enhancements in service features and expansion in payment channels for monthly subscription.

Revenues from our mobile and telecommunications value-added services increased by 73.2% to RMB1,399.0 million for the year ended 31 December 2008 from RMB807.6 million for the year ended 31 December 2007. The increase was mainly driven by the growth in revenues from our bundled SMS packages as we continued to enhance the functionalities and features of our products and services. The increase also reflected growth in revenues from mobile gaming and WAP services.

Revenues from online advertising increased by 67.5% to RMB826.0 million for the year ended 31 December 2008 from RMB493.0 million for the year ended 31 December 2007. The increase reflected the continuing growth in the reach of and traffic on our IM-based advertising platform, the increasing brand recognition of QQ.com as a major media and our growing customer base. Search advertising also registered growth in revenue during the year due to increases in both search volume and revenue per search.

Cost of revenues. Cost of revenues increased by 94.2% to RMB2,170.4 million for the year ended 31 December 2008 from RMB1,117.6 million for the year ended 31 December 2007. The increase primarily reflected increase in sharing costs, telecommunications operators' revenue share, bandwidth and server custody fees and staff costs as our business volume expanded and as we executed plans to pursue long-term growth. As a percentage of revenues, cost of revenues increased slightly to 30.3% for the year ended 31 December 2008 from 29.2% for the year ended 31 December 2007. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2008 and the year ended 31 December 2007:

	Year ended 31 December			
	2008		2007	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,393,878**	**28.4%**	627,982	25.0%
Mobile and telecommunications value-added services	**514,669**	**36.8%**	310,110	38.4%
Online advertising	**211,889**	**25.7%**	146,717	29.8%
Others	**49,985**	**343.8%**	32,748	501.3%
Total cost of revenues	**2,170,421**		1,117,557	

Cost of revenues for our Internet value-added services increased by 122.0% to RMB1,393.9 million for the year ended 31 December 2008 from RMB628.0 million for the year ended 31 December 2007. The increase primarily reflected increase in sharing costs, bandwidth and server custody fees, telecommunications operators' revenue share, and staff costs as our business scale continued to expand during the year. The increase in sharing costs was mainly driven by higher revenues from successful licensed games, including DNF and Cross Fire. The increase in staff costs reflected expansion in workforce for supporting our business growth, as well as salary increments that we implemented in 2008 to account for the effects of inflation in China and to ensure the recruitment, motivation and retention of key talents for our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 66.0% to RMB514.7 million for the year ended 31 December 2008 from RMB310.1 million for the year ended 31 December 2007. The increase was mainly driven by higher amounts of telecommunications operators' revenue share as a result of growth in business volume. It also reflected the increase in sharing costs associated with our licensed mobile games driven by the rising popularity of our mobile gaming services, as well as higher staff costs.

Cost of revenues for our online advertising increased by 44.4% to RMB211.9 million for the year ended 31 December 2008 from RMB146.7 million for the year ended 31 December 2007. The increase mainly reflected higher sales commissions paid to advertising agencies as the volume of our advertising business grew and as we increased usage of advertising agencies to help sell our advertising services. Staff costs also increased due to the expansion of our online advertising team for supporting our business growth and the salary increases in 2008.

Other gains, net. We recorded other gains of RMB112.2 million for the year ended 31 December 2008, representing an increase of 62.1% from RMB69.2 million for the year ended 31 December 2007. This mainly reflected increase in government subsidies and interest income. Furthermore, for the year ended 31 December 2008, we recognized an impairment loss of RMB18.7 million with respect to one of our investees and an impairment charge of RMB11.3 million for leasehold improvements, while net losses of RMB32.3 million relating to an acquisition as well as an impairment charge of RMB23.8 million with respect to an investment were made for the year ended 31 December 2007. The increase was partially offset by higher charitable donations and lower gains from derivative financial instruments for the year ended 31 December 2008.

Selling and marketing expenses. Selling and marketing expenses increased by 74.2% to RMB518.1 million for the year ended 31 December 2008 from RMB297.4 million for year ended 31 December 2007. The increase was primarily driven by expenses incurred in relation to the reporting of Beijing Olympics in August 2008 as well as higher promotional and advertising spending on the launch of new online games during the year ended 31 December 2008. We also recorded an increase in staff costs as we expanded our workforce to support business growth and as we implemented salary increases in 2008. As a percentage of revenues, selling and marketing expenses decreased slightly to 7.2% in the year ended 31 December 2008 from 7.8% in the year ended 31 December 2007.

General and administrative expenses. General and administrative expenses increased by 58.6% to RMB1,332.2 million for the year ended 31 December 2008 from RMB840.1 million for the year ended 31 December 2007. The increase primarily reflected the increase in research and development costs as a result of higher number of research and development staff and technical personnel as we continued to invest in technology enhancements and product development. The increase also reflected higher staff costs due to growth in headcount for supporting our business expansion and the salary increases implemented in 2008. As a percentage of revenues, general and administrative expenses decreased to 18.6% in the year ended 31 December 2008 from 22.0% in the year ended 31 December 2007.

Finance costs. Finance costs mainly represent foreign exchange losses. We recorded finance costs of RMB140.7 million for the year ended 31 December 2008 compared to RMB100.2 million for the year ended 31 December 2007, representing an increase of 40.5%. Such increase was mainly due to higher foreign exchange losses associated with our US dollar-denominated cash and investments arising from the appreciation of Renminbi during the year. If Renminbi continues to appreciate against the US dollar, we expect to report additional exchange losses in future as we hold a large amount of US dollar-denominated instruments.

Income tax (expense) / benefit. We recorded income tax expense of RMB289.2 million for the year ended 31 December 2008 compared to income tax benefit of RMB33.5 million for the year ended 31 December 2007. The change primarily reflected lower deferred tax assets recognized as well as an increase in the applicable income tax rate as a result of the new enterprise income tax law that became effective as of 1 January 2008.

Profit for the year. Profit for the year increased by 79.6% to RMB2,815.7 million for the year ended 31 December 2008 from RMB1,568.0 million for the year ended 31 December 2007. Net margin was 39.4% for the year ended 31 December 2008 compared to 41.0% for the year ended 31 December 2007.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 77.8% to RMB2,784.6 million for the year ended 31 December 2008 from RMB1,566.0 million for the year ended 31 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008 and 30 September 2008, we had the following major financial resources in the form of cash and investments:

	Audited 31 December 2008	Unaudited 30 September 2008
	(RMB in thousands)	
Cash and cash equivalents	**3,067,928**	2,301,727
Term deposits with initial term of over three months	**1,662,501**	1,567,359
Financial assets held for trading	**329,804**	326,187
Held-to-maturity investments	**68,346**	68,183
Total	**5,128,579**	4,263,456

As at 31 December 2008, RMB1,589.6 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the fluctuation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no interest-bearing borrowings as at 31 December 2008.

CAPITAL EXPENDITURES

For the year ended 31 December 2008, our capital expenditures consisted of additions to fixed assets, investment property, construction in progress, leasehold land and land user rights and intangible assets totalling RMB1,448.9 million (including capital expenditures in relation to acquisition of subsidiaries amounting to RMB1.3 million). In the year ended 31 December 2007, our capital expenditures consisted of similar items totalling RMB1,009.3 million.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 11 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 54 of this annual report.

The directors have recommended the payment of a final dividend of HKD0.25 per share for the year ended 31 December 2008 and a special dividend of HKD0.10 per share to celebrate the tenth year anniversary of the Group. The dividend is expected to be payable on 27 May 2009 to shareholders whose names appear on the Register of Members of the Company on 13 May 2009. The total dividend for the year under review is HKD0.35 per share.

RESERVES

The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2008, the Company had distributable reserves amounting to RMB1,539.1 million (2007: RMB2,092.9 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 22 and Note 23 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 22 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in Note 11 to the consolidated financial statements.

BANK LOANS

Particulars of the Group's bank borrowing is set out in Note 28 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3.

USE OF PROCEEDS

The application of the proceeds from the initial public offering does not materially change from the possible allocation outlined in the prospectus of the Company dated 7 June 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased 9,223,800 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate consideration of approximately HKD436.8 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

		Purchase consideration per share		Aggregate
	No. of shares	Highest	Lowest	consideration
Month of purchase in 2008	**purchased**	**price paid**	**price paid**	**paid**
		HKD	*HKD*	*HKD*
March	1,500,000	39.90	35.95	58,326,000
April	1,272,600	45.50	44.60	57,192,000
September	2,283,600	63.25	47.05	130,755,000
October	2,674,400	55.00	41.85	123,208,000
November	913,400	48.15	40.25	40,994,000
December	579,800	48.40	41.90	26,337,000
Total	9,223,800			436,812,000

Save as disclosed above and in Note 24 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTION SCHEMES

The Company has adopted three share option schemes, namely the Pre-IPO Share Option Scheme (the "Pre-IPO Option Scheme"), Post-IPO Share Option Scheme (the "Post-IPO Option Scheme I") and the Share Option Scheme adopted on 16 May 2007 (the "Post-IPO Option Scheme II"). No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

As at 31 December 2008, there were a total of 11,903,600 outstanding share options granted to the directors of the Company, details of which are as follows:

			Number of options				
Name of director	**Date of grant**	**Exercise price (HKD)**	**As at 1 January 2008**	**Granted during the year**	**Exercised during the year**	**As at 31 December 2008**	**Exercise period**
Lau Chi Ping Martin	3 February 2005	4.8	3,103,600	–	1,000,000	2,103,600	3 February 2006 to 23 March 2014 *(Note 1)*
	20 December 2005	8.35	2,000,000	–	–	2,000,000	20 December 2006 to 23 March 2014 *(Note 1)*
	23 March 2006	11.55	1,500,000	–	–	1,500,000	23 March 2007 to 23 March 2014 *(Note 1)*
	4 April 2007	25.26	1,000,000	–	–	1,000,000	4 April 2008 to 23 March 2014 *(Note 2)*
	5 July 2007	33.05	2,000,000	–	–	2,000,000	5 July 2009 to 4 July 2014 *(Note 3)*
	5 July 2007	33.05	3,000,000	–	–	3,000,000	5 July 2010 to 4 July 2014 *(Note 4)*
		Total	12,603,600	–	1,000,000	11,603,600	
Li Dong Sheng	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 2)*
Iain Ferguson Bruce	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 2)*
Ian Charles Stone	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 2)*
		Grand Total	12,903,600	–	1,000,000	11,903,600	

Note:

1. For options granted with exercisable date determined based on the grant date of 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.

2. For options granted with exercisable date determined based on the grant date of 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.

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

4. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised three years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

5. The weighted average closing price immediately before the date on which the options were exercised was HKD61.93.

6. No option was granted, cancelled / lapsed during the period.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II
1.	Purposes	To recognize the contribution that certain individuals have made to the Group, to attract the best available personnel and to promote the success of the Group's business		
2.	Qualifying participants	Any eligible employee, including executive directors of the Company	Any employee, consultant or director of any company within the Group	Any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, have contributed or will contribute to the growth and development of the Group or any Invested Entity

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 88,903,654 shares, 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme and the Post-IPO Option Scheme I, must not in aggregate exceed 30% of the issued share capital from time to time (Note).
4.	Maximum entitlement of each participant	The number of ordinary shares in respect of which options may be granted is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	All the options are exercisable in installments from the commencement of the relevant vesting period until 31 December 2011, but on the condition that the Company has been listed in a sizeable securities market. The Board may at their discretion determine the specific vesting and exercise periods.	The option period is determined according to the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the option.	The option period is determined according to the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II
6.	Acceptance of offer	Options granted must be taken up within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Subscription price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
8.	Remaining life of the scheme	It will expire on 31 December 2011.	It will remain in force for a period of ten years, commencing on 24 March 2004.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.

Note: The total number of shares available for issue under the Post IPO Option Scheme II is 57,446,141 which is approximately 3.2% of the issued share capital as at the date of the annual report.

MOVEMENTS OF THE SHARE OPTION SCHEMES

Details of the movements in the share option schemes during the year are set out in Note 24 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 24 to the consolidated financial statements.

SHARE AWARD SCHEME

On 13 December 2007 ("Adoption Date"), the board of directors of the Company (the "Board") adopted the Share Award Scheme (the "Scheme") in which eligible persons (including any director) of the Group will be entitled to participate. Unless early terminated by the Board, the Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. The maximum numbers of shares which can be awarded under the Scheme and to an awarded person are limited to two percent (i.e. 35,755,232 shares) and one percent (i.e. 17,877,616 shares) of the issued share capital of the Company as at the Adoption Date respectively. The Board amended the definition of excluded person in the Scheme on 31 January 2008 so that substantial shareholders of the Group will be allowed to join the Scheme.

Pursuant to the Scheme, the Board shall select the eligible persons for participation in the Scheme and determine the number of shares to be awarded ("Awarded Shares"). Shares will be acquired by the independent trustee at the cost of the Company or shares will be allotted to the independent trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time and be held in trust for the awarded persons (excluding the directors and substantial shareholders of the Group) until the end of each vesting period. Vested shares will be transferred at no cost to the awarded persons. The Company shall comply with the relevant Listing Rules when granting the awarded shares.

If awards are made to directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the awarded person satisfying all vesting conditions specified by the Board at the time of making the award until and on each of the relevant vesting dates and his / her execution of the relevant documents to effect the transfer from the trustee.

During the year, the grant of a total of 1,349,450 shares had been completed. No share was granted to the directors of the Company. Details of the movements in the share award scheme during the year are set out in Note 24 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

In accordance with Article 87 of the articles of association of the Company ("Articles of Association"), Messrs Iain Ferguson Bruce and Ian Charles Stone will retire at the Annual General Meeting ("AGM") of the Company to be held on 13 May 2009 and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and we consider them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ma Huateng, age 37, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a member of the 4th Shenzhen Municipal People's Congress. Mr Ma has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and more than 14 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which has interest in the shares of the Company.

Lau Chi Ping Martin, age 35, is an executive director with effect from 21 March 2007. Mr Lau was appointed as the President of the Company in February 2006 to assist Mr Ma Huateng, Chairman of the Board and Chief Executive Officer, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investment, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an Executive Director at Goldman Sachs (Asia) L.L.C's investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. He has over 12 years' experience in IPO, merger and acquisitions and management consulting. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange.

Zhang Zhidong, age 37, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 12 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which has interest in the shares of the Company.

Antonie Andries Roux, age 50, has been a non-executive director since 10 December 2002. Mr Roux is currently Chief Executive Officer of Internet Operations for the MIH group companies, a position he has held since 2002. Mr Roux joined the Naspers group in 1979 and was a founding member of M-Net in 1985. In 1997, he was appointed Chief Executive Officer of M-Web South Africa. Currently, Mr Roux serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Roux has more than 30 years of experience in the telecommunications industry.

Charles St Leger Searle, age 45, has been a non-executive director since 5 June 2001. Mr Searle is currently the Chief Investment Officer of MIH Internet group companies. Prior to joining the MIH group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 15 years of experience in the telecommunications and Internet industries.

Li Dong Sheng, age 52, has been an independent non-executive director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li graduated from Huanan Polytechnic University in 1982 with a Bachelor degree in radio technology and has more than 14 years of experience in the information technology field.

Iain Ferguson Bruce, age 68, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 44 years' experience in the accounting profession. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. Mr Bruce is currently an independent non-executive director of Paul Y. Engineering Group Limited, a construction and engineering services company, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed companies in Hong Kong. Mr Bruce is also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed in Singapore, of China Medical Technologies, Inc., a China-based medical device company that is listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce is a steward of The Hong Kong Jockey Club, an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited.

Ian Charles Stone, age 58, has been an independent non-executive director since April 2004. Mr Stone is currently the Managing Director of International Projects for PCCW Limited. Mr Stone has more than 38 years of experience in the telecom and mobile industries. He was the Chief Executive Officer of SmarTone between 1999 and 2001. Prior to joining SmarTone, he was Senior Adviser to First Pacific / PLDT of the First Pacific Group, Chief Operations Officer of Piltel, Managing Director of Pacific Link and Executive Director of Asialink, the regional telecom investment arm of First Pacific, respectively. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs Ma Huateng and Zhang Zhidong has entered into a service contract with the Company for a term of three years from 25 March 2007. The term of each service contract can be extended by agreement between the Company and the relevant Director. The Company may terminate the contracts by three months' written notice at any time, subject to paying the Director his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination became effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years from 3 February 2008. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programs and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in the shares and underlying shares of the Company

Name of Director	Nature of interests	Number of shares / underlying shares held	Percentage of issued share capital
Ma Huateng	Corporate *(Note 1)*	212,892,880	11.85%
Zhang Zhidong	Corporate *(Note 2)*	77,000,000	4.29%
Lau Chi Ping Martin	Personal	11,603,600 *(Note 3)*	0.65%
Li Dong Sheng	Personal	100,000 *(Note 4)*	0.01%
Iain Ferguson Bruce	Personal	100,000 *(Note 4)*	0.01%
Ian Charles Stone	Personal	100,000 *(Note 4)*	0.01%

Notes:

1 These shares are held by Advance Data Services Limited, a BVI company wholly owned by Ma Huateng.

2 These shares are held by Best Update International Limited, a BVI company wholly owned by Zhang Zhidong.

3 The interest comprises 11,603,600 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I and Post-IPO Option Scheme II. Details of the share options granted to the director are set out above under "Share Option Schemes".

4 The interest represents the underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I. Details of the share options granted to the directors are set out above under "Share Option Schemes".

(B) Long position in the shares in associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer")	Personal	RMB10,857,140 (registered capital)	54.29%
	Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan")	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB4,571,420 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2008.

CONNECTED TRANSACTIONS

The waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004 was referred to. The Company's independent non-executive directors reviewed the Structure Contracts and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure - Structure Contracts" of the IPO prospectus) as at 31 December 2008 to Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin") (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus), Tencent Technology (Beijing) Company Limited ("Tencent Beijing"), Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen") (collectively defined as "WFOEs") and no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan to the holders of their equity interests and any new Structure Contracts entered into, renewed and / or cloned during the relevant financial period had been fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, Structure Contracts were entered into relating to Beijing Emark Information and Technology Company Limited, Nanjing Wang Dian Technology Company Limited, Beijing BIZCOM Technology Company Limited, Beijing Starsinhand Technology Company Limited, Shenzhen Shiji Tian You Technology Company Limited, Tianjin Shouzhongwanwei Network Technology Company Limited and Guangzhou Yunxun Technology Company Limited (collectively defined as "New OPCOs") . No direct transactions between WFOEs and New OPCOs were carried out during the year ended 31 December 2008.

The Auditors had carried out agreed-upon procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that the transactions had been approved by the Board and had been entered into in accordance with the relevant Structure Contracts and had been operated so as to transfer Tencent Computer's, Shiji Kaixuan's and the New OPCOs' Surplus Cash as at 31 December 2008 to the WFOEs and that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan or the New OPCOs to the holders of its equity interests.

Transactions carried out during the year ended 31 December 2008, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. A cooperation framework contract dated 28 February 2004, between Tencent Technology and Tencent Computer ("TCS CFC") pursuant to which the parties agree to cooperate in the provision of communications services. Tencent Technology and its affiliates agree to allow Tencent Computer to use its and its affiliates' assets and provide services to Tencent Computer. As consideration, Tencent Computer agrees to transfer all of its Surplus Cash to Tencent Technology and its affiliates. The parties also established a cooperation committee ("TCS Cooperation Committee") according to this agreement. During the year, other than the Structure Contracts mentioned below, Tencent Computer purchased technology amounting to approximately RMB165,000,000 from Tencent Technology's affliliate, Tencent Beijing; and RMB70,000,000 from Tencent Technology. Tencent Computer purchased software amounting to approximately RMB212,000 (including value-added tax) from Tencent Technology's affiliate, Cyber Shenzhen, RMB141,900,000 (including value-added tax) from Tencent Technology's affiliate, Cyber Tianjin, and RMB81,900,000 (including value-added tax) from Tencent Technology. In addition, revenue sharing amounting to approximately RMB335,119,000 was paid / payable by Tencent Computer to Tencent Technology.

2. A cooperation framework contract dated 28 February 2004, between Cyber Tianjin and Shiji Kaixuan ("SKT CFC") pursuant to which the parties agree to cooperate in the provision of communications services. Cyber Tianjin and its affiliates agree to allow Shiji Kaixuan to use its and its affiliates' assets and provide services to Shiji Kaixuan. As consideration, Shiji Kaixuan agrees to transfer all of its Surplus Cash to Cyber Tianjin and its affiliates. The parties also established a cooperation committee ("SKT Cooperation Committee") according to this agreement. During the year, other than the Structure Contracts mentioned below, Shiji Kaixuan purchased technology amounting to approximately RMB190,000,000 from Cyber Tianjin's affliliate, Tencent Beijing.

3. An amended and restated intellectual property transfer contract dated 28 February 2004, between Tencent Technology and Tencent Computer pursuant to which Tencent Computer assigned to Tencent Technology its principal present and future intellectual property rights, free from encumbrances (except for licenses granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no intellectual property transfer was transacted under such arrangement, save as disclosed elsewhere in this section.

4. An intellectual property transfer contract dated 28 February 2004 between Cyber Tianjin and Shiji Kaixuan pursuant to which Shiji Kaixuan assigned to Cyber Tianjin its principal present and future intellectual property rights, free from encumbrance (except for licenses granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no intellectual property transfer was transacted under such arrangement, save as disclosed elsewhere in this section.

5. A domain name license contract dated 28 February 2004, between Tencent Technology, as licensor, and Tencent Computer, as licensee, pursuant to which Tencent Technology granted to Tencent Computer a non-exclusive license to use specified domain names against payment of annual royalties determined by the TCS Cooperation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name license was transacted under such arrangement, save as disclosed elsewhere in this section.

6. A domain name license contract dated 28 February 2004, between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, pursuant to which Tencent Technology granted Shiji Kaixuan a non-exclusive license to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the contract or the SKT CFC). During the year, no domain name license was transacted under such arrangement, save as disclosed elsewhere in this section.

7. A trademark license contract dated 28 February 2004, between Tencent Technology, as licensor, and Tencent Computer, as licensee, pursuant to which Tencent Technology granted to Tencent Computer a non-exclusive license to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the contract or the TCS CFC). During the year, no trademark license was transacted under such arrangement, save as disclosed elsewhere in this section.

8. A trademark license contract dated 28 February 2004, between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, pursuant to which Tencent Technology granted Shiji Kaixuan a non-exclusive license to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the contract or the SKT CFC). During the year, no trademark license was transacted under such arrangement, save as disclosed elsewhere in this section.

9. An information consultancy services contract dated 28 February 2004, between Tencent Technology, as consultant, and Tencent Computer, pursuant to which Tencent Technology will provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Cooperation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, a fee of approximately RMB99,439,000 was transacted under such arrangement.

10. A technical consultancy services contract dated 28 February 2004, between Tencent Technology, as consultant, and Shiji Kaixuan, pursuant to which Tencent Technology will provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Cooperation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, a fee of approximately RMB19,678,000 was transacted under such arrangement.

Details of the related parties transactions are set out in Note 46 to the consolidated financial statements.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long position in the shares in the Company

Name of shareholder	Nature of interest	Number of shares	Percentage of issued share capital
MIH China (BVI) Limited	Corporate *(Note 1)*	630,240,380	35.08%
Advance Data Services Limited	Corporate *(Note 2)*	212,892,880	11.85%
ABSA Bank Limited	Corporate *(Note 3)*	185,000,000	10.30%

Notes:

1 As MIH China (BVI) Limited ("MIH") is wholly owned by Naspers Limited through its intermediary companies MIH (Mauritius) Limited and MIH Holdings Limited. Naspers Limited, MIH (Mauritius) Limited and MIH Holdings Limited are deemed to be interested in the same block of 630,240,380 Shares under Part XV of the SFO. Out of the 630,240,380 shares held by MIH, 185,000,000 shares are pledged to ABSA Bank Limited, as referenced in Note 3 below.

2 As Advance Data Services Limited is wholly owned by Ma Huateng, Mr Ma has interest in these shares as disclosed under the section of "Directors' Interests in Securities".

3 As ABSA Bank Limited has a security interest in 185,000,000 Shares, which are held by MIH, and ABSA Bank Limited is wholly owned by Barclays Bank PLC through its intermediary company ABSA Group Limited, Barclays Bank PLC and ABSA Group Limited are deemed to be interested in the same block of 185,000,000 Shares under Part XV of the SFO.

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 31 December 2008, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group accounted for approximately 16.28% of the Group's total revenues while the largest customer of the Group accounted for approximately 5.42% of the Group's total revenues. In addition, for the year ended 31 December 2008, the five largest suppliers of the Group accounted for approximately 42.05% of the Group's total purchases while the largest supplier of the Group accounted for approximately 15.30% of the Group's total purchases.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued capital) had an interest in any of the major customers or suppliers noted above.

AUDIT COMMITTEE

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this annual report, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2008, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As to the deviation from code provisions A.2.1 and A.4.2 of Appendix 14 to the Listing Rules, the Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. The Directors have complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2008, the Group had 6,194 employees (2007: 4,344), most of whom are based in the Company's head office in Shenzhen, the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

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

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the year ended 31 December 2008 was RMB1,365.6 million (2007: RMB731.5 million).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 8 May 2009 to Wednesday, 13 May 2009 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend and special dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 7 May 2009.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 18 March 2009

The Company applied the principles and complied with all requirements of the code provisions set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules") (the "CG Code") with the deviations in respect of the segregation of the role of the chairman and chief executive officer ("CEO") and the provision regarding the retirement and re-election of directors. The following summarizes the Company's corporate governance practices and explains the deviations from the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

- The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the "Model Code"). All Directors have confirmed, following specific enquiry by the Company, full compliance with the Model Code throughout the year 2008.
- The Company has a model code for securities transactions by the staff. The code is in no less exacting terms than the Model Code throughout the year 2008.
- Relevant employees who may possess price sensitive information of the Company are required to file notices of intention to deal in the securities of the Company with the Chairman and they should get the acknowledgement of their intention from the Company before they deal in the securities of the Company.
- Details of securities interests in the Company held by the Directors are set out in the Directors' Report on page 31 of this annual report.

Deviation: Nil

BOARD OF DIRECTORS

A balanced board consisting of independent non-executive directors of at least one-third of the board

- The Board of the Company consists of three Executive Directors, two Non-Executive Directors ("NEDs") and three Independent Non-Executive Directors ("INEDs"). A list of all Directors is set out in the Corporate Information section on page 2 of this annual report. All the directors are explicitly identified in all corporate communications.

Deviation: Nil

The board should have a balance of skills and experience appropriate for the requirements of the business of the Company

- In relation to the Internet market in which the Company operates, the wide range of business, financial and management experience of the Board provides an appropriate balance of skills and experiences.
- A list of Directors and their respective biographies are set out on pages 28 to 29 of the Directors' Report. The information is also published on the Company's corporate website www.tencent.com (the "Company's corporate website").

Deviation: Nil

The board should assume responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company

- The Board of the Company has the following primary responsibilities:
  - determines the Group's mission, provides strategic direction to the Group and is responsible for the approval of strategic plans;
  - approves the annual business plan and budget proposed by management;
  - retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual budget and business plan;
  - establishes board sub-committees with clear terms of reference and responsibilities as appropriate; and
  - defines levels of delegation in respect of specific matters, with required authority to board sub-committees and management.
- The Board is supported by several committees. The Audit Committee and the Remuneration Committee have defined terms of reference covering their duties, powers and functions. The chairmen of the respective committees report regularly to the Board and, as appropriate, make recommendations on matters discussed. The Board and its committees are supplied with full and timely information which enables them to discharge their responsibilities.

Deviation: Nil

Nomination of directors

- The Board determines director selection, orientation and evaluation.
- The Board identifies and evaluates candidates for appointment as directors. Following the appointment of new directors to the Board, an orientation programme will be arranged to facilitate their understanding of the Group.
- There is no nomination committee established. The Board will review the structure from time to time and will, if necessary, establish a nomination committee at the appropriate time.

Deviation: Nil

The Company should have a formal schedule of matters specifically reserved to the board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have specific terms of reference

- The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorized, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

- The Board has delegated the day-to-day responsibility to the management team which includes the Chief Officers, President and the Executive Vice-Presidents. In addition, new members are recruited to the management team for strengthening the daily operation and meeting the future challenges, if required.

- The management team meets fortnightly and is responsible for the formulation of policies for consideration of the Board, and in carrying out and implementing the policies laid down by the Board. The management team is delegated with the authority from the Board to administer, enforce, interpret and supervise compliance with those parts of the internal rules and operational procedures of its subsidiaries, other than the Listing Rules, and conduct regular reviews of the same, recommend, and advise on appropriate amendments which do not involve policy matters for the approval by the boards of the respective subsidiaries. The management team reports to the Board on a regular basis and communicates with the Board whenever required.

Deviation: Nil

Non-executive directors should be appointed for specific terms and all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment

- All the NEDs and the INEDs are appointed with specific terms for a term of one year, subject to the retirement and re-election provisions of the Articles of Association.

- According to the Articles of Association, Directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting ("AGM"), and shall be eligible for re-appointment.

- According to the Articles of Association, at each AGM, one-third of the Directors shall retire from office by rotation, provided that the Chairman of the Board of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

Deviation: Yes, with the following considered reasons:

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

The board should meet regularly to discharge its duties. Sufficient information is provided to the board and its committees in a timely manner

- The Board meets regularly, normally once a quarter, and additional meetings will be arranged, if and when required. Regular Board / committee meeting schedules of each year are made available to all Directors / committee members before the commencement of the year. Directors can attend meetings in person or through other means of electronic communication.
- The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may comment to the draft agenda and / or request inclusion of items in the agenda.
- The information packages that contain analysis and background materials, will be circulated normally three days in advance of Board / committee meetings to Directors / committee members.
- There exists open atmosphere for Directors to contribute alternative views at meetings and major decisions will only be taken after a full discussion at Board meetings.
- Chief Officers are usually invited to attend Board meetings. Other executives will be invited to Board meetings from time to time for making presentations or answering Board's enquiries.
- Minutes of Board / committee meetings are recorded and draft minutes are circulated to all Directors / committee members for comments before being approved by the Board / committees at subsequent meetings.
- Matters on transactions where Directors are considered having conflict of interests or material interests will not be dealt with by way of written resolutions. The Directors concerned could express views but will not be counted in quorum of meeting and shall abstain from voting of the relevant resolution. According to the Articles of Association, an interest of 5% or more is considered material.
- All Directors have access to Chief Legal Counsel / Company Secretary who are responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.
- Minutes of the Board / committee meetings are kept by the Company Secretary and are open for inspection by Directors.
- The attendance records of all Board meetings held in 2008 are set out below:

Number of meetings:	**5**
Executive Directors	
Ma Huateng (Chairman)	5/5
Lau Chi Ping Martin	5/5
Zhang Zhidong	5/5
Non-Executive Directors	
Antonie Andries Roux	2/5
Charles St Leger Searle	5/5
Independent Non-Executive Directors	
Li Dong Sheng	2/5
Iain Ferguson Bruce	4/5
Ian Charles Stone	3/5

Deviation: Nil

Every director is required to keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company

- Management provides appropriate and sufficient information to Directors and the committee members in a timely manner to keep them updated of the latest developments of the Group and enable them to discharge their responsibilities.
- All Directors had attended training sessions in relation to the responsibilities as a director. All Directors are updated of any relevant change / update in any laws / regulations concerned. All directors are reminded of making disclosure of their interests, potential conflict of interests, and changes in personal particulars to the Company in a timely manner from time to time.
- Meetings had been organized for providing induction to new Directors to help them familiarize with the Company management, business, and governance practices.
- The Company also encourages its Directors to participate in continuous professional development seminars and courses organized by qualified institutions to ensure that they continually update their skills and have the knowledge on the latest development or changes in statutes, the Listing Rules, corporate governance practices etc. that are required for discharging their responsibilities.
- The Board and the committees are provided with sufficient resources to discharge their duties including, inter alia, the retention of external advisers at the Company's expense, as they deem necessary.

The Company should arrange appropriate insurance cover in respect of legal action against its directors

- A directors and officers' liabilities insurance is in place.

Distinctive roles of chairman and chief executive officer

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

Deviation: Yes, with the following considered reasons:

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

REMUNERATION OF DIRECTORS

There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors

- The Board has established a Remuneration Committee, comprising two INEDs and one NED appointed by the Board. The members of the Remuneration Committee are Mr Antonie Andries Roux (Chairman) and Messrs Li Dong Sheng and Ian Charles Stone.
- The principal responsibilities of and work done by the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Board and the chief officers of the Company. The objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-caliber team which is essential to the success of the Company.
- No Director can determine his own remuneration.
- The Chairman of the Remuneration Committee reports findings and recommendations to the Board at least once annually.
- The terms of reference of the Remuneration Committee are posted on the Company's corporate website.
- Details of the remuneration of the Directors for the year ended 31 December 2008 are set out in Note 35 to the consolidated financial statements.
- The Remuneration Committee benchmarked the remuneration packages of the Directors and the management team to similar positions of comparable companies in the industry when considering the remuneration packages.
- In 2008, there was one remuneration committee meeting held and remuneration-related information had been circulated to all the members of the Remuneration Committee for review and consideration on a timely basis from time to time.
- The attendance of individual members at Remuneration Committee meeting held in 2008 is set out below:

Number of meeting:	**1**
Non-Executive Director	
Antonie Andries Roux	1/1
Independent Non-Executive Directors	
Li Dong Sheng	0/1
Ian Charles Stone	1/1

ACCOUNTABILITY AND AUDIT

The board should present a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects

- The Board's responsibility for presenting a balanced, clear and comprehensible assessment extends to interim and annual reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules as well as to information required to be disclosed pursuant to statutory requirements.
- The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis.
- The Company has appointed external auditors, PricewaterhouseCoopers, to perform reviews on and an audit of its interim and annual financial statements which are prepared in accordance with the International Financial Reporting Standards.
- Management provides explanations and information to the Board which will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.
- The Board, with the recommendation of the Audit Committee, approves the Company's financial statements, interim and annual reports.
- The Company publishes its financial results on a quarterly basis to enhance transparency about its performance and latest developments of the Group in a timely manner.
- During the year, the Company announced its annual and interim results within three months and two months respectively after the end of the relevant periods.

Deviation: Nil

The board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets

- The Board has the ultimate responsibility for the Group's internal control system.
- The Company has various approval matrices, which are applicable to different managerial levels, which aim to:
  - help the achievement of business objectives, safeguard assets against unauthorized use or disposition;
  - ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
  - ensure compliance with relevant legislation and regulations.

- The key procedures that the Board established to provide effective internal controls are as follows:
  - A distinct organizational structure exists with defined lines of authority and control responsibilities. Relevant Division / Department Heads are involved in preparing the strategic plan which lays down the corporate strategies to be pursued in the following year for achieving the annual operational and financial targets. Both the strategic plan and the annual operating plan lay down the foundation for the preparation of the annual budget by which resources are allocated in accordance with identified and prioritized business opportunities. The annual operating plan and budget are approved by the Board on an annual basis.
  - Variances against budgets are analyzed, and explained, and appropriate actions are taken, if necessary, to rectify deficiencies noted.
  - Internal Audit Department ("IA") performs independent reviews of the operational areas and presents the findings and the prospective audit plan to the Audit Committee on a quarterly basis.
- Reviews of different business and functional operations and activities will be conducted by IA with audit resources being focused on higher risk areas. Ad hoc reviews will also be conducted by IA on areas of concern identified by the management team.
- Division / Department Heads will be notified of the deficiencies noted for rectification, and IA will follow up with the implementation of audit recommendations. Significant internal control weaknesses are brought to the attention of the Audit Committee and if necessary to the Board, and to the management team for remedial action.
- In 2008, the Company engaged a professional consulting firm to perform a high level review of the Group's existing internal controls by benchmarking the COSO Internal Control Integrated Framework, as well as performing an internal control review of one significant business unit. Recommendations with prioritization had been proposed and management has developed remedial plan to improve the internal control procedures.
- Based on the internal control review report of the professional consulting firm and the prevailing system and information, no material discrepancies have been found.
- Mr Lo John Shek Hon, the Deputy Chief Financial Officer of the Group, has the overall responsibilities for finance and accounting functions of the Group. He is a CPA member of CPA Australia and is a Fellow of the Hong Kong Institute of Certified Public Accountants. A majority of the managers of the Finance Division are members of The Chinese Institute of Certified Public Accountants. Staff of the Finance Division was required to attend relevant training programmes provided by professional accounting firms arranged by the Group from time to time. The Board considers that the resources, qualifications and experience of staff of Finance Division, their training programmes and budget were adequate.
- The Board, with the recommendation of the Audit Committee, is satisfied that the Group has complied with the provisions regarding internal controls as required under the CG Code. The Board is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the internal control system.

Deviation: Nil

The board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors

- The Audit Committee, comprising two INEDs and one NED, has extensive experience in financial matters, meets at least four times a year. The members are Mr Iain Ferguson Bruce (Chairman) and Messrs Ian Charles Stone and Charles St Leger Searle. Mr Bruce is a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants and Mr Searle is a member of the Institute of Chartered Accountants in Australia. None of the Audit Committee members are members of the former or existing auditors of the Company.

- Senior representatives of the external auditors and members of the management team are invited to attend the meetings when necessary.

- In 2008, the fees paid / payable to the Company's external auditors for non-audit related activities amounted to approximately RMB1,339,000.

- The Committee reports its work, findings and recommendations to the Board after each meeting. The terms of reference of the Audit Committee are posted on the Company's corporate website.

- The principal responsibilities of and work done by the Audit Committee in 2008 include:

  – To serve as a focal point for communication between other Directors, the external auditors and internal auditors in respect of the duties relating to financial and other reporting, internal controls, external and internal audits, and such other matters as the Board determines from time to time.

  – To assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting.

  – To review the scope and results of internal audit procedures, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.

  – To review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees.

  – To review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to financial reporting requirements.

  – To ensure continuing auditor objectivity and to safeguard independence of the external auditors. The Committee has granted authorization of non-audit services for which the external auditors may provide.

- The attendance records of all the Audit Committee meetings held in 2008 are set out below:

Number of meetings	**5**
Independent Non-Executive Directors	
Iain Ferguson Bruce *(Chairman)*	4/5
Ian Charles Stone	5/5
Non-Executive Director	
Charles St Leger Searle	5/5

Deviation: Nil

COMMUNICATION WITH SHAREHOLDERS

The board should endeavor to maintain an on-going dialogue with shareholders, in particular, use annual general meetings to communicate with shareholders and encourage their participation

- The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim results announcements and press releases.
- The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Company, Executive Directors and Chief Officers are available at the AGM to answer shareholders' questions.
- Separate resolutions are proposed at AGM on each separate issue, including the election of individual Directors.
- Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders and has been despatched to the shareholders timely. The circular also includes details of the procedures and the timetable of proposing appropriate candidates to stand for election as Directors at annual general meetings, and relevant details of proposed resolutions, including biographies of each candidates standing for re-election and whether such candidates are considered to be independent.
- At the commencement of the AGM, detailed procedures for conducting a poll had been explained.
- Questions from shareholders in the AGM were answered.
- The results of the poll are published on the website of SEHK and on the Company's corporate website.
- Financial results approved by the Board and all shareholder communications of the Company are made available on the Company's corporate website, which is updated on a regular basis.

Deviation: Nil

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 18 March 2009

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 168, which comprise the consolidated and company balance sheets as of 31 December 2008, and the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2009

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000 (Restated)
		As at 31 December	
ASSETS			
Non-current assets			
Fixed assets	6	**1,165,048**	839,256
Construction in progress	7	**875,897**	112,232
Investment property	8	**64,981**	66,414
Leasehold land and land use rights	9	**36,046**	36,796
Intangible assets	10	**370,314**	391,994
Investment in a jointly controlled entity		**–**	179
Investment in associates	12	**302,712**	–
Deferred income tax assets	30	**334,164**	287,652
Held-to-maturity investments	14	**–**	73,046
Available-for-sale financial assets	15	**86,180**	63,605
Prepayments, deposits and other receivables	17	**124,354**	219,138
		3,359,696	2,090,312
Current assets			
Inventories		**5,483**	1,701
Accounts receivable	16	**983,459**	535,528
Prepayments, deposits and other receivables	17	**378,340**	130,406
Financial assets held for trading	18	**329,804**	266,495
Derivative financial instruments	19	**–**	47,759
Held-to-maturity investments	14	**68,346**	–
Term deposits with initial term of over three months	20	**1,662,501**	604,486
Restricted cash	28	**–**	300,000
Cash and cash equivalents	21	**3,067,928**	2,948,757
		6,495,861	4,835,132
Total assets		**9,855,557**	6,925,444
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	22	**195**	194
Share premium	22	**1,155,209**	1,455,854
Shares held for share award scheme	22	**(21,809)**	–
Share-based compensation reserve	22	**381,439**	220,230
Other reserves	23	**(433,038)**	80,295
Retained earnings		**5,938,930**	3,413,823
		7,020,926	5,170,396
Minority interests in equity		**98,406**	64,661
Total equity		**7,119,332**	5,235,057

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	As at 31 December 2007 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	30	**78,368**	40,770
Long-term payables	27	**566,260**	–
		644,628	40,770
Current liabilities			
Accounts payable	25	**244,647**	117,062
Other payables and accruals	26	**1,013,542**	669,194
Short-term bank borrowing	28	**–**	292,184
Derivative financial instruments	19	**–**	30,060
Current income tax liabilities		**47,307**	71,133
Other tax liabilities	38(b)	**103,933**	134,746
Deferred revenue	29	**682,168**	335,238
		2,091,597	1,649,617
Total liabilities		**2,736,225**	1,690,387
Total equity and liabilities		**9,855,557**	6,925,444
Net current assets		**4,404,264**	3,185,515
Total assets less current liabilities		**7,763,960**	5,275,827

On behalf of the board of directors of the Company

Ma Huateng
Director

Zhang Zhidong
Director

The notes on pages 58 to 168 are an integral part of these consolidated financial statements.

BALANCE SHEET – THE COMPANY

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Fixed assets		**80**	115
Intangible assets		**3,798**	1,695
Investments in subsidiaries	11(a)	**409,744**	248,529
Available-for-sale financial assets		**9,840**	–
Contribution to Share Scheme Trust	11(c)	**295**	–
		423,757	250,339
Current assets			
Amounts due from subsidiaries	11(b)	**1,769,976**	2,192,300
Prepayments, deposits and other receivables		**5,646**	3,418
Cash and cash equivalents	21	**95,957**	109,449
		1,871,579	2,305,167
Total assets		**2,295,336**	2,555,506
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	22	**195**	194
Share premium	22	**1,155,209**	1,455,854
Shares held for share award scheme	22	**(21,809)**	–
Share-based compensation reserve	22	**381,439**	220,230
Retained earnings		**383,888**	637,069
Total equity		**1,898,922**	2,313,347
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	11(b)	**374,114**	227,855
Other payables and accruals		**22,300**	14,304
		396,414	242,159
Total equity and liabilities		**2,295,336**	2,555,506

On behalf of the board of directors of the Company

Ma Huateng
Director

Zhang Zhidong
Director

The notes on pages 58 to 168 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
		Year ended 31 December	
Revenues			
Internet value-added services		**4,914,974**	2,513,728
Mobile and telecommunications value-added services		**1,398,984**	807,645
Online advertising		**826,049**	493,018
Others		**14,537**	6,532
	5	**7,154,544**	3,820,923
Cost of revenues	31,33	**(2,170,421)**	(1,117,557)
Gross profit		**4,984,123**	2,703,366
Other gains, net	32	**112,205**	69,212
Selling and marketing expenses	33	**(518,147)**	(297,439)
General and administrative expenses	33	**(1,332,207)**	(840,113)
Operating profit		**3,245,974**	1,635,026
Finance costs	37	**(140,732)**	(100,192)
Share of loss of associates / a jointly controlled entity		**(347)**	(331)
Profit before income tax		**3,104,895**	1,534,503
Income tax (expense) / benefit	38(a)	**(289,245)**	33,505
Profit for the year		**2,815,650**	1,568,008
Attributable to:			
Equity holders of the Company		**2,784,577**	1,566,020
Minority interests		**31,073**	1,988
		2,815,650	1,568,008
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– basic	40(a)	**1.552**	0.880
– diluted	40(b)	**1.514**	0.853
Dividends per share			
Final dividend proposed	41	**HKD0.25**	HKD0.16
Special dividend proposed	41	**HKD0.10**	–
		HKD0.35	HKD0.16

The notes on pages 58 to 168 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2007	192	1,459,020	–	118,078	80,925	2,059,541	3,717,756	–	3,717,756
Profit for the year / total recognised income for 2007	–	–	–	–	–	1,566,020	1,566,020	1,988	1,568,008
Employee share option schemes:									
– value of employee services	–	–	–	102,152	–	–	102,152	–	102,152
– proceeds from shares issued	3	104,087	–	–	–	–	104,090	–	104,090
Repurchase and cancellation of shares	(1)	(107,253)	–	–	–	–	(107,254)	–	(107,254)
Profit appropriations to statutory reserves	–	–	–	–	5,544	(5,544)	–	–	–
Dividend relating to 2006 (Note 41)	–	–	–	–	–	(210,211)	(210,211)	–	(210,211)
Business combination (Restated, Note 45(a))	–	–	–	–	(6,174)	4,017	(2,157)	62,673	60,516
Balance at 31 December 2007	194	1,455,854	–	220,230	80,295	3,413,823	5,170,396	64,661	5,235,057
Balance at 1 January 2008	**194**	**1,455,854**	**–**	**220,230**	**80,295**	**3,413,823**	**5,170,396**	**64,661**	**5,235,057**
Profit for the year / total recognised income for 2008	–	–	–	–	–	2,784,577	2,784,577	31,073	2,815,650
Employee share option schemes:									
– value of employee services	–	–	–	150,217	–	–	150,217	–	150,217
– proceeds from shares issued	2	86,940	–	–	–	–	86,942	–	86,942
Employee share award scheme:									
– value of employee services	–	–	–	10,992	–	–	10,992	–	10,992
– shares purchased for share award scheme	–	–	(21,809)	–	–	–	(21,809)	–	(21,809)
Repurchase and cancellation of shares	(1)	(387,585)	–	–	–	–	(387,586)	–	(387,586)
Profit appropriations to statutory reserves	–	–	–	–	1,667	(1,667)	–	–	–
Dividend relating to 2007 (Note 41)	–	–	–	–	–	(257,803)	(257,803)	–	(257,803)
Recognition of the financial liabilities in respect of the put option granted to minority shareholders (Note 4.2(c))	–	–	–	–	(515,000)	–	(515,000)	–	(515,000)
Others	–	–	–	–	–	–	–	2,672	2,672
Balance at 31 December 2008	**195**	**1,155,209**	**(21,809)**	**381,439**	**(433,038)**	**5,938,930**	**7,020,926**	**98,406**	**7,119,332**

The notes on pages 58 to 168 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	42(a)	3,901,927	1,941,400
Income tax paid		(322,300)	(105,696)
Net cash generated from operating activities		3,579,627	1,835,704
Cash flows from investing activities			
Payments for business combinations		(16,669)	(180,132)
Payment for investment in a jointly controlled entity		–	(510)
Purchase of fixed assets, construction in progress and investment property		(1,333,008)	(566,781)
Proceeds from disposals of fixed assets	42(a)	2,443	11,234
Payment for investment in associates		(302,951)	–
Payments for leasehold land and land use rights		–	(27,301)
Purchase of intangible assets		(71,368)	(197,165)
Purchase of available-for-sale financial assets		(41,248)	(60,857)
Purchase of held-to-maturity investments		–	(73,046)
Proceeds from maturity of held-to-maturity investments		–	222,089
Receipt from the repayments of term deposits with initial term of over three months		421,296	748,389
Payments for term deposits with initial term of over three months		(1,479,311)	(408,500)
Receipt from the repayment of / (payment for) restricted cash		300,000	(300,000)
Loan made to a related party		(73,094)	–
Interest received		79,377	98,333
Net cash used in investing activities		(2,514,533)	(734,247)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated)
Cash flows from financing activities			
Repayment of short-term bank borrowing		(292,184)	–
Proceeds from short-term bank borrowing		–	292,184
Proceeds from issuance of ordinary shares		86,942	104,090
Proceeds from capital injection from a minority interest		2,500	–
Payments for repurchase of shares		(387,586)	(107,254)
Payment for purchase of shares for share award scheme		(21,809)	–
Dividends paid to the Company's shareholders		(257,803)	(210,211)
Net cash (used in) / generated from financing activities		(869,940)	78,809
Net increase in cash and cash equivalents		195,154	1,180,266
Cash and cash equivalents at beginning of the year		2,948,757	1,844,320
Exchange losses on cash and cash equivalents		(75,983)	(75,829)
Cash and cash equivalents at end of the year		3,067,928	2,948,757

The notes on pages 58 to 168 are an integral part of these consolidated financial statements.

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 include 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 ("Structure Contracts") 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 in 2000 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. This approach was adopted because in management's belief it best reflected the substance of the formation.

The Group also established / acquired certain companies in the PRC, which are providers of mobile telecommunications or Internet value-added services to users and have contractual arrangements similar to those described above (see Note 11 (a)(ii) for details).

These consolidated financial statements have been approved for issue by the board of directors on 18 March 2009.

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, financial assets held for trading and derivative financial instruments.

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.

(a) Assessment and adoption of new interpretations and amendment

The following new interpretations and amendment to existing standards have been published and are mandatory for the financial year ended 31 December 2008.

IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendment to IAS 39 and IFRS 7	Reclassification of Financial Assets

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Assessment and adoption of new interpretations and amendment (Cont'd)

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

1) IFRIC 11 - provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group has applied this interpretation from 1 January 2008 and management considers that this interpretation does not have a significant impact on the Group's financial statements;

2) IFRIC 12 - applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide public sector services;

3) IFRIC 14 - provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group has applied this interpretation from 1 January 2008 and management considers that this interpretation does not have a significant impact on the Group's financial statements; and

4) Amendment to the IAS 39, 'Financial instruments: Recognition and measurement', permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) 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 January 2009 or later periods, but the Group has not yet early adopted them:

1) IAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009)

The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

2) IAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009)

The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management does not expect this amendment to have any significant impact on the Group.

3) IAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards, interpretations and amendments to published standards which are not yet effective (Cont'd)

4) IAS 32 and IAS 1 (Amendment), 'Puttable Financial Instruments and Obligations arising on Liquidation' (effective from 1 January 2009)

The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. These amendments are not relevant to the Group because the Group has no such puttable financial instruments and obligation arising on liquidation.

5) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' - 'Eligible Hedged Items' (effective from 1 July 2009)

This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations. This amendment is not relevant to the Group.

6) IFRS 1 (Amendment), 'First Time Adoption of IFRS' and IAS 27 'Consolidated and Separate Financial Statements' (effective from 1 July 2009)

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards, interpretations and amendments to published standards which are not yet effective (Cont'd)

7) IFRS 2 (Amendment), 'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 January 2009)

The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remaining of the vesting period is recognised immediately.

8) IFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009)

The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards, interpretations and amendments to published standards which are not yet effective (Cont'd)

9) Amendment to IFRS 7, 'Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments' (effective for annual periods beginning on or after 1 January 2009)

The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

10) IFRS 8, 'Operating Segment' (effective from 1 January 2009)

IFRS 8 replaces IAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purpose. Management is in the process of making assessment of the impact on the Group's segment reporting.

11) IFRIC 13, 'Customer Loyalty Programmes' (effective from 1 July 2008)

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customers is allocated between the components of the arrangement using fair values. Management is in the process of making assessment on its impact on the Group's customer loyalty programmes.

12) IFRIC 15, 'Agreements for Construction of Real Estate' (effective from 1 January 2009)

IFRIC 15 clarifies whether IAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards, interpretations and amendments to published standards which are not yet effective (Cont'd)

13) IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' (effective from 1 October 2008)

IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group except by the entity being hedged. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. IFRIC 16 is not expected to have a material impact on the Group's financial statements.

14) IFRIC 17, 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009)

IFRIC 17 applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that: a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; the dividend payable shall be measured at the fair value of the assets to be distributed, and the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss. IFRIC 17 is not relevant to the Group's operations as the distributions to owners' transactions are settled in cash.

15) IFRIC 18, 'Transfers of Assets from Customers' (effective from 1 July 2009)

IFRIC 18 is particularly relevant for the utility sector. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation is not relevant to the Group.

16) IASB's Annual Improvements Project published in May 2008

In May 2008, IASB published its annual improvement project, which made some amendments to IFRSs to clarify some accounting treatments / disclosure requirements under new / revised IFRSs and eliminate inconsistency. Management does not expect these amendments have a material impact on the Group's financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

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 2.8(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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(a) Subsidiaries (Cont'd)

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 dividends received and receivable. In addition, the contribution to the Company's share award scheme, a controlled special purpose entity, is stated at cost first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

(b) Transaction with minority shareholders

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchase from minority interests, the difference between any consideration and the relevant share acquired of the carrying value of net assets of the subsidiary is reflected in equity. Gains and losses on disposal to minority interests are also recorded in equity.

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by the equity method. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other long term unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policy of jointly controlled entities has been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 and interest income 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 fully or partially disposed of or sold, relevant portion of the 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 from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

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 and 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 2.10).

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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.6 Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Investment property is carried at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives of 50 years.

Investment property's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Investment property's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

2.7 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 charged to the income statement or capitalised in construction in progress on a straight-line basis over the remaining period of the lease.

2.8 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 CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Intangible assets (Cont'd)

(b) Other intangible assets

Other intangible assets mainly include license, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are being amortised over their estimated economic lives (generally three to seven years).

2.9 Shares held for share award scheme

Where the Share Scheme Trust purchases the Company's shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for share award scheme" and deducted from total equity.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are 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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets

(i) Classification

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's intentions and whether the assets are quoted in an active market. 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" (Note 2.14), "other receivables", "term deposits with initial term of over three months", "Restricted cash" and "cash and cash equivalents" (Note 2.15) 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 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.

(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 other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(ii) Recognition and measurement

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. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established and inflow of benefits is probable.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary 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 and inflow of benefits is probable.

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)

2.11 Financial assets (Cont'd)

(ii) Recognition and measurement (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 2.14.

2.12 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 within “Other gains, net”.

2.13 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)

2.14 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 receivable. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial term of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share 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.

2.17 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)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between their initial costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the balance sheet 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, jointly controlled entities 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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 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.

(c) Share-based compensation benefits

The Group adopted three share option schemes and a share award scheme (see Note 24). The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share-based compensation reserve under equity. For grant of share options, 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 - Black-Scholes valuation model (the "BS 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. For grant of award shares, the total amount to be expensed over the vesting period is determined by reference to the market price of the Company's shares at the grant date.

From the perspective of the Company, the Company grants the share options / shares to its subsidiaries' employees to exchange for their service provided to the subsidiaries. Accordingly, in the Company's balance sheet, the share-based compensation expenses, which are recognised in the consolidated financial statements, are treated as part of the "investment in subsidiaries".

At each balance sheet date, the Company revises its estimates of the number of options and awarded shares that are expected to ultimately vest. 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.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.21 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.

2.22 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 principally 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 telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Communications Corporation ("China Unicom") and China Telecommunications Corporation ("China Telecom"), and these operators also collect certain service fees (the "Internet and Mobile Service Fees") on behalf of the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Revenue recognition (Cont'd)

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

In collecting the Internet and Mobile Service Fees on behalf of the Group, these telecommunication 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 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 these operators to the Group on a monthly basis. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

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 the historical data. The historical data used in estimating revenues includes 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 by way of 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 balance sheet (see Note 29). The amounts are then recognised as revenue based on the actual utilisation of the respective services.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Revenue recognition (Cont'd)

(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 into 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 and inflow of benefits is probable.

2.23 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.

2.24 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 on a straight-line basis over the period of the lease.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 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.

2.26 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 and tests for impairment are performed annually. 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 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.

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. Risk management is carried out by the senior management of the Group, which includes the executive directors of the Group.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(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. Therefore, to maintain the flexibility in the Company's payment of dividends, repurchase of the Company's shares, offshore investments and etc, the Group can hold some monetary assets denominated in USD or HKD subject to certain thresholds stated in its treasury mandate. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD and HKD as management considers that such risk could not be effectively reduced in a low-cost way. Accordingly, the Group did not purchase any forward contract to hedge the foreign exchange risk. However, the Group entered into certain foreign exchange forward contracts arrangements that locked in a fixed gain as mentioned in Note 19.

As at 31 December 2008, the Group and the Company's non-RMB monetary assets and liabilities are listed below.

Group

	Currency	As at 31 December	
Monetary assets	**denomination**	**2008**	2007
		RMB'000	RMB'000
Non-current assets			
Held-to-maturity investments	USD	**–**	73,046
Current assets			
Held-to-maturity investments	USD	**68,346**	–
Financial assets held for trading	USD	**329,804**	266,495
Term deposits with initial term of over three months	USD	**68,196**	225
Term deposits with initial term of over three months	HKD	**–**	300
Cash and cash equivalents	USD	**1,061,560**	1,764,204
Cash and cash equivalents	HKD	**61,655**	224,678

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

Group

Monetary liabilities	Currency denomination	As at 31 December 2008	2007
		RMB'000	RMB'000
Non-current liabilities			
Long-term payables	USD	51,260	–
Current liabilities			
Other payables and accruals	USD	98,231	146,092

Company

Monetary assets	Currency denomination	As at 31 December 2008	2007
		RMB'000	RMB'000
Current assets			
Cash and cash equivalents	USD	61,523	21,697
Cash and cash equivalents	HKD	34,387	87,733

During the year ended 31 December 2008, the Group suffered exchange losses of approximately RMB140,732,000 (2007: RMB98,603,000) as a result of RMB appreciation. The losses were recorded as finance costs in the consolidated income statement for the year ended 31 December 2008.

At 31 December 2008, if USD / HKD had strengthened / weakened by 10% (2007: 10%) against RMB with all other variables held constant, the profit for the year would have been approximately RMB144,007,000 (2007: RMB218,286,000) higher / lower, mainly as a result of foreign exchange gains / losses on translation of USD / HKD denominated monetary assets and liabilities.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

The Group is exposed to price risk because of investments held by the Group, which are classified as financial assets held for trading or available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investment made by the Group is either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management, including the executive directors, case by case.

The financial assets held for trading as at 31 December 2008 represented a principal protected note which has an active market. If the price of such investments had been 10% (2007: 10%) higher / lower as at 31 December 2008, the profit for the year would have been approximately RMB32,980,000 (2007: RMB26,650,000) higher / lower as a result of increase / decrease in the fair value on financial assets held for trading.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at balance sheet date. If equity prices had been 10% (2007: 10%) higher / lower as 31 December 2008, the equity would have been approximately RMB8,618,000 (2007: RMB6,361,000) higher / lower.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk

The Group has interest-bearing assets including held-to-maturity investments, loan to a related party, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 14, 17, 20 and 21.

The Group needs no borrowing to finance its operation as the cash generated from operating activities and IPO proceeds can support the Group's development, and accordingly, the Group is not exposed to interest rate risk from liabilities and no policy is adopted by the Group to manage this risk. However, in 2007, the Group had a bank loan denominated in USD having a fixed interest rate. Simultaneously with the loan, the Group entered into a forward foreign exchange contract on the known position that, despite of the interest expenses incurred, it would benefit from the net fixed exchange gains and the related interest income from the restricted cash (see Note 28 for details).

Other financial assets and liabilities do not have material interest rate risk.

For 2008, if the average interest rate on held-to-maturity investments, term deposits with initial term of over three months and cash and cash equivalents had been higher / lower by 10% (2007: 10%) with all other variables held constant, the profit for the year would have been approximately RMB10,522,000 (2007: RMB8,574,000) higher / lower as a result of higher / lower interest income.

The Company has interest-bearing assets (cash and cash equivalents) and has no interest-bearing liabilities.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) with banks and financial institutions, financial assets held for trading, derivative financial instruments, held-to-maturity investments and other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and high quality international financial institutions outside the PRC. There was no recent history of default of cash and cash equivalents and term deposits with initial term of over three months in relation to these financial institutions.

For accounts receivable, as mentioned in Note 2.22(a), a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunication operators is terminated or scaled-back; or if the telecommunication 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.

To manage this risk, the Group maintain frequent communications with the telecommunication operators to ensure the relevant cooperation is running effectively and smoothly. In view of our history of cooperation with the telecommunication operators and the sound collection history of the receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunication operators is low (see Note 16 for details).

For accounts receivable from advertising customers, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments for each advertising service are required.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's financial department maintains flexibility in funding by maintaining adequate cash and cash equivalent.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At 31 December 2008					
Long-term payables	**–**	**51,260**	**560,800**	**–**	**612,060**
Accounts payable, other payables and accruals (excluding staff costs and welfare accruals, prepayment received from customers)	**756,795**	**–**	**–**	**–**	**756,795**
Total	**756,795**	**51,260**	**560,800**	**–**	**1,368,855**
At 31 December 2007					
Short-term bank borrowing	292,184	–	–	–	292,184
Interest of short-term bank borrowing	13,370	–	–	–	13,370
Derivative financial instruments	30,060	–	–	–	30,060
Accounts payable, other payables and accruals (excluding staff costs and welfare accruals, prepayment received from customers)	527,673	–	–	–	527,673
Total	863,287	–	–	–	863,287

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company					
At 31 December 2008					
Amounts due to subsidiaries	**374,114**	**–**	**–**	**–**	**374,114**
Other payables and accruals	**22,300**	**–**	**–**	**–**	**22,300**
Total	**396,414**	**–**	**–**	**–**	**396,414**
At 31 December 2007					
Amounts due to subsidiaries	227,855	–	–	–	227,855
Other payables and accruals	14,304	–	–	–	14,304
Total	242,159	–	–	–	242,159

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or redeem the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation balance sheet, which is also equal to total assets less total liabilities.

The gearing ratio as at 31 December 2008 and 2007 were as follows:

	2008 RMB'000	2007 RMB'000
Total liabilities	2,736,225	1,690,387
Total assets	9,855,557	6,925,444
Gearing ratio	28%	24%

3.3 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 approximate their fair values. The fair value of financial liabilities for disclosure purpose, if any, 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 2.22(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 the historical data.

As at 31 December 2008, the balance of accounts receivable not yet confirmed by China Mobile, China Unicom and China Telecom was estimated to be RMB291,420,000 (31 December 2007: RMB148,838,000).

Were the actual outcome to differ by 10% (2007: 10%) from management's estimates, the Group would need to:

— reduce the revenue and accounts receivable by RMB29,142,000 (2007: RMB14,884,000) if unfavorable; or

— increase the revenue and accounts receivable by RMB29,142,000 (2007: RMB14,884,000) if favorable.

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 mentioned in Note 2.20(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 24).

The fair value of options granted for the year ended 31 December 2008 determined using the BS Model was approximately HKD253,848,000 (2007: HKD267,061,000).

In addition, the Group has also granted awarded shares to its employees at the fair value of HKD83,837,000 during 2008 (2007: nil).

The Group has to estimate the expected yearly percentage of grantees of share options / awarded shares that will stay within the Group at the end of the vesting period ("expected retention rate of grantees") to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2008, the expected retention rate of grantees is assessed to be 87% (31 December 2007: 87%).

If the expected retention rate of grantees had been increased / decreased by 10% (2007: 10%), the amount of share-based compensation expenses would be increased / decreased by RMB20,267,000 (2007: RMB11,014,000).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies

(a) Recognition of deferred tax assets

Certain software and technology sales have been transacted within the Group. The self-developed software and technology purchased by two subsidiary companies, Tencent Computer and Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan"), from other group companies have been initially recorded at the purchase prices as costs and then amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements, while these transactions were eliminated at the group level.

The Amortisation has been treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan for tax reporting purposes while the costs of purchase of these assets were eliminated in preparation of the consolidated financial statements of the Group. As a result, deferred tax assets have been recognised, based on temporary differences arising from the accounting base (at the group level, which is zero) and the tax base of the software and technology involved in these intragroup transactions, at the respective enacted enterprise income tax rates of Tencent Computer and Shiji Kaixuan.

As at 31 December 2008, the relevant deferred tax assets were approximately RMB334,164,000 (31 December 2007: RMB287,652,000) (Note 30), which are expected to be recovered by the tax profits to be generated by Tencent Computer and Shiji Kaixuan in future.

(b) Related parties transactions with MIH India Global Internet Limited and MIH India Holdings Limited

On 17 June 2008, the Company entered into (i) a licence agreement (the "Licence Agreement") with MIH India Global Internet Limited ("MIH India Global Internet"); and (ii) an option agreement (the "Option Agreement") with MIH India Holdings Limited ("MIH India Holdings") and MIH India Global Internet. MIH India Holdings and MIH India Global Internet are wholly owned subsidiaries of Naspers Limited, the holding company of MIH China (BVI) Limited ("MIH China"). As MIH China is a substantial shareholder of the Company, such transactions were related parties transactions.

(i) The Licence Agreement

Pursuant to the Licence Agreement, the Company agreed to grant to MIH India Global Internet an irrevocable, perpetual and royalty-free licence to use and to authorise end users to use the licenced materials in the territory of the Republic of India.

The grant of the licence under the Licence Agreement is at nil consideration.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies (Cont'd)

(b) Related parties transactions with MIH India Global Internet Limited and MIH India Holdings Limited (Cont'd)

(ii) The Option Agreement

Pursuant to the Option Agreement, MIH India Global Internet agreed to grant an irrevocable option (the "Option") to the Company to subscribe up to a specified total number of shares at the agreed exercise price. If the Company exercises the Option in full, it shall subscribe up to 50% of the shareholding of MIH India Global Internet minus one share. Simultaneously with the closing of each tranche of the Option, the Company shall (a) purchase the pro rata loans from the other shareholders of MIH India Global Internet on a pro rata basis, based on the relative amounts of shareholder loans extended to MIH India Global Internet by each such other shareholder as at the relevant closing date of the relevant tranche of the Option; and (b) be assigned the proportional existing loan at no cost.

Upon closing of the first tranche of the Option, the Company and the other two companies shall enter into a shareholders' agreement which will set out the rights and obligations of shareholders of MIH India Global Internet relating to transfer of shares and shareholder loans and the management and operations of MIH India Global Internet and its subsidiaries.

No cost is paid or payable by the Company to acquire the Option.

The above agreements will be deemed as linked transactions, and accordingly the Option granted to the Company, which should be treated as derivative financial instrument, is deemed as the consideration for the Licence Agreement.

The directors of the Company believe that the terms of the above agreements are on normal commercial basis and are fair and reasonable. Furthermore, based on the preliminary analysis on the historical operating results of MIH India Global Internet, the directors of the Company considered that the fair value of the Option was not material to the Group at the date of the above agreements. Therefore, the Company did not recognise the Option, and the corresponding credit side, in the consolidated financial statements of the Group for the year ended 31 December 2008.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies (Cont'd)

(c) Related party transactions with Zhang Yan, a founder, CEO, director and substantial individual shareholder of Shenzhen Domain Computer Network Company Limited

Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"), a non-wholly owned subsidiary of Shiji Kaixuan (a subsidiary of the Company through structure contract) and mainly engaged in provision of service for massive multiplayer online game ("MMOG"), underwent a shareholding restructuring, in which certain existing minority interest shareholders sold their equity interests in Shenzhen Domain to Zhang Yan, a founder, CEO, director and substantial individual shareholder of Shenzhen Domain. After the restructuring, Shenzhen Domain is held by Shiji Kaixuan, Zhang Yan and a trustee (which holds shares on behalf of certain employees of Shenzhen Domain) at a ratio of 60%, 29% and 11%, respectively. Shiji Kaixuan has provided financial assistance and a long-term put option plan to Zhang Yan.

On 5 August 2008, Shiji Kaixuan entered into (i) a loan agreement (the "Loan Agreement"); and (ii) a put option agreement (the "Put Option Agreement") with Zhang Yan.

(i) The Loan Agreement

Pursuant to the Loan Agreement, Shiji Kaixuan has lent Zhang Yan RMB73,094,000 for a term of three years, extendable to five years, with security. The loan is interest bearing and the interest rate is 7.47% per annum. With the loan, Zhang Yan purchased 15.6% of equity interests in Shenzhen Domain from existing shareholders (other than Shiji Kaixuan) of Shenzhen Domain. The 15.6% equity interest acquired by Zhang Yan is pledged to Shiji Kaixuan as a security for the loan.

As Zhang Yan is CEO, director and a substantial individual shareholder of Shenzhen Domain, the above loan transaction is treated as a related party transaction.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies (Cont'd)

(c) Related party transactions with Zhang Yan, a founder, CEO, director and substantial individual shareholder of Shenzhen Domain Computer Network Company Limited (Cont'd)

(ii) The Put Option Agreement

Pursuant to the Put Option Agreement, Shiji Kaixuan has agreed to purchase the equity interests held by Zhang Yan and held by the trustee (the "Option Shares") if the shares of Shenzhen Domain are not listed on a recognised stock exchange by 31 December 2010. Zhang Yan may require Shiji Kaixuan to acquire all the Option Shares over a period of three years at a valuation on Shenzhen Domain which is six times the adjusted net profit of Shenzhen Domain for the preceding fiscal year provided that the adjusted net profit of Shenzhen Domain for such year will not be less than 80% of the adjusted net profit of the preceding year. Details are as follows:

(1) Shiji Kaixuan may be required to acquire 33% of all the Option Shares (representing 13.2% equity interest in Shenzhen Domain) in 2011 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2010 (the valuation is capped at RMB1.2 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2010 will not be less than 80% of the adjusted net profit for the year ending 31 December 2009;

(2) Shiji Kaixuan may be required to acquire 33% of all the Option Shares (representing 13.2% equity interest in Shenzhen Domain) in 2012 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2011 (the valuation is capped at RMB1.4 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2011 will not be less than 80% of the adjusted net profit for the year ending 31 December 2010; and

(3) Shiji Kaixuan may be required to acquire the remaining 34% of all the Option Shares (representing 13.6% equity interest in Shenzhen Domain) in 2013 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2012 (the valuation is capped at RMB1.6 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2012 will not be less than 80% of the adjusted net profit for the year ending 31 December 2011.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies (Cont'd)

(c) Related party transactions with Zhang Yan, a founder, CEO, director and substantial individual shareholder of Shenzhen Domain Computer Network Company Limited (Cont'd)

(ii) The Put Option Agreement (Cont'd)

If any of the Option Shares to be sold in 2011 and 2012 are not sold in such respective years, such Option Shares may be sold in subsequent years provided that the adjusted net profit condition for such subsequent years is fulfilled and the valuation for such Option Shares will be subject to the capped valuation of the relevant year. For the Option Shares to be sold in 2013, the right to sell will cease if the adjusted net profit for 2012 is less than 80% of that of 2011.

There is no premium paid for the options.

For the put option on the Option Shares, it is accounted for as a transaction with minority shareholders as no service condition is attached and the exercise price of the put option varies and was close to the fair value of relevant equity interest in Shenzhen Domain at the contract date. As Shiji Kaixuan does not have the unconditional rights to avoid delivering cash under the Put Option Agreement, the Group has to recognise the relevant financial liabilities at amount of the present value of the estimated future cash out flow when it is required to acquire the Option Shares. The directors of the Company also considered that the risk and reward for these equity interests have not been transferred to the Group. Accordingly, the recognition of the liabilities should be reflected as a debit to the equity attributable to the Company's equity holders.

Based on the preliminary profit forecast of Shenzhen Domain, the directors of the Company estimated and recognised the present value of relevant financial liabilities of RMB515,000,000 as at 31 December 2008 for the put option on the Option Shares. Such liabilities were treated as non-current liabilities as they will only become payable after 31 December 2010.

5 SEGMENT INFORMATION

(a) Primary reporting format - business segments

For the year ended 31 December 2008, 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.

The segment results and other segment items of the Group for the years ended 31 December 2008 and 2007 are presented as follows:

Year ended 31December 2008	Internet value-added services	Mobile and telecommu-nications value-added services	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	4,914,974	1,398,984	826,049	14,537	7,154,544
Segment result (gross profit / (loss))	3,521,096	884,315	614,160	(35,448)	4,984,123
Other gains, net					112,205
Selling and marketing expenses					(518,147)
General and administrative expenses					(1,332,207)
Operating profit					3,245,974
Finance costs					(140,732)
Share of loss of associates / a jointly controlled entity					(347)
Profit before income tax					3,104,895
Income tax expense					(289,245)
Profit for the year					2,815,650

5 SEGMENT INFORMATION (Cont'd)

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

Year ended 31 December 2008	Internet value-added services	Mobile and telecommu-nications value-added services	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	932,104	583,976	310,757	54,117	1,880,954
Unallocated assets					7,974,603
Total assets					9,855,557
Segment liabilities	918,806	39,660	103,665	136,053	1,198,184
Unallocated liabilities					1,538,041
Total liabilities					2,736,225
Other segment items					
Capital expenditure	235,176	60,130	7,421	6,993	309,720
Unallocated capital expenditure					1,139,134
Total capital expenditure					1,448,854
Depreciation	81,306	15,745	4,913	4,000	105,964
Unallocated depreciation					159,829
Total depreciation					265,793
Amortisation	38,890	–	–	–	38,890
Unallocated amortisation					56,043
Total amortisation					94,933
Impairment charge for fixed assets					11,302

5 SEGMENT INFORMATION (Cont'd)

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

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

5 SEGMENT INFORMATION (Cont'd)

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

Year ended 31 December 2007	Internet value-added services	Mobile and telecommu-nications value-added services	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	913,340	236,125	191,647	26,143	1,367,255
Unallocated assets					5,558,189
Total assets					6,925,444
Segment liabilities	415,557	30,884	49,112	7,597	503,150
Unallocated liabilities					1,187,237
Total liabilities					1,690,387
Other segment items					
Capital expenditure	419,016	74,775	7,249	9,153	510,193
Unallocated capital expenditure					499,094
Total capital expenditure					1,009,287
Depreciation	54,300	10,127	3,808	3,275	71,510
Unallocated depreciation					75,816
Total depreciation					147,326
Amortisation	–	–	–	–	–
Unallocated amortisation					45,605
Total amortisation					45,605
Impairment charge for intangible assets					60,525

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, intangible 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, investment property, 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). The Group also held financial instruments as investments in other territories.

	Revenue		Total assets		Capital expenditure	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Operating assets						
– The PRC	**7,154,544**	3,820,923	**8,189,340**	4,993,549	**1,448,348**	1,007,039
– United States	**–**	–	**8,295**	4,440	**506**	2,248
Investments						
– The PRC	**–**	–	**2,055**	–	**–**	–
– Southeast Asia	**–**	–	**281,706**	–	**–**	–
– Hong Kong	**–**	–	**819,670**	550,911	**–**	–
– United States	**–**	–	**106,240**	735,705	**–**	–
– Europe	**–**	–	**400,559**	630,795	**–**	–
– Other region	**–**	–	**47,692**	10,044	**–**	–
Consolidated	**7,154,544**	3,820,923	**9,855,557**	6,925,444	**1,448,854**	1,009,287

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 the PRC are mainly investments in associates, held-to-maturity investments, financial assets held for trading, term deposits with initial term of over three months and cash and cash equivalents. Capital expenditures are presented according to where the assets are physically located.

6 FIXED ASSETS

	Buildings RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2007						
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
Year ended 31 December 2007						
Opening net book amount	101,102	406,022	13,737	3,605	24,643	549,109
Business combinations	–	13,264	516	69	–	13,849
Additions	67,511	303,017	14,528	596	53,775	439,427
Disposals	–	(16,132)	(446)	–	–	(16,578)
Depreciation charge	(2,821)	(125,943)	(3,745)	(1,151)	(12,891)	(146,551)
Closing net book amount	165,792	580,228	24,590	3,119	65,527	839,256
At 31 December 2007						
Cost	170,410	862,070	33,178	6,431	110,572	1,182,661
Accumulated depreciation	(4,618)	(281,842)	(8,588)	(3,312)	(45,045)	(343,405)
Net book amount	165,792	580,228	24,590	3,119	65,527	839,256
Year ended 31 December 2008						
Opening net book amount	**165,792**	**580,228**	**24,590**	**3,119**	**65,527**	**839,256**
Business combinations	**–**	**7**	**–**	**–**	**–**	**7**
Additions	**–**	**589,635**	**10,345**	**663**	**11,830**	**612,473**
Disposals	**–**	**(8,505)**	**(296)**	**(31)**	**(2,194)**	**(11,026)**
Depreciation charge	**(3,484)**	**(232,207)**	**(7,144)**	**(1,191)**	**(20,334)**	**(264,360)**
Impairment charge	**–**	**–**	**–**	**–**	**(11,302)**	**(11,302)**
Closing net book amount	**162,308**	**929,158**	**27,495**	**2,560**	**43,527**	**1,165,048**
At 31 December 2008						
Cost	**170,410**	**1,402,087**	**43,171**	**7,049**	**117,826**	**1,740,543**
Accumulated depreciation and impairment	**(8,102)**	**(472,929)**	**(15,676)**	**(4,489)**	**(74,299)**	**(575,495)**
Net book amount	**162,308**	**929,158**	**27,495**	**2,560**	**43,527**	**1,165,048**

6 FIXED ASSETS (Cont'd)

Depreciation expenses of RMB105,964,000 (2007: RMB71,510,000), RMB3,900,000 (2007: RMB5,012,000) and RMB154,496,000 (2007: RMB70,029,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

7 CONSTRUCTION IN PROGRESS

	Buildings	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2007			
Opening net book amount	11,058	3,404	14,462
Additions	94,543	40,629	135,172
Transfer to fixed assets	–	(37,402)	(37,402)
Closing net book amount	105,601	6,631	112,232
Year ended 31 December 2008			
Opening net book amount	**105,601**	**6,631**	**112,232**
Additions	**746,402**	**28,285**	**774,687**
Transfer to fixed assets	**–**	**(11,022)**	**(11,022)**
Closing net book amount	**852,003**	**23,894**	**875,897**

As at 31 December 2008, the construction in progress mainly represented the construction costs and other direct development costs of the future headquarter of the Group located in Shenzhen and a property under decoration located in Shanghai.

8 INVESTMENT PROPERTY

	2008	2007
	RMB'000	RMB'000
Opening net book amount	**66,414**	–
Additions	**–**	67,189
Depreciation	**(1,433)**	(775)
Closing net book amount	**64,981**	66,414

8 INVESTMENT PROPERTY (Cont'd)

The following amounts have been recognised in the consolidated income statement:

	2008 RMB'000	2007 RMB'000
Rental income	6,082	3,197
Direct operating expenses arising from investment property that generates rental income	(2,175)	(935)

The investment property represents certain units in an office building in Beijing, the PRC.

The fair value of the investment property is estimated at approximately RMB70,000,000 (31 December 2007: RMB72,000,000) as at 31 December 2008 by management based on the current price in an active market for similar buildings in the same district.

The period of leases whereby the Group leases out its investment property under operating leases is 2 years.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2008 RMB'000	2007 RMB'000
Not later than one year	2,656	3,477
Later than one year and not later than five years	–	577
	2,656	4,054

9 LEASEHOLD LAND AND LAND USE RIGHTS

	2008	2007
	RMB'000	RMB'000
Opening net book amount	36,796	10,018
Additions	–	27,301
Amortisation		
- Capitalised in construction in progress	(204)	(204)
- Charge to consolidated income statement	(546)	(319)
Closing net book amount	36,046	36,796

The leasehold land and land use rights represent land use rights in the PRC with a lease period of 50 years. RMB546,000 (2007:RMB319,000) of the amortised lease prepayments were charged to general and administrative expenses during 2008.

10 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 2007							
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
Year ended 31 December 2007							
Opening net book amount	27,467	30,723	68,532	12,654	14,244	1,967	155,587
Business combinations (Restated, Note 45(a))	56,298	140,636	431	38,409	–	3,856	239,630
Decrease arising from the revision of the Earn-out Considerations of Joymax Acquisition	(21,531)	–	–	–	–	–	(21,531)
Additions	–	27,819	–	95,768	–	532	124,119
Amortisation charge	–	(12,427)	(18,096)	(10,439)	(3,488)	(836)	(45,286)
Impairment charge	–	–	(49,657)	–	(10,756)	(112)	(60,525)
Closing net book amount	62,234	186,751	1,210	136,392	–	5,407	391,994
At 31 December 2007							
Cost	62,234	206,016	86,821	148,947	17,442	6,634	528,094
Accumulated amortisation and impairment	–	(19,265)	(85,611)	(12,555)	(17,442)	(1,227)	(136,100)
Net book amount	62,234	186,751	1,210	136,392	–	5,407	391,994

10 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 2008							
Opening net book amount	62,234	186,751	1,210	136,392	–	5,407	391,994
Business combinations	–	–	–	1,260	–	79	1,339
Additions	–	25,059	–	45,999	–	310	71,368
Amortisation charge	–	(39,152)	(1,086)	(53,372)	–	(777)	(94,387)
Closing net book amount	62,234	172,658	124	130,279	–	5,019	370,314
At 31 December 2008							
Cost	62,234	231,075	86,821	196,206	17,442	7,023	600,801
Accumulated amortisation and impairment	–	(58,417)	(86,697)	(65,927)	(17,442)	(2,004)	(230,487)
Net book amount	62,234	172,658	124	130,279	–	5,019	370,314

Amortisation of RMB55,497,000 (2007: RMB45,286,000) and RMB38, 890,000 (2007: nil) were charged to general and administrative expenses and cost of revenues respectively for the year ended 31 December 2008.

Impairment tests for goodwill

Goodwill as at 31 December 2008 was distributed among the Group's CGUs identified according to business segment or the operations of the companies acquired as follows:

	2008	2007
	RMB'000	RMB'000
Goodwill		
Acquisition of Shenzhen Domain (Note 45(a), Note (a))	50,460	50,460
Other business combinations (Note (b))	11,774	11,774
	62,234	62,234

10 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill (Cont'd)

Note:

(a) Shenzhen Domain was treated as a separate CGU. The recoverable amount of the Shenzhen Domain is determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on the profit forecast approved by management and 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 Shenzhen Domain.

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

Gross margin (i)	66%
Growth rate (ii)	3%
Discount rate (iii)	25%

(i) Estimated gross margin

(ii) Weighted average growth rate used to extrapolate cash flows beyond five years

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

Management determined the estimated gross margin based on the past performance and its expectation 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 Shenzhen Domain.

According to the valuations 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 acquisition of Shenzhen Domain as at 31 December 2008.

(b) Based on the similar assessment made by management, no impairment on goodwill was required as at 31 December 2008.

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY

(a) Investments in subsidiaries

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

	2008 RMB'000	2007 RMB'000
Investments in subsidiaries:		
- investments in equity interests - at cost, unlisted	33	27
- investments arising from share-based compensation (Note i)	381,439	220,230
- amounts due from subsidiaries (Note iv)	28,272	28,272
	409,744	248,529

The following is a list of principal subsidiaries of the Company as at 31 December 2008:

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 2008 Direct	2008 Indirect	2007 Direct	2007 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 and mobile and telecommunications 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
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

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments 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
			2008		2007		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin") (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited)	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Assets management
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
High Morale Developments Limited	Established on 13 October 2005 in Hong Kong, private limited liability company	HKD2	100%	–	100%	–	Provision of VOIP services
Beijing Emark Information and Technology Company Limited	Established on 8 January 2003 in the PRC, private limited liability company	RMB19,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Shenzhen Tenpay Technology Limited	Established on 25 August 2006 in the PRC, private limited liability company	RMB100,000,000	–	100% (Note iii)	–	100% (Note iii)	Provision of e-Commerce, electronic payment and settlement services

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments 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
			2008		2007		
			Direct	Indirect	Direct	Indirect	
Nanjing Wang Dian Technology Company Limited	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Beijing Yonghang Technology Company Limited	Established on 21 January 2005 in the PRC, private limited liability company	RMB15,000,000	–	63.9% (Note iii)	–	63.9% (Note iii)	Development of online games
Shenzhen Domain	Established on 28 April 1997 in the PRC, private limited liability company	RMB10,000,000	–	60% (Note iii)	–	60% (Note iii)	Development and provision of online games
Shenzhen Shiji Tian You Technology Company Limited	Established on 23 November 2007 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note ii)	–	100% (Note ii)	Design of computer software and hardware

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments 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
			2008		2007		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, private limited liability company	USD30,000,000	–	100%	–	100%	Provision of technical and management consultancy services
Tianjin Shouzhongwanwei Network Technology Company Limited ("Shouzhongwanwei")	Established on 16 January 2006 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note ii)	–	–	Provision of mobile and telecommunications value-added services
Guangzhou Yunxun Technology Company Limted ("Guangzhou Yunxun")	Established on 20 June 2005 in the PRC, private limited liability company	RMB1,000,000	–	100% (Note ii)	–	–	Provision of mobile and telecommunications value-added services
Chongqing Tenghui Technology Company Limited	Established on 24 July 2007 in the PRC, private limited liability company	RMB1,000,000	–	51% (Note iii)	–	51% (Note iii)	Provision of Internet information and advertisement services

Note:

(i) The amount represents share-based compensation expenses arising from grant of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries.

(ii) As described in Note 1, the Company does not have legal ownership in equity of 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.

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Note: (Cont'd)

(iii) These equity interests are directly owned by Tencent Computer or Shiji Kaixuan, on which the Company has indirect beneficial interests through contractual agreements (see Note (ii) above).

(iv) The amounts due from subsidiaries mainly represent advances made for investments in Cyber Tianjin, 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.

As at 31 December 2008, the amounts due from subsidiaries are neither past due nor impaired.

Amounts due from subsidiaries mainly represent amounts due from Tencent Asset Management Limited and other subsidiaries outside the PRC.

Tencent Asset Management Limited mainly held financial instruments such as financial assets held for trading and held-to-maturity investments for the Group.

The other subsidiaries outside the PRC mainly held cash and cash equivalents, as well as investments in associates and the PRC subsidiaries.

11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM / (TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(c) Consolidation of a special purpose entity

In connection with the share award scheme mentioned in Note 24(b), the Company established a special purpose entity in Hong Kong, and the particulars of it are as follows:

Special purpose entity	Principal activities
Tencent Share Award Scheme ("Share Scheme Trust")	Administering and holding the Company's shares acquired for a share award scheme for the benefit of eligible employees of the Group

As the Company has the power to govern the financial and operating policies of Share Scheme Trust and can derive benefits from the contributions of the employees who have been awarded with the shares through their continued employment with the Group, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust in accordance with the requirements of IFRS.

In 2008, the Company contributed approximately RMB22,104,000 to the Share Scheme Trust for its acquisition of the Company's shares. RMB21,809,000 has been paid as the consideration for the acquisition of 465,560 shares of the Company, which was treated as "Shares held for share award scheme" (see Note 22(ii)), and the remaining balance of RMB295,000 was recorded as "Contribution to Share Scheme Trust".

12 INVESTMENT IN ASSOCIATES

	Net book amount RMB'000
Balance at 1 January 2008	–
Acquisition of associates	303,059
Share of loss of associates	(347)
Balance at 31 December 2008	302,712

During the year ended 31 December 2008, the Group acquired 20.02% equity interest in an online game company, 25% equity interest in a venture capital fund in Asia (excluding the PRC), and 30% equity interest in a mobile game developer in the PRC.

Investment in associates at 31 December 2008 included goodwill of RMB201,603,000.

The Group's share of the results of its associates, all of which are unlisted, and its aggregated assets (including goodwill) and liabilities, are shown in aggregate as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Losses RMB'000
An online game company in Asia	291,483	9,777	48,778	(302)
Other associates	21,026	20	1,030	(45)
	312,509	9,797	49,808	(347)

13 FINANCIAL INSTRUMENTS BY CATEGORY

The Group

	Loans and receivables	Financial assets at fair value through profit and loss	Available-for-sale financial assets	Held-to-maturity investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
At 31 December 2008					
Available-for-sale financial assets (Note 15)	–	–	86,180	–	86,180
Accounts receivable (Note 16)	983,459	–	–	–	983,459
Deposits and other receivables	243,113	–	–	–	243,113
Held-to-maturity investments (Note 14)	–	–	–	68,346	68,346
Financial assets held for trading (Note 18)	–	329,804	–	–	329,804
Term deposits with initial term of over three months (Note 20)	1,662,501	–	–	–	1,662,501
Cash and cash equivalents (Note 21)	3,067,928	–	–	–	3,067,928
Total	5,957,001	329,804	86,180	68,346	6,441,331
At 31 December 2007					
Available-for-sale financial assets	–	–	63,605	–	63,605
Derivative financial instruments	–	47,759	–	–	47,759
Accounts receivable	535,528	–	–	–	535,528
Deposits and other receivables	75,459	–	–	–	75,459
Held-to-maturity investments	–	–	–	73,046	73,046
Financial assets held for trading	–	266,495	–	–	266,495
Term deposits with initial term of over three months	604,486	–	–	–	604,486
Restricted cash	300,000	–	–	–	300,000
Cash and cash equivalents	2,948,757	–	–	–	2,948,757
Total	4,464,230	314,254	63,605	73,046	4,915,135

13 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The Group (Cont'd)

	Financial liabilities at fair value through profit and loss RMB'000	Other financial liabilities RMB'000	Total RMB'000
Liabilities			
At 31 December 2008			
Accounts payables (Note 25)	–	244,647	244,647
Other payables and accruals (excluded staff costs and welfare accruals, and prepayment received from customers)	–	512,148	512,148
Total	–	756,795	756,795
At 31 December 2007			
Accounts payables	–	117,062	117,062
Other payables and accruals (excluded staff costs and welfare accruals, and prepayment received from customers)	–	410,611	410,611
Short-term bank borrowing	–	292,184	292,184
Derivative financial instruments	30,060	–	30,060
Total	30,060	819,857	849,917

13 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The Company

	Loans and receivables	Financial assets at fair value through profit and loss	Available-for-sale financial assets	Held-to-maturity investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
At 31 December 2008					
Available-for-sale financial assets	**–**	**–**	**9,840**	**–**	**9,840**
Amounts due from subsidiaries (Note 11(b))	**1,769,976**	**–**	**–**	**–**	**1,769,976**
Deposits and other receivables	**5,646**	**–**	**–**	**–**	**5,646**
Cash and cash equivalents (Note 21)	**95,957**	**–**	**–**	**–**	**95,957**
Total	**1,871,579**	**–**	**9,840**	**–**	**1,881,419**
At 31 December 2007					
Amounts due from subsidiaries	2,192,300	–	–	–	2,192,300
Deposits and other receivables	3,418	–	–	–	3,418
Cash and cash equivalents	109,449	–	–	–	109,449
Total	2,305,167	–	–	–	2,305,167

13 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The Company (Cont'd)

	Financial liabilities at fair value through profit and loss RMB'000	Other financial liabilities RMB'000	Total RMB'000
Liabilities			
At 31 December 2008			
Amounts due to subsidiaries	–	374,114	374,114
Other payables and accruals	–	22,300	22,300
Total	–	396,414	396,414
At 31 December 2007			
Amounts due to subsidiaries	–	227,855	227,855
Other payables and accruals	–	14,304	14,304
Total	–	242,159	242,159

14 HELD-TO-MATURITY INVESTMENTS

As at 31 December 2008, the held-to-maturity investments represented a USD Constant Maturity Treasury Linked Bond ("CMT Linked Bond") issued by Bayerische Landesbank with a principal amount of USD10,000,000. The return on CMT Linked Bond is at variable annual coupon rates over a period of two years maturing in February 2009.

There was no impairment provision made against the held-to-maturity investments as at 31 December 2008. The fair value of held-to-maturity investments approximated its carrying amounts as at 31 December 2008.

The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity investments.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008 RMB'000	2007 RMB'000
Beginning of the year	63,605	56,440
Additions	41,248	60,857
Reduction	–	(29,850)
Impairment charge (Note)	(18,673)	(23,842)
End of the year	86,180	63,605
Non-current portion	86,180	63,605
Included equity interests, which were not listed, in:		
5.25% equity interest in a game company outside the PRC (Note)	–	18,673
14.56% (2007: 15%) equity interest in a game company in the PRC	40,000	38,650
10.7% equity interest in a search engine company in the PRC	20,477	–
Others	25,703	6,282
	86,180	63,605

Note: The amount as at 31 December 2007 represented equity interest in a game company with limited liability. During the year, the Group provided a full impairment charge for this investment based on its latest financial position and operating results.

16 ACCOUNTS RECEIVABLE

	2008 RMB'000	2007 RMB'000
0 - 30 days	**550,813**	266,553
31 days - 60 days	**172,461**	103,600
61 days - 90 days	**67,593**	51,362
Over 90 days but less than a year	**192,592**	114,013
	983,459	535,528

All accounts receivable are denominated in RMB.

The carrying amounts of accounts receivables of the Group's major customers are as follows:

	2008 RMB'000	2007 RMB'000
Telecommunication operators	**643,405**	344,794
Advertising customers	**319,939**	180,323
Others	**20,115**	10,411
	983,459	535,528

The Group has no formal credit periods communicated to telecommunication operators but these customers usually settle the amounts due to it within a period of 30 to 120 days. Advertising customers usually have a credit period of 90 days after full execution of the contracted advertising orders.

As at 31 December 2008, insignificant amounts of accounts receivable were past due, but were still within the normal settlement periods. No impairment has been made with respect to such amounts as their credit quality is assessed with reference to historical counterparty default rates. The directors consider that the carrying value of the receivable balance approximates its fair value as at 31 December 2008.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Included in non-current assets:		
Loan to a related party (Note (a))	73,094	–
Non-current portion of running royalty fees for online games	51,260	219,138
	124,354	219,138
Included in current assets:		
Current portion of running royalty fees for online games	143,305	–
Prepaid expenses	24,636	31,317
Advances to suppliers	40,380	23,630
Rental deposits and other deposits	22,345	22,757
Interest receivables	33,598	7,759
Refundable value-added tax ("VAT") (Note (b))	52,877	9,800
Others	61,199	35,143
	378,340	130,406
	502,694	349,544

Note:

(a) The loan is secured by 15.6% equity interests in Shenzhen Domain (see details in Note 4.2(c)). As at 31 December 2008, management considered that the fair value of this equity interest was not less than the carrying amount of the loan. In addition, the carrying amount of the loan approximated its fair value as at the same date.

(b) According to a notice [Caishui 2000 No. 25] issued by the relevant government authority in the PRC, 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"). The amounts as at 31 December 2008 represented the amounts yet to be refunded by the local tax authorities.

The carrying amounts of the prepayments, deposits and other receivables approximate their fair value.

Deposits and other receivables (excluding prepaid expenses, advances to suppliers and running royalty fees for online games) are neither past due nor impaired. Their recoverability is assessed with reference to debtor's credit status.

18 FINANCIAL ASSETS HELD FOR TRADING

	2008	2007
	RMB'000	RMB'000
Investment portfolio	–	53,931
Principal protected notes	329,804	212,564
	329,804	266,495

As at 31 December 2008, financial assets held for trading represented a principal protected note denominated in USD issued by Goldman Sachs Financial Products I Limited, which is guaranteed by The Goldman Sachs Group, Inc.. The fair value of the principal protected note was 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 consolidated 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 42).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Foreign exchange forward contracts - held for trading	–	–	47,759	(30,060)

During 2007, the Group entered into foreign exchange forward contracts with banks in the PRC and outside the PRC. These foreign exchange forward contracts could be grouped into two categories: (i) selling USD130,000,000 for RMB; and (ii) buying USD130,000,000 with RMB. These forward contracts should be settled at the difference between the forward rate stated in the contract and the spot rate at the maturity day, multiplied by the notional amount of the contract.

The Group entered into these forward contracts on the known position that, despite the gain or loss arising from possible foreign exchange fluctuations in each individual contract, a fixed gain would be locked.

These forward contracts were matured and settled in 2008.

20 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2008 was 3.81% (2007: 2.72%).

The Group's term deposits denominated in USD and HKD with initial term of over three months as at 31 December 2008 are presented in Note 3.1(a).

The directors consider that the carrying value of the term deposits with initial term of over three months approximates their fair value as at 31 December 2008. Term deposits with initial term of over three months are neither past due nor impaired.

As at 31 December 2008, approximately 90% (2007: 100%) of term deposits with initial term of over three months were placed in the Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank and Industrial and Commercial Bank of China.

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,958,719**	1,893,812	**92,540**	57,857
Term deposits with initial term within three months	**1,109,209**	1,054,945	**3,417**	51,592
	3,067,928	2,948,757	**95,957**	109,449
Maximum exposure to credit risk	**3,062,875**	2,947,880	**95,673**	109,120

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 2008 were 3.05% (2007: 4.63%) and 4.12% (2007: 4.16%), respectively.

Details of the balances denominated in USD and HKD maintained by the Group and the Company as at 31 December 2008 are presented in Note 3.1(a). Approximately RMB1,944,713,000 (2007: RMB959,875,000) of the total balance was denominated in RMB and deposited with banks in the PRC. The Company had no material balance denominated in RMB.

21 CASH AND CASH EQUIVALENTS (Cont'd)

As at 31 December 2008, cash at bank and term deposits with initial term within three months were neither past due nor impaired. In addition, approximately 90% (2007: approximately 90%) of cash and cash equivalents were placed in Standard Chartered Bank (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, JP Morgan Private Bank, Bayerische Landesbank, Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank and Industrial and Commercial Bank of China.

22 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE

The total authorised number of ordinary shares is 10,000,000,000 shares (2007: 10,000,000,000 shares) with par value of HKD0.0001 per share (2007: HKD0.0001 per share). As at 31 December 2008, all issued shares were fully paid.

Group	Number of ordinary shares	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	1,768,451,768	192	1,459,020	–	118,078	1,577,290
Employee share option schemes:						
- value of employee services	–	–	–	–	102,152	102,152
- number of shares issued and proceeds received	23,560,879	3	104,087	–	–	104,090
Repurchase and cancellation of shares	(3,438,000)	(1)	(107,253)	–	–	(107,254)
At 31 December 2007 / 1 January 2008	**1,788,574,647**	**194**	**1,455,854**	**–**	**220,230**	**1,676,278**
Employee share option schemes:						
- value of employee services	**–**	**–**	**–**	**–**	**150,217**	**150,217**
- number of shares issued and proceeds received (Note (i))	**16,146,156**	**2**	**86,940**	**–**	**–**	**86,942**
Employee share award scheme:						
- value of employee services	**–**	**–**	**–**	**–**	**10,992**	**10,992**
- shares purchased for share award scheme (Note (ii))	**(465,560)**	**–**	**–**	**(21,809)**	**–**	**(21,809)**
Repurchase and cancellation of shares	**(9,223,800)**	**(1)**	**(387,585)**	**–**	**–**	**(387,586)**
At 31 December 2008	**1,795,031,443**	**195**	**1,155,209**	**(21,809)**	**381,439**	**1,515,034**

22 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

Company	Number of ordinary shares	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	1,768,451,768	192	1,459,020	–	118,078	1,577,290
Employee share option schemes:						
- value of employee services	–	–	–	–	102,152	102,152
- number of shares issued and proceeds received	23,560,879	3	104,087	–	–	104,090
Repurchase and cancellation of shares	(3,438,000)	(1)	(107,253)	–	–	(107,254)
At 31 December 2007 / 1 January 2008	**1,788,574,647**	**194**	**1,455,854**	**–**	**220,230**	**1,676,278**
Employee share option schemes:						
- value of employee services	**–**	**–**	**–**	**–**	**150,217**	**150,217**
- number of shares issued and proceeds received (Note (i))	**16,146,156**	**2**	**86,940**	**–**	**–**	**86,942**
Employee share award scheme:						
- value of employee services	**–**	**–**	**–**	**–**	**10,992**	**10,992**
- shares purchased for share award scheme (Note (ii))	**–**	**–**	**–**	**(21,809)**	**–**	**(21,809)**
Repurchase and cancellation of shares	**(9,223,800)**	**(1)**	**(387,585)**	**–**	**–**	**(387,586)**
Issue of new shares pursuant to share award scheme (Note (iii))	**1,016,050**	**–**	**–**	**–**	**–**	**–**
At 31 December 2008	**1,796,513,053**	**195**	**1,155,209**	**(21,809)**	**381,439**	**1,515,034**

22 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

Note:

(i) During the year of 2008, a total of 4,624,739 Pre-IPO options were exercised at exercise prices ranging from USD0.0497 to USD0.4396. In addition, a total of 11,521,417 Post-IPO options were exercised at exercise prices ranging from HKD3.6650 to HKD33.7400.

(ii) During the year of 2008, the Share Scheme Trust acquired 465,560 shares of the Company in the open market for the purpose of the share award scheme (Note 24(b)). The total amount paid was HKD24,612,000 (equivalent to approximately RMB21,809,000) and has been deducted from shareholder's equity.

(iii) On 29 August 2008, the Board resolved to award 1,016,050 shares of the Company by way of allotment of new shares to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.

(iv) As at 31 December 2008, included in "Shares held for share award scheme", 132,160 shares were held by the Share Scheme Trust. They represented the "treasury shares" of the Group as at that date. Out of 132,160 shares, 80 shares with carrying amount of RMB4,000 were purchased by the Share Scheme Trust from the open market and the remaining 132,080 shares, of which the grant to the employees have not been completed, were issued at par value by the Company through allotment.

23 OTHER RESERVES

	Capital reserve (Note i) RMB'000	Revaluation reserve RMB'000	Other reserves RMB'000	PRC statutory reserves: Statutory surplus reserve fund (Note ii) RMB'000	PRC statutory reserves: Reserve fund (Note ii) RMB'000	Total RMB'000
Balance at 1 January 2007	20,000	–	–	48,520	12,405	80,925
Profit appropriations to statutory reserves	–	–	–	5,544	–	5,544
Business combinations (Restated, Note 45(a))	–	(6,174)	–	–	–	(6,174)
Balance at 31 December 2007 / 1 January 2008	**20,000**	**(6,174)**	**–**	**54,064**	**12,405**	**80,295**
Recognition of the financial liabilities in respect of the put option granted to minority shareholders (Note 4.2(c))	**–**	**–**	**(515,000)**	**–**	**–**	**(515,000)**
Profit appropriations to statutory reserves	**–**	**–**	**–**	**1,667**	**–**	**1,667**
Balance at 31 December 2008	**20,000**	**(6,174)**	**(515,000)**	**55,731**	**12,405**	**(433,038)**

Note:

(i) The capital reserve arises on elimination of the share capital of Tencent Computer upon formation of the Group.

(ii) 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 and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to 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.

23 OTHER RESERVES (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 foreign owned subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

24 SHARE OPTION AND SHARE AWARD SCHEMES

(a) Share option schemes

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

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

The Pre-IPO Option Scheme was adopted by the Company on 27 July 2001. As at the listing of the Company on 16 June 2004, all options under the Pre-IPO Option Scheme had been granted.

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

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I in which the board of directors (the "Board") may, at its discretion, invite any employee, consultant or director of any company in the Group to take up options to subscribe for shares in the Company at a price determined by it pursuant to the terms of the scheme. The Post-IPO Option Scheme I will remain in force for a period of ten years, commencing on the adoption date.

The Post-IPO Option Scheme I was terminated upon the adoption of a new post IPO share option scheme mentioned below.

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Post-IPO Share Option Scheme II (the "Post-IPO Option Scheme II")

On 16 May 2007, the Company adopted the Post-IPO Option Scheme II. The Board may, at its discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option Scheme II shall be valid and effective for a period of ten years commencing on its date of adoption.

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II and any other share option schemes of the Company shall not exceed 5% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme II (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme II shall not be counted for the purpose of calculating the 5% limit. The Company may refresh the Scheme Mandate Limit by ordinary resolution of the shareholders passed in general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 5% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of a seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II).

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

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

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2007	USD0.1010	19,006,964	HKD8.4787	62,362,775	–	–	81,369,739
Granted	–	–	HKD25.2600	3,110,000	HKD32.4634	17,518,146	20,628,146
Exercised	USD0.0955	(9,958,188)	HKD7.2811	(13,602,691)	–	–	(23,560,879)
Lapsed	USD0.1965	(299,914)	HKD9.3727	(1,674,002)	HKD31.7500	(82,470)	(2,056,386)
At 31 December 2007	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Currently exercisable as at 31 December 2007	USD0.0660	6,528,930	HKD8.2649	10,415,816	–	–	16,944,746
At 1 January 2008	**USD0.1039**	**8,748,862**	**HKD9.8131**	**50,196,082**	**HKD32.4668**	**17,435,676**	**76,380,620**
Granted	**–**	**–**	**–**	**–**	**HKD53.4775**	**13,559,367**	**13,559,367**
Exercised	**USD0.1106**	**(4,624,739)**	**HKD7.6504**	**(11,327,458)**	**HKD31.9561**	**(193,959)**	**(16,146,156)**
Lapsed	**USD0.1967**	**(40)**	**HKD9.4576**	**(1,253,088)**	**HKD48.4173**	**(2,085,578)**	**(3,338,706)**
At 31 December 2008	**USD0.0964**	**4,124,083**	**HKD10.4762**	**37,615,536**	**HKD41.2330**	**28,715,506**	**70,455,125**
Currently exercisable as at 31 December 2008	**USD0.0964**	**4,124,083**	**HKD9.2835**	**15,281,499**	**HKD32.8184**	**632,668**	**20,038,250**

As a result of options exercised during the year ended 31 December 2008, 16,146,156 (2007: 23,560,879) ordinary shares were issued (Note 22). The weighted average price of the shares at the time these options were exercised was HKD53.86 (equivalent to approximately RMB48.07) per share (2007: HKD35.88 per share).

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2008 and 2007 are as follows:

		Number of options	
Expiry Date	**Range of exercise price**	**2008**	2007
31 December 2011	USD0.0497	**3,392,100**	6,396,400
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	**731,983**	2,352,462
		4,124,083	8,748,862
10 years commencing from	HKD3.6650-HKD8.3500	**22,343,843**	31,960,622
the adoption date of	HKD11.5500-HKD25.2600	**15,271,693**	18,235,460
24 March 2004 (Post-IPO Option Scheme I)		**37,615,536**	50,196,082
7 years commencing from	HKD31.7500-HKD43.5000	**16,918,113**	17,262,370
date of grant of options	HKD45.5000-HKD60.5900	**11,797,393**	173,306
(Post-IPO Option Scheme II)		**28,715,506**	17,435,676
		70,455,125	76,380,620

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair values of options

The fair values of the options granted to employees, determined using the BS Model, during the period from 1 January 2007 to 31 December 2008 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
4/4/2007	HKD23,873,000	2,510,000	HKD25.26	HKD25.25	3.99%	1.03%	48%	Based on option grant date (Note (iv))
4/4/2007	HKD6,048,000	600,000	HKD25.26	HKD25.25	3.99%	1.03%	48%	Based on the commencement date of employment (Note (v))
17/5/2007	HKD43,127,000	3,593,400	HKD31.75	HKD31.75	4.09%	1.03%	48%	Based on option grant date (Note (iv))
17/5/2007	HKD48,282,000	3,611,240	HKD31.75	HKD31.75	4.09%	1.03%	48%	Based on option grant date (Note (vi))
17/5/2007	HKD33,030,000	2,300,000	HKD31.75	HKD31.75	4.09%	1.03%	48%	Based on option grant date (Note (vii))
28/5/2007	HKD622,000	50,000	HKD32.63	HKD32.60	4.40%	1.03%	48%	Based on option grant date (Note (iv))
15/6/2007	HKD5,807,000	475,000	HKD32.14	HKD31.90	4.74%	1.03%	48%	Based on option grant date (Note (iv))
15/6/2007	HKD8,966,000	657,000	HKD32.14	HKD31.90	4.74%	1.03%	48%	Based on option grant date (Note (vi))
5/7/2007	HKD37,690,000	2,700,000	HKD33.05	HKD33.05	4.66%	1.03%	47%	Based on option grant date (Note (vi))
5/7/2007	HKD49,529,000	3,300,000	HKD33.05	HKD33.05	4.66%	1.03%	47%	Based on option grant date (Note (vii))
17/8/2007	HKD5,796,000	561,800	HKD33.74	HKD30.30	4.30%	1.03%	47%	Based on option grant date (Note (iv))
17/8/2007	HKD1,128,000	96,400	HKD33.74	HKD30.30	4.30%	1.03%	47%	Based on option grant date (Note (vi))

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(3) 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
25/9/2007	HKD741,000	42,990	HKD45.50	HKD45.50	4.16%	1.03%	48%	Based on option grant date (Note (iv))
25/9/2007	HKD211,000	10,990	HKD45.50	HKD45.50	4.16%	1.03%	48%	Based on option grant date (Note (vi))
27/11/2007	HKD1,637,000	90,755	HKD49.85	HKD49.20	2.92%	1.03%	49%	Based on option grant date (Note (iv))
27/11/2007	HKD574,000	28,571	HKD49.85	HKD49.20	2.92%	1.03%	49%	Based on option grant date (Note (vi))
29/1/2008	HKD73,154,000	4,243,350	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (iv))
29/1/2008	HKD23,324,000	1,306,600	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (viii))
29/1/2008	HKD6,318,000	330,167	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (vi))
18/2/2008	HKD3,372,000	182,070	HKD49.95	HKD49.95	2.39%	1.03%	50%	Based on option grant date (Note (iv))
25/3/2008	HKD6,565,000	416,990	HKD42.65	HKD42.65	2.24%	1.03%	50%	Based on option grant date (Note (iv))
11/4/2008	HKD872,000	51,820	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (iv))
11/4/2008	HKD382,000	20,390	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (vi))
11/4/2008	HKD410,000	20,390	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (vii))
3/7/2008	HKD118,700,000	5,278,440	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (iv))

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(3) 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
3/7/2008	HKD10,811,000	431,310	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (vi))
3/7/2008	HKD1,560,000	57,930	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (vii))
10/10/2008	HKD3,877,000	243,390	HKD48.92	HKD45.10	2.42%	1.03%	51%	Based on option grant date (Note (iv))
10/10/2008	HKD1,425,000	80,000	HKD48.92	HKD45.10	2.42%	1.03%	51%	Based on option grant date (Note (vi))
1/12/2008	HKD3,078,000	179,320	HKD43.50	HKD43.50	1.75%	1.03%	54%	Based on option grant date (Note (iv))

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

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

Note:

(i) The risk free rate was determined based on the yield to maturity of Hong Kong Government Bonds with maturity in December 2011, June 2012, May 2013, August 2013, November 2013, June 2015 or December 2015 as at the date of valuation.

(ii) Dividend yield is 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.

(iv) 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 then each 20% of the total options will become exercisable in each subsequent year.

(v) For options granted with exercisable date determined based on the commencement date of employment, the first 20% of the option can be exercised two years after the commencement date of employment, and then each 20% 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 20% of the option can be exercised two years after the grant date, and then each 20% 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 three years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

(viii) For options granted with exercisable date determined based on the grant date of the options, the first 20% of the option can become exercisable on 17 May 2009, and then each 20% of the total options will become exercisable in each subsequent year.

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme

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

Pursuant to the Share Scheme, ordinary shares of the Company will be acquired by an independent trustee (the "Trustee") at the cost of the Company or shares will be allotted to the Trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares will be held in trust for the Awarded Persons by the Trustee until the end of each vesting period. Vested shares will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them.

Unless early terminated by the Board, the Share Scheme shall be valid and effective for a term of ten years commencing on the adoption date.

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

(1) Movements in awarded shares and their average fair value

Movements in the number of awarded shares for 2008 are as follows:

	Awarded shares		
	Shares acquired by the Trustee	Shares allotted to Share Scheme Trust	Total
At 1 January 2008	–	–	–
Granted	465,480	883,970	1,349,450
Vested	–	–	–
Lapsed	–	–	–
At 31 December 2008	465,480	883,970	1,349,450

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in awarded shares and their average fair value (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of the awarded shares. During the year ended 31 December 2008, the average fair value of the awarded shares on the date of grant was HKD62.13 per share.

During the year, the Company contributed HKD24,947,000 (equivalent to approximately RMB22,104,000) to the Share Scheme Trust for its acquisition of the Company's shares, and the Share Scheme Trust subsequently acquired 465,560 shares at a consideration of HKD24,612,000 (equivalent to approximately RMB21,809,000). As at 31 December 2008, 465,480 acquired shares were granted to certain employees of the Group.

In addition, as mentioned in Note 22(iii), on 29 August 2008, 1,016,050 shares were allotted by the Company to the Share Scheme Trust, of which the grant of 883,970 shares had been completed. The remaining 132,080 shares will be cancelled or granted to the employee in future.

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in awarded shares and their average fair value (Cont'd)

The fair value of the awarded shares and their exercisable dates are as follows:

Date of grant	Total value of shares at grant date	No. of shares granted	Market price at grant date	Exercisable date
Shares acquired by the Trustee:				
1/4/2008	HKD3,047,000	67,710	HKD45.00	Based on share grant date (Note (i))
10/6/2008	HKD2,731,000	42,570	HKD64.15	Based on share grant date (Note (i))
10/6/2008	HKD1,283,000	20,000	HKD64.15	Based on share grant date (Note (ii))
10/6/2008	HKD4,201,000	65,480	HKD64.15	Based on share grant date (Note (iii))
6/10/2008	HKD1,410,000	29,310	HKD48.10	Based on share grant date (Note (i))
6/10/2008	HKD577,000	12,000	HKD48.10	Based on share grant date (Note (iv))
6/10/2008	HKD722,000	15,000	HKD48.10	Based on share grant date (Note (ii))
17/11/2008	HKD4,267,000	85,510	HKD49.90	Based on share grant date (Note (i))
17/11/2008	HKD6,008,000	120,400	HKD49.90	Based on share grant date (Note (v))
9/12/2008	HKD365,000	7,500	HKD48.70	Based on share grant date (Note (i))
Shares allotted to Share Scheme Trust:				
29/8/2008	HKD893,000	13,330	HKD67.00	Based on share grant date (Note (iii))
29/8/2008	HKD27,988,000	417,730	HKD67.00	Based on share grant date (Note (i))
29/8/2008	HKD18,647,000	278,310	HKD67.00	Based on share grant date (Note (iv))
29/8/2008	HKD2,412,000	36,000	HKD67.00	Based on share grant date (Note (ii))
29/8/2008	HKD9,286,000	138,600	HKD67.00	Based on share grant date (Note (vi))

24 SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in awarded shares and their average fair value (Cont'd)

Note:

(i) For shares granted with exercisable date determined based on the grant date of the shares, the first 20% of these award shares will vest one year after the grant date, and then each 20% of the total awarded shares will vest in each subsequent year.

(ii) For shares granted with exercisable date determined based on the grant date of the shares, the first 20% of these award shares will vest two year after the grant date, and then each 20% of the total awarded shares will vest in each subsequent year.

(iii) For shares granted with exercisable date determined based on the grant date of the shares, the first one-third of these award shares will vest one year after the grant date, and then each one-third of the total awarded shares will vest in each subsequent year.

(iv) For shares granted with exercisable date determined based on the grant date of the shares, the first 50% of these award shares will vest one year after the grant date, and then the remaining 50% of the total awarded shares will vest in the subsequent year.

(v) For shares granted with exercisable date determined based on the grant date of the shares, the first one-sixth of these award shares will vest one year after the grant date, and then each one-sixth of the total awarded shares will vest in each subsequent year.

(vi) For shares granted with exercisable date determined based on the grant date of the shares, the first 50% of these award shares will vest two year after the grant date, and then the remaining 50% of the total awarded shares will vest in the subsequent year.

(2) Outstanding awarded shares

Details of the expiry dates, fair value and the respective numbers of awarded shares which remained outstanding as at 31 December 2008 are as follows:

	Market price	Number of shares	
Expiry Date	**at grant date**	**2008**	2007
10 years commencing on the adoption date of Share Scheme	HKD45.00 - HKD67.00	**1,349,450**	–

(c) Expected retention 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, and is assessed to be 87%.

25 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	2008 RMB'000	2007 RMB'000
0 - 30 days	**202,237**	63,811
31 days - 60 days	**25,225**	11,964
61 days - 90 days	**1,269**	14,495
Over 90 days but less than a year	**15,916**	26,792
	244,647	117,062

26 OTHER PAYABLES AND ACCRUALS

	2008 RMB'000	2007 RMB'000
Staff costs and welfare accruals	**457,710**	233,466
Marketing and administrative expense accruals	**170,378**	123,374
Payables for running royalty fee	**98,231**	146,092
Prepayments received from customers	**43,684**	25,117
Deposits from customer-to-customer business	**126,395**	61,210
Professional fees accruals	**13,655**	10,516
Others	**103,489**	69,419
	1,013,542	669,194

27 LONG-TERM PAYABLES

	2008 RMB'000	2007 RMB'000
Non-current portion of the present value of running royalty fee	**51,260**	–
Present value of liabilities for the put option granted to minority hareholders (Note 4.2(c))	**515,000**	–
	566,260	–

28 SHORT-TERM BANK BORROWING

	2008	2007
	RMB'000	RMB'000
Short-term bank borrowing	–	292,184

The principal amount of the bank borrowing was USD40,000,000 and the interest rate was 6.1013% per annum. The bank borrowing was secured by a bank deposit of RMB300,000,000. A foreign exchange forward contract with the borrowing bank was entered into to enable the Group to purchase the USD with RMB at a fixed exchange rate to repay the bank borrowing at the due date.

In 2008, the bank borrowing was repaid.

The bank borrowing and the forward contracts were made on the known position that, despite of the interest expenses to be incurred, it would benefit from the net fixed exchange gains and the related interest income from the restricted cash.

29 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain Internet value-added services of which the related services have not been rendered as at 31 December 2008.

30 DEFERRED INCOME TAXES

Deferred income taxes are calculated on temporary differences under the balance sheet liability method using the tax rates, which are enacted or substantively enacted and expected to apply at the time of reversal of the temporary differences.

There were no offsettings of deferred income tax assets and liabilities in 2008 and 2007.

	2008 RMB'000	2007 RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	274,598	226,853
– to be recovered within 12 months	59,566	60,799
	334,164	287,652
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(20,169)	(27,665)
– to be recovered within 12 months	(58,199)	(13,105)
	(78,368)	(40,770)

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

	2008 RMB'000	2007 RMB'000 (Restated, Note 45(a))
At beginning of year	246,882	113,701
Business combinations	(315)	(29,580)
Credit to income statement relating to origination and reversal of temporary differences (Note 38)	37,602	74,369
Effect of change in tax rates recognised in income statement (Note (a))	(28,373)	88,392
At end of year	255,796	246,882

30 DEFERRED INCOME TAXES (Cont'd)

Note:

(a) As mentioned in Note 38(a)(iii), certain PRC subsidiaries of the Group were approved as High / New Technology Enterprise in 2008. These subsidiaries are entitled to a lower enterprise tax rate of 15% according to the PRC Enterprise Income Tax Law, and the original transitional income tax rates ranging from 18% to 22% are not applicable to them for 2008, 2009 and 2010.

The effect from the above change in enterprise income tax rates on the deferred tax assets and liabilities amounted to RMB28,373,000 and has been reflected in the consolidated income statement of the Group for the year ended 31 December 2008.

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 (Note)	Deferred tax assets for tax losses RMB'000	Total RMB'000
At 1 January 2007	130,522	–	130,522
Business combinations	–	2,137	2,137
Credit to income statement relating to origination of temporary differences	109,718	–	109,718
Charge to income statement	(41,462)	(2,137)	(43,599)
Effect of change in tax rates recognised in income statement	88,874	–	88,874
At 31 December 2007	**287,652**	**–**	**287,652**
Credit to income statement relating to origination of temporary differences	**147,525**	**–**	**147,525**
Charge to income statement	**(72,640)**	**–**	**(72,640)**
Effect of change in tax rates recognised in income statement	**(28,373)**	**–**	**(28,373)**
At 31 December 2008	**334,164**	**–**	**334,164**

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

30 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

Deferred tax liabilities:

	Transfer of surplus cash RMB'000	Intangible assets acquired in business combination at fair values RMB'000	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'000 (Note (i))	Total RMB'000
At 1 January 2007	(4,688)	(12,133)	–	(16,821)
Business combinations (Restated, Note 45(a))	–	(31,717)	–	(31,717)
(Charge) / credit to income statement relating to origination of temporary differences	(2,943)	11,193	–	8,250
Effect of change in tax rates recognised in income statement	–	(482)	–	(482)
At 31 December 2007	**(7,631)**	**(33,139)**	**–**	**(40,770)**
Business combinations	**–**	**(315)**	**–**	**(315)**
Credit / (charge) to income statement relating to origination of temporary differences	**7,631**	**5,086**	**(50,000)**	**(37,283)**
At 31 December 2008	**–**	**(28,368)**	**(50,000)**	**(78,368)**

Note:

(i) Pursuant to Detailed Implementation Regulations ("DIR") for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding tax will be levied on the dividends declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the companies after 1 January 2008 shall be subject to this withholding tax. A lower withholding tax rate of 5% is applied to the PRC subsidiaries of the Company, whose direct foreign investors are incorporated in Hong Kong, because of the treaty arrangement between the PRC and Hong Kong.

As at 31 December 2008, the Group recognised the relevant deferred tax liabilities of RMB50,000,000 on the earnings of approximately RMB1,000,000,000 anticipated to be remitted by the PRC subsidiaries in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB1,500,000,000 expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future based on management's estimated requirement for funding outside the PRC.

31 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (mentioned in Note 2.22(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred in deriving the revenues.

32 OTHER GAINS, NET

	2008	2007
	RMB'000	RMB'000
Interest income	105,216	85,744
Government subsidies (Note)	64,823	33,156
Gains from revision of the Earn-out Consideration of Joymax Acquisition	–	28,274
Impairment charge for fixed assets	(11,302)	–
Impairment charge for intangible assets	–	(60,525)
Impairment charge for available-for-sale financial assets (Note 15)	(18,673)	(23,842)
Gains / (losses) on financial assets held for trading	169	(1,914)
Gains from derivative financial instruments	–	17,699
Donation to a charity fund established by the Group	(30,000)	(12,000)
Loss on disposals of fixed assets	(8,583)	(5,344)
Others	10,555	7,964
	112,205	69,212

Note: The government subsidies for the year ended 31 December 2008 mainly included the tax refund for reinvestment and awards made by the government to two PRC subsidiaries of the Company, which were key software enterprises.

33 EXPENSES BY NATURE

	2008 RMB'000	2007 RMB'000
Employee benefit expenses (Note) (Note 34)	**1,361,038**	727,468
Mobile and telecommunications charges and bandwidth and server custody fees	**1,126,409**	650,318
Fee for mobile and Internet content providers	**495,299**	189,508
Promotion and advertising expenses	**278,943**	161,711
Depreciation of fixed assets (Note) (Note 6)	**264,360**	146,551
Amortisation of intangible assets (Note 10)	**94,387**	45,286
Amortisation of leasehold land and land use rights (Note 9)	**546**	319
Travelling and entertainment expenses	**85,596**	78,846
Operating lease rentals in respect of office buildings	**88,630**	76,386
VAT paid upon transfer of software within the Group	**5,750**	4,452
Auditors' remuneration	**5,200**	4,519
Other expenses	**214,617**	169,745
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**4,020,775**	2,255,109

Note: Research and development expenses for the year ended 31 December 2008 were RMB710,460,000 (2007: RMB376,120,000) which included employee benefit expenses of RMB547,339,000 (2007: RMB304,545,000) and depreciation of fixed assets of RMB147,809,000 (2007: RMB64,778,000).

The Group did not capitalise any research and development expenses for the year ended 31 December 2008 (2007: Nil).

34 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 RMB'000	2007 RMB'000
Wages, salaries and bonuses	**1,015,535**	539,941
Welfare, medical and other expenses	**94,099**	38,196
Share-based compensation expenses	**160,507**	101,433
Contributions to pension plans (Note)	**77,816**	38,583
Training expenses	**13,081**	9,315
	1,361,038	727,468

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 contribution to 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	8 - 22%
Medical insurance	0.5 - 12%
Unemployment insurance	0 - 2.5%
Housing fund	0 - 10%

35 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid / payable to directors of the Company for the year ended 31 December 2008 and 2007 are as follows:

	2008	2007
	RMB'000	RMB'000
Fees - independent non-executive directors	792	828
Salaries, bonuses, allowances and benefits in kind	31,314	21,827
Contributions to pension plans	60	52
Share-based compensation expenses charged to income statement	20,945	16,206
	53,111	38,913
Number of directors		
– with emoluments	6	6
– without emoluments	2	2
Number of directors	8	8

During the year ended 31 December 2008, no options / awarded shares were granted to any executive, non-executive or independent non-executive director of the Company (2007: 6,000,000 options granted to an executive director of the Company and 300,000 options granted to the independent non-executive directors of the Company).

35 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2008 is set out below.

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ma Huateng	–	14,216	20	–	14,236
Zhang Zhidong	–	10,467	20	–	10,487
Lau Chi Ping Martin	–	6,631	20	20,195	26,846
Iain Ferguson Bruce	264	–	–	250	514
Ian Charles Stone	264	–	–	250	514
Li Dong Sheng	264	–	–	250	514
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	792	31,314	60	20,945	53,111

35 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2007 is set out below.

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ma Huateng	–	9,284	18	–	9,302
Zhang Zhidong	–	7,620	18	–	7,638
Lau Chi Ping Martin	–	4,923	16	15,369	20,308
Iain Ferguson Bruce	276	–	–	279	555
Ian Charles Stone	276	–	–	279	555
Li Dong Sheng	276	–	–	279	555
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	828	21,827	52	16,206	38,913

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 ended 31 December 2008 (2007: Nil).

36 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included three (2007: three) directors whose details have been reflected in the analysis presented above (Note 35). The emoluments paid / payable to the remaining two (2007: two) individuals during the year were as follows:

	2008 RMB'000	2007 RMB'000
Salaries, bonuses, allowances and benefits in kind	15,684	7,011
Share-based compensation expenses charged to income statement	7,451	10,330
Contributions to pension plans	20	57
	23,155	17,398

The emoluments of the above two individuals (2007: two) fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
HKD8,000,001 - HKD8,500,000 (equivalent to RMB7,146,401 - RMB7,593,050)	–	1
HKD9,500,001 - HKD10,000,000) (equivalent to RMB8,486,351 - RMB8,933,000)	–	1
HKD12,000,001 - HKD12,500,000 (equivalent to RMB10,719,601 - RMB11,166,250)	1	–
HKD13,500,001 - HKD14,000,000 (equivalent to RMB12,059,551 - RMB12,506,200)	1	–

37 FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expenses	–	1,589
Exchange losses	140,732	98,603
	140,732	100,192

38 TAX EXPENSE

(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 2008 (2007: 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 2008 (2007: 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.

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

38 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

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

On 26 December 2007, the State Council issued the "Circular to Implementation the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone ("Shenzhen") or the Beijing High Technology Zone ("Beijing Hi-tech Zone") before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rate in that year.

The impact on deferred tax assets and liabilities as at 31 December 2007 arising from the above changes in tax rates has been reflected in the consolidated income statement of the Group for the year ended 31 December 2007.

In 2008, five subsidiaries, namely Tencent Computer, Tencent Technology, Shenzhen Domain, Cyber Shenzhen, and Tencent Beijing, applied for and were subsequently approved as High / New Technology Enterprise, and accordingly, they were subject to a lower enterprise income tax rate of 15% according to the New EIT Law and the above transitional income tax rates for the period from 2008 to 2010 were no longer applicable to them.

For Tencent Technology, it was further approved as a national key software enterprise for 2008, and accordingly, its EIT rate in 2008 was further reduced to 10%.

The impact on deferred tax assets and liabilities as at 31 December 2008 arising from the above changes in tax rates has been reflected in the consolidated income statement of the Group for the year ended 31 December 2008.

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 its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, the provision for EIT was provided at a rate of 7.5% for 2008 (2007: Nil).

As approved by the relevant tax authority, Cyber Tianjin 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. For each year of the tax holiday to be eligible for the exemption, the annual productive sales income for that year shall exceed 50% of its reported total sales income. 2008 was the first profit-making year of Cyber Tianjin, and no provision for EIT was provided for the year.

38 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The income tax charge / (benefit) of the Group for the year ended 31 December 2008 and 2007 are analysed as follows:

	2008 RMB'000	2007 RMB'000
PRC current tax	298,474	129,256
Deferred income taxes relating to the origination and reversal of temporary differences (Note 30)	(37,602)	(74,369)
Deferred income taxes resulting from change in the tax rates (Note 30)	28,373	(88,392)
	289,245	(33,505)

38 TAX EXPENSE (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 18% for the year ended 31 December 2008 (2007: 15%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

	2008 RMB'000	2007 RMB'000
Profit before income tax	3,104,895	1,534,503
Add: Share of loss of associates / a jointly controlled entity	347	331
	3,105,242	1,534,834
Tax calculated at a tax rate of 18% (2007: 15%)	558,944	230,225
Income not subject to tax	(3,097)	–
Effect of different tax rates available to different companies of the Group	(106,749)	2,971
Effect of change in tax rate	28,373	(88,392)
Effect of tax holiday on assessable profits of subsidiaries	(282,194)	(192,619)
Expenses not deductible for tax purposes	40,450	15,701
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 30)	50,000	–
Unrecognised tax assets / (utilisation of previously unrecognised tax assets)	3,518	(1,391)
Tax charge / (benefit)	289,245	(33,505)

38 TAX EXPENSE (Cont'd)

(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	(i) 17%	Sales value of goods sold, offsetting by VAT on purchases
	(ii) 6%	Sales value of goods sold
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

39 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2008 is dealt with in the financial statements of the Company to the extent of RMB4,622,000 (2007: RMB778,223,000).

40 EARNINGS PER SHARE

(a) Basic

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

	2008	2007
Profit attributable to equity holders of the Company for the year (RMB'000)	2,784,577	1,566,020
Weighted average number of ordinary shares in issue (thousands)	1,793,777	1,779,906
Basic EPS (RMB per share)	1.552	0.880

40 EARNINGS PER SHARE (Cont'd)

(b) Diluted

Diluted EPS are 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 and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the periods) based on the sum of the monetary value of the subscription rights attached to the outstanding share options and their relevant remaining share-based compensation expenses to be recorded in future periods. 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.

For the awarded shares, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the periods) based on the awarded shares' remaining share-based compensation expenses to be recorded in future period. The number of shares so calculated is compared against the number of awarded shares.

The above two differences are added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	2008	2007
Profit attributable to equity holders of the Company for the year (RMB'000)	2,784,577	1,566,020
Weighted average number of ordinary shares in issue (thousands shares)	1,793,777	1,779,906
Adjustments for share options (thousands shares)	44,515	57,058
Adjustments for awarded shares (thousands shares)	505	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousands shares)	1,838,797	1,836,964
Diluted EPS (RMB per share)	1.514	0.853

41 DIVIDENDS

The dividends paid in 2008 and 2007 were RMB257,803,000 and RMB210,211,000, respectively (Note 42(b)). A final dividend in respect of the year ended 31 December 2008 of HKD0.25 (2007: HKD0.16) per share and a special dividend of HKD0.10 per share to celebrate the tenth year anniversary of the Group were proposed pursuant to a resolution passed by the Board on 18 March 2009 and subject to the approval of the shareholders in the annual general meeting to be held on 13 May 2009. These financial statements do not reflect this dividend payable.

42 CONSOLIDATED CASH FLOW STATEMENT

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

	2008 RMB'000	2007 RMB'000 (Restated)
Profit for the year	**2,815,650**	1,568,008
Adjustments for:		
Income tax expense / (benefit)	**289,245**	(33,505)
Depreciation of fixed assets and investment property	**265,793**	147,326
Amortisation of intangible assets	**94,387**	45,286
Amortisation of leasehold land and land use rights	**546**	319
Loss on disposals of fixed assets	**8,583**	5,344
(Gains) / losses on financial assets held for trading	**(169)**	1,914
Gains on derivative financial instruments	**–**	(17,699)
Interest income	**(105,216)**	(85,744)
Interest expenses	**–**	1,589
Share-based compensation expenses	**160,507**	101,433
Impairment charge for available-for-sale financial assets	**18,673**	23,842
Impairment charge for fixed assets	**11,302**	–
Impairment charge for intangible assets	**–**	60,525
Gains from revision of the Earn-out Considerations of Joymax Acquisition	**–**	(28,274)
Share of loss of associates / a jointly controlled entity	**347**	331
Exchange losses	**140,732**	98,603
Changes in working capital:		
Inventories	**(3,782)**	765
Accounts receivable	**(447,913)**	(115,145)
Prepayments, deposits and other receivables	**(45,267)**	(15,103)
Financial assets held for trading	**(63,140)**	(72,502)
Derivative financial instruments	**17,699**	–
Long-term payables	**51,260**	–
Accounts payable	**86,361**	41,184
Other payables and accruals	**290,212**	86,310
Other tax liabilities	**(30,813)**	117,031
Deferred revenue	**346,930**	9,562
Cash generated from operations	**3,901,927**	1,941,400

42 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

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

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

	2008 RMB'000	2007 RMB'000
Net book amount	11,026	16,578
Loss on disposals of fixed assets	(8,583)	(5,344)
Proceeds from disposals of fixed assets	2,443	11,234

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

	Dividends payable RMB'000	Share capital including premium RMB'000	Short-term bank borrowing RMB'000	Total RMB'000
At 1 January 2007	–	1,459,212	–	1,459,212
Proceeds from issue of shares and share options	–	104,090	–	104,090
Payments for repurchase of issued shares	–	(107,254)	–	(107,254)
Proposed dividends	210,211	–	–	210,211
Payment of dividends	(210,211)	–	–	(210,211)
Proceeds from short-term bank borrowing	–	–	292,184	292,184
At 31 December 2007 / 1 January 2008	–	1,456,048	292,184	1,748,232
Proceeds from issue of shares and share options	–	86,942	–	86,942
Payments for repurchase of issued shares	–	(387,586)	–	(387,586)
Proposed dividends	257,803	–	–	257,803
Payment of dividends	(257,803)	–	–	(257,803)
Repayments for short-term bank borrowing	–	–	(292,184)	(292,184)
At 31 December 2008	–	1,155,404	–	1,155,404

42 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Major non-cash transactions

Except for the transactions disclosed in Note 4.2(b) and 4.2(c), there were no other material non-cash transactions for the year ended 31 December 2008.

43 CONTINGENCIES

Saved as disclosed in Note 4.2(c), the Group has no material contingent liabilities outstanding as at 31 December 2008.

44 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2008 and 2007 are analysed as follows:

	2008 RMB'000	2007 RMB'000
Contracted:		
Construction of buildings	159,458	132,813
Purchase of other fixed assets	161,269	85,565
Capital investment in investee	40,050	–
	360,777	218,378
Authorised but not contracted:		
Construction of buildings	478,773	447,664
	839,550	666,042

44 COMMITMENTS (Cont'd)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	2008 RMB'000	2007 RMB'000
Contracted:		
Not later than one year	**66,931**	74,073
Later than one year and not later than five years	**95,130**	76,789
Later than five years	**5,208**	7,490
	167,269	158,352

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and game licensing agreements are as follows:

	2008 RMB'000	2007 RMB'000
Contracted:		
Not later than one year	**234,969**	36,207
Later than one year and not later than five years	**111,499**	2,450
	346,468	38,657

45 BUSINESS COMBINATIONS

(a) Completion of the initial accounting for acquisition of additional 40.1% equity interest in Shenzhen Domain occurred in 2007

In 2007, the Group acquired additional 40.1% equity interest in Shenzhen Domain. The acquisition was a business combination as the Group owned 60% equity interest in Shenzhen Domain after the acquisition. The Group used the provisional value to account for this business combination when preparing 2007 consolidated financial statements as the Group had not yet completed the assessment of the fair value of net identified assets acquired at the date of 2007 annual report.

In 2008, the Group completed the relevant assessment. Based on the valuation report issued by an independent valuer appointed by the Group, the finalised fair value of the net identified assets acquired and the relevant goodwill, together with the provisional value used in 2007 and carrying amount, are as follows:

	Fair value finalised	**Provisional fair value**	**Carrying amount**
	RMB'000	RMB'000	RMB'000
Net working capital	25,540	25,540	25,540
Fixed assets	13,675	13,675	13,675
Identified intangible assets (Note)	127,444	214,040	207
Deferred income tax liabilities (Note)	(27,496)	(46,670)	–
	139,163	206,585	39,422
Attributable to:			
– 40.1% equity interest acquired	55,805	82,841	
– 19.9% equity interest original held	27,693	41,110	
– 40% minority interest (Note)	55,665	82,634	
	139,163	206,585	
Purchase considerations for the additional 40.1% equity interest in Shenzhen Domain	106,265	106,265	
Fair value of net assets acquired (40.1% equity interest in Shenzhen Domain)	(55,805)	(82,841)	
Goodwill	50,460	23,424	

45 BUSINESS COMBINATIONS (Cont'd)

(a) Completion of the initial accounting for acquisition of additional 40.1% equity interest in Shenzhen Domain occurred in 2007 (Cont'd)

Note: The identified intangible assets included computer software and technology for completed games and games under development, licenses, business relationship and distribution network. The fair value of these identified intangible assets at the acquisition date has been reduced by RMB86,596,000, which resulted in a decrease in deferred tax liabilities of RMB19,174,000, a decrease in assets revaluation reserve of RMB13,417,000, a decrease in minority interests of RMB26,969,000, and an increase in goodwill of RMB27,036,000. The 2007 comparative information (including the movement of intangible assets (see Note 10), deferred tax assets and liabilities (see Note 30), and other reserves (see Note 23)) is restated to reflect above adjustments. However, since the reduction in the amortisation expenses of the identified intangible assets, together with its income tax impact, from above adjustments, which should be also restated in 2007 consolidated financial statements, is not material to the Group, the Group did not restate such impact in its 2007 consolidated income statement.

(b) Other business combinations occurred in 2008

On 20 March 2008 and 23 May 2008, the Group respectively acquired 100% equity interest in two companies in the PRC, namely Guangzhou Yunxun and Shouzhongwanwei, at an aggregated consideration of RMB11,000,000 through contractual agreements similar to Structure Contracts (Note 11(a)(ii)). These two companies are providers of mobile and telecommunications value-added services.

Based on the assessment made by the directors of the Company, the fair value of the identifiable assets, liabilities and contingent liabilities acquired approximated to the purchase consideration paid. Accordingly no goodwill or gain had been recognised during the year ended 31 December 2008.

The revenue and the operating results of these acquired subsidiaries are immaterial to the Group.

46 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 4.2(b), Note 4.2(c) and Note 35 (Directors' emoluments) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2008.

47 SUBSEQUENT EVENT

Repurchase of shares

In January and February 2009, the Company repurchased 1,922,000 shares on the Stock Exchange, which were subsequently cancelled. The total amount paid for the acquired shares was approximately HKD84,351,000 before expenses.

48 COMPARATIVES

As mentioned in Note 45(a) above, certain comparative figures in respect of the acquisition of Shenzhen Domain have been restated to reflect the completion of its initial accounting treatments according to IFRS 3.

Certain comparative figures have been reclassified to conform to the presentation of the current year and such reclassification has no impact on the Group's net profit for the year 2007. In particular, for the purpose of better representation of the Group's activities, the running royalty fee of approximately RMB219,138,000, which had previously been captured under intangible assets in the financial statements for 2007, was reclassified to non-current portion of "Prepayments, deposits and other receivables". In addition, movements in restricted cash of RMB300,000,000 in the cash flow statement was reclassified from operating to investing cash flows and presented as "Receipt from the repayment of / (payment for) restricted cash".

Website 網址：www.tencent.com

Head Office
5th to 10th Floor, FIYTA Hi-tech Building, Gaoxinnanyi Avenue
Southern District of Hi-tech Park, Shenzhen, 518057, the PRC

總辦事處
中國深圳市高新科技園南區
高新南一道飛亞達高科技大廈5至10樓

Zipcode　　郵編：518057
Telephone　電話：86-755-86013388
Facsimile　　傳真：86-755-86013399

Hong Kong Office
Room 3002, 30/F., Far East Finance Centre
16 Harcourt Road, Hong Kong

香港辦事處
香港夏愨道16號
遠東金融中心30樓3002室

Telephone　電話：852-21795122
Facsimile　　傳真：852-25290222