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Interim Report 2006
中期報告

Tencent Holdings Limited
Incorporated in the Cayman Islands with limited liability

騰 訊 控 股 有 限 公 司
於 開 曼 群 島 註 冊 成 立 的 有 限 公 司

(Stock Code 股 份 代 號 : 700)

Interim Report

The Board of Directors (the "Board") of Tencent Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three and six months ended 30 June 2006. These interim results have been reviewed by PricewaterhouseCoopers, the auditors of the Company (the "Auditors"), in accordance with International Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the International Auditing and Assurance Standards Board, and by the Audit Committee of the Company, comprising a majority of the independent non-executive directors of the Company.

Condensed Consolidated Balance Sheet

As at 30 June 2006 and 31 December 2005

	Note	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	494,885	365,047
Leasehold land payments	6	9,908	—
Intangible assets	6	216,444	21,432
Held-to-maturity investments	7	239,868	244,581
Deferred tax assets	15	91,983	96,362
Available-for-sale investments	8	36,073	36,073
		1,089,161	763,495
Current assets			
Inventories		2,571	2,647
Accounts receivable	9	381,406	222,754
Prepayments, deposits and other receivables		62,350	32,570
Financial assets held for trading	10	286,343	383,887
Term deposits with initial term of over three months		711,543	445,725
Cash and cash equivalents		1,458,733	1,576,044
		2,902,946	2,663,627
Total Assets		3,992,107	3,427,122

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2006 and 31 December 2005

	Note	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
EQUITY			
Shareholders' equity			
Share capital	11	191	192
Share premium	11	1,439,916	1,666,044
Share-based compensation reserve	11, 12	73,913	40,109
Other reserves		80,925	66,609
Retained earnings		1,513,330	1,155,459
		3,108,275	2,928,413
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	15	17,532	810
Long term payable	16	106,056	—
		123,588	810
Current liabilities			
Accounts payable		50,857	25,555
Other payables and accruals	13	353,956	196,187
Current income tax liabilities		47,555	28,766
Other tax liabilities		20,199	13,256
Deferred revenue	14	287,677	234,135
		760,244	497,899
Total Liabilities		883,832	498,709
Total Equity and Liabilities		3,992,107	3,427,122
Net current assets		2,142,702	2,165,728
Total assets less current liabilities		3,231,863	2,929,223

On behalf of the board of directors of the Company

Ma Huateng
Director

Zhang Zhidong
Director

The accompanying notes on pages 6 to 34 form an integral part of these Interim Financial Statements.

Condensed Consolidated Income Statement

For the three and six months ended 30 June 2006

	Note	Unaudited Three months ended 30 June 2006 RMB'000	Unaudited Three months ended 30 June 2005 RMB'000	Unaudited Six months ended 30 June 2006 RMB'000	Unaudited Six months ended 30 June 2005 RMB'000
Revenues					
Internet value-added services		462,260	169,883	898,798	318,947
Mobile and telecommunications value-added services		178,355	136,498	341,781	270,769
Online advertising		62,972	25,170	104,742	40,463
Others		1,394	2,114	4,965	3,957
		704,981	333,665	1,350,286	634,136
Cost of revenues		(199,035)	(108,963)	(374,728)	(210,891)
Gross profit		505,946	224,702	975,558	423,245
Other gains, net	17	21,357	15,148	42,893	27,053
Selling and marketing expenses		(74,838)	(45,501)	(154,586)	(84,014)
General and administrative expenses		(142,440)	(75,596)	(272,247)	(144,122)
Operating profit		310,025	118,753	591,618	222,162
Finance costs, net	19	(6,537)	(51)	(16,632)	(166)
Profit before income tax		303,488	118,702	574,986	221,996
Income tax (expenses)/benefit	20	(35,599)	68,271	(57,397)	61,931
Profit for the period		267,889	186,973	517,589	283,927
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– basic	21	0.151	0.106	0.290	0.161
– diluted	21	0.147	0.103	0.282	0.156

The accompanying notes on pages 6 to 34 form an integral part of these Interim Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2006

	Unaudited						
	Share capital RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	**192**	**1,666,044**	**40,109**	**20,000**	**46,609**	**1,155,459**	**2,928,413**
Profit for the period	—	—	—	—	—	517,589	517,589
Employees share option scheme:							
– value of employee services	—	—	33,804	—	—	—	33,804
– proceeds from shares issued	1	14,948	—	—	—	—	14,949
Repurchase and cancellation of shares	(2)	(241,076)	—	—	—	—	(241,078)
Profit appropriations to statutory reserves	—	—	—	—	14,316	(14,316)	—
Dividend relating to 2005 (Note 22)	—	—	—	—	—	(145,402)	(145,402)
Balance at 30 June 2006	**191**	**1,439,916**	**73,913**	**20,000**	**60,925**	**1,513,330**	**3,108,275**

	Unaudited						
	Share capital RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2005, as restated	192	1,777,721	5,583	20,000	32,442	816,300	2,652,238
Profit for the period	—	—	—	—	—	283,927	283,927
Employees share option scheme:							
– value of employee services	—	—	9,843	—	—	—	9,843
– proceeds from shares issued	1	4,183	—	—	—	—	4,184
Profit appropriations to statutory reserves	—	—	—	—	14,167	(14,167)	—
Dividend relating to 2004	—	—	—	—	—	(132,036)	(132,036)
Balance at 30 June 2005	193	1,781,904	15,426	20,000	46,609	954,024	2,818,156

The accompanying notes on pages 6 to 34 form an integral part of these Interim Financial Statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Unaudited Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Net cash flows from operating activities	**683,999**	222,685
Net cash flows (used in) / from investing activities	**(421,277)**	169,963
Net cash flows used in financing activities	**(371,531)**	(127,997)
(Decrease) / increase in cash and cash equivalents	**(108,809)**	264,651
Cash and cash equivalents at beginning of period	**1,576,044**	859,841
Exchange losses on cash and cash equivalents	**(8,502)**	—
Cash and cash equivalents at end of period	**1,458,733**	1,124,492
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**948,185**	661,492
Short-term highly liquid investments with original maturity of three months or less	**510,548**	463,000
	1,458,733	1,124,492

Notes to the Interim Financial Statements

1 General information

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 address of its registered office is 3002, 30/F., Far East Finance Centre, 16 Harcourt Road Central, Hong Kong.

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

2 Basis of preparation and presentation

The condensed consolidated balance sheet as at 30 June 2006 and related condensed consolidated income statement for the three and six months ended 30 June 2006, condensed consolidated statements of cash flow and changes in shareholders' equity for the six months then ended (collectively defined as the "Interim Financial Statements") of the Group are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board.

3 Significant accounting policies

The Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2005 (the "2005 Financial Statements") as set out in the 2005 annual report of the Company dated 22 March 2006.

The accounting policies and method of computation used in the preparation of the Interim Financial Statements are consistent with those used in the 2005 Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale investments and financial assets held for trading.

3 Significant accounting policies (Continued)

a) Assessment and adoption of revised/new IFRS, interpretations and amendments

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

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

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

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

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

3 Significant accounting policies (Continued)

a) Assessment and adoption of revised/new IFRS, interpretations and amendments (Continued)

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

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published but not effective for the financial year ending 31 December 2006 and which the Group has not early adopted. The Group is in the process of making an assessment of the impact of these new IFRS and is not yet in a position to state what impact all these new IFRS would have on its results of operations and financial position.

4 Critical accounting estimates and judgments

Estimates and judgements 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, seldom 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 accounting period are discussed below.

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

As mentioned in the 2005 Financial Statements, certain of these services are delivered to the Group's customers through the platforms of various subsidiaries of China Mobile Communications Corporation ("China Mobile") and China United Communications Corporation ("China Unicom"), two mobile phone operators in the PRC, and China Mobile and China Unicom collect the related service fees (the "Internet and Mobile Services Fees") on behalf of the Group and then remit to the Group after deducting commission fee and other charges. As for the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

The balance of accounts receivable due from China Mobile and China Unicom, which had not been confirmed, was estimated at RMB55,500,000 as at 30 June 2006 (31 December 2005: RMB50,112,000).

4 Critical accounting estimates and judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Recognition of share-based compensation expenses

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

No options have been granted during the three months ended 30 June 2006. The fair value of options granted during the six months ended 30 June 2006 determined using the BS Model was approximately HKD51,697,000 (during the three and six months ended 30 June 2005: HKD3,176,000 and HKD40,889,000 respectively).

(c) Determination of deferred consideration and fair values of identifiable intangible assets arising from the Joymax Acquisition (defined below)

On 24 January 2006, the Group acquired 100% equity interest in Joymax Development Limited ("Joymax Development") and the business conducted by the Joymax Development and its subsidiaries ("Joymax Acquisition"). According to the provisions of the acquisition, the purchase consideration is payable by the Group by three installments and the magnitude of the second and third installments are determined with reference to the expected operating profits of a subsidiary of Joymax Development for the years ending 31 December 2006 and 2007 (the "Earn-out Considerations").

In accordance with IFRS 3, the directors of the Company are required to make best estimate to determine the present value of deferred purchase consideration of the acquisition upon the initial acquisition date. As a result, the Group assessed the total purchase consideration for the Joymax Acquisition to be approximately RMB205 million, of which approximately RMB181 million was the present value of the Earn-out Considerations as at the acquisition date.

4 Critical accounting estimates and judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Determination of deferred consideration and fair values of identifiable intangible assets arising from the Joymax Acquisition (defined below) (Continued)

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

As a result of the above assessment, the directors of the Company initially assessed that a goodwill of RMB84,432,000 had arisen from Joymax Acquisition. They also assessed that no provision for the impairment on the goodwill as at 30 June 2006 was needed.

4.2 Critical judgement in applying the Group's accounting policies

Recognition of deferred tax assets

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

The Amortisation is treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan following an approval issued by the local tax bureau in 2005. As a result, the Group has recognized deferred tax assets relating to such intragroup software and technology sales. As at 30 June 2006, the carrying amount of the deferred tax assets were approximately RMB91,983,000 (31 December 2005: RMB96,362,000). The directors consider that there would be adequate tax assessable profits to be generated by both Tencent Computer and Shiji Kaixuan in the future in order to utilize such tax benefits recognized and no realization loss is expected.

5 Segment information

Business segment is the Group's primary basis of segment reporting. The business segment information of the Group for the three and six months ended 30 June 2006 and 2005 are presented as follows:

	Unaudited Three months ended 30 June 2006				
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	462,260	178,355	62,972	1,394	704,981
Gross profit/(loss)	356,451	112,581	41,376	(4,462)	505,946
Other gains, net					21,357
Selling and marketing expenses					(74,838)
General and administrative expenses					(142,440)
Operating profit					310,025
Finance costs, net					(6,537)
Profit before income tax					303,488
Income tax expenses					(35,599)
Profit for the period					267,889

5 Segment information (Continued)

	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
	Unaudited Three months ended 30 June 2005				
Revenues	169,883	136,498	25,170	2,114	333,665
Gross profit/(loss)	117,108	89,963	18,357	(726)	224,702
Other gains, net					15,148
Selling and marketing expenses					(45,501)
General and administrative expenses					(75,596)
Operating profit					118,753
Finance costs, net					(51)
Profit before income tax					118,702
Income tax benefit					68,271
Profit for the period					186,973

5 Segment information (Continued)

	Unaudited Six months ended 30 June 2006 Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	898,798	341,781	104,742	4,965	1,350,286
Gross profit/(loss)	698,306	216,566	66,380	(5,694)	975,558
Other gains, net					42,893
Selling and marketing expenses					(154,586)
General and administrative expenses					(272,247)
Operating profit					591,618
Finance costs, net					(16,632)
Profit before income tax					574,986
Income tax expenses					(57,397)
Profit for the period					517,589

5 Segment information (Continued)

	Unaudited Six months ended 30 June 2005				
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	318,947	270,769	40,463	3,957	634,136
Gross profit/(loss)	223,595	174,168	27,665	(2,183)	423,245
Other gains, net					27,053
Selling and marketing expenses					(84,014)
General and administrative expenses					(144,122)
Operating profit					222,162
Finance costs, net					(166)
Profit before income tax					221,996
Income tax benefit					61,931
Profit for the period					283,927

6 Capital expenditure

	Fixed assets RMB'000	Unaudited Leasehold land payments RMB'000	Intangible assets RMB'000
Net book amount as at 1 January 2006	365,047	—	21,432
Additions	177,637	9,908	16,400
Additions arising from the Joymax Acquisition	450	—	190,628
Disposals	(652)	—	—
Depreciation/Amortisation charge	(47,597)	—	(12,016)
Net book amount as at 30 June 2006	**494,885**	**9,908**	**216,444**

7 Held-to-maturity investments

The amount as at 30 June 2006 comprises two 3-Year notes and one 2-Year note (the "Notes") at variable annual coupon rates over the period of the Notes and with maturity in 2007. Embedded in the Notes are call options (the "Option") which entitle the issuers to repurchase the Notes at par from the Group after specified periods are lapsed until maturity of the Notes. Upon the exercise of the Option, the issuers are required to pay to the Group the principals together with the accrued interest.

There were no disposals of or impairment provision made against the held-to-maturity investments during the six months ended 30 June 2006.

8 Available-for-sale investments

Available-for-sale investments represent investments in 19.9% of the equity interests of Shenzhen Domain Computer Network Company Limited, a PRC corporation and investments in GoPets Limited, a Korean corporation. The directors consider that there had not been any material changes occurred which would lead to a change in the fair values of these available-for-sale investments from the dates of their respective acquisitions up to 30 June 2006. Therefore, no revaluation difference or impairment provision was required to be recognised in the Interim Financial Statements of the Group for the six months ended 30 June 2006.

9 Accounts receivable

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
0 - 30 days	**203,436**	125,323
31 days - 60 days	**51,644**	30,637
61 days - 90 days	**44,337**	17,362
Over 90 days but less than a year	**81,989**	49,432
	381,406	222,754

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

10 Financial assets held for trading

Financial assets held for trading represent an investment portfolio and floating rate debt instruments held by the Group. The fair values of the respective underlying financial instruments in the portfolio and the floating rate debt instruments were determined with reference to the respective published price quotations in an active market.

11 Share capital, share premium and share-based compensation reserve

Movements of the issued share capital for the year ended 31 December 2005 and for the six months ended 30 June 2006 are as follows:

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
At 1 January 2005	1,764,904,410	192	1,777,721	5,583	1,783,496
Employees share option scheme:					
- value of employee services	—	—	—	34,526	34,526
- number of shares issued and proceeds received	18,605,658	1	11,408	—	11,409
Repurchase and cancellation of shares	(14,266,000)	(1)	(123,085)	—	(123,086)
At 31 December 2005 / 1 January 2006	**1,769,244,068**	**192**	**1,666,044**	**40,109**	**1,706,345**
Employees share option scheme:					
- value of employee services	—	—	—	33,804	33,804
- number of shares issued and proceeds received (Note (a))	10,302,855	1	14,948	—	14,949
Repurchase and cancellation of shares (Note (b))	(18,357,000)	(2)	(241,076)	—	(241,078)
At 30 June 2006	**1,761,189,923**	**191**	**1,439,916**	**73,913**	**1,514,020**

As at 30 June 2006, all issued shares were fully paid.

Note (a) During the six months ended 30 June 2006, 6,309,925, 1,885,263 and 37,855 Pre-IPO options were exercised at exercise prices of USD0.0497, USD0.1967 and USD0.4396 each, respectively. In addition, 516,782, 1,550,030 and 3,000 Post-IPO options were exercised at exercise prices of HKD3.665, HKD4.485 and HKD4.8, respectively.

Note (b) During the six months ended 30 June 2006, the Company repurchased 18,357,000 ordinary shares traded on the Main Board of the Stock Exchange. The total amount paid to acquire the shares after expenses was approximately RMB241,078,000. It was deducted against shareholders' equity when these shares were then cancelled.

12 Share option

(a) Share option schemes

The Company has adopted two share option schemes for the purpose of providing incentives to its directors, eligible employees and consultants: the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

As at the listing date of the Company on 16 June 2004, all options under the Pre-IPO Share Option Scheme had been granted. The maximum number of shares in respect of which options may be granted under the Post-IPO Share Option Scheme, and under any other share option scheme of the Company (including the Pre-IPO Share Option Scheme), shall not exceed 10% of the relevant class of securities of the Company in issue as at the date of the IPO.

(b) Movements in share options

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

	Pre-IPO Share Option Scheme		Post-IPO Share Option Scheme		Total
	Average exercise price	No. of options	Average exercise price	No. of options	no. of options
At 1 January 2005	USD0.0849	50,406,917	HKD3.6650	6,300,961	56,707,878
Granted	—	—	HKD4.6470	22,491,048	22,491,048
Exercised	USD0.0658	(7,671,936)	—	—	(7,671,936)
Lapsed	USD0.2076	(600,850)	HKD4.0772	(1,649,657)	(2,250,507)
At 30 June 2005	USD0.0867	42,134,131	HKD4.5372	27,142,352	69,276,483
At 1 January 2006	**USD0.0933**	**31,574,357**	**HKD6.1627**	**51,293,646**	**82,868,003**
Granted	**—**	**—**	**HKD11.5500**	**10,950,000**	**10,950,000**
Exercised	**USD0.0852**	**(8,233,043)**	**HKD4.2807**	**(2,069,812)**	**(10,302,855)**
Lapsed	**USD0.1967**	**(156,940)**	**HKD4.7605**	**(1,408,776)**	**(1,565,716)**
At 30 June 2006	**USD0.0955**	**23,184,374**	**HKD7.2664**	**58,765,058**	**81,949,432**

During the six months ended 30 June 2006, no share options were granted to the directors of the Company or any consultants.

Out of the 81,949,432 options outstanding as at 30 June 2006 (30 June 2005: 69,276,483 options), 21,470,156 options (30 June 2005: 19,833,494 options) were exercisable. Options exercised during the six months ended 30 June 2006 resulted in 10,302,855 ordinary shares issued (Note 11). The weighted average price of the shares at the time these options were exercised was HKD12.9647 (equivalent to approximately RMB13.3459) per share.

12 Share option (Continued)

(c) Outstanding share options

Details of the expiry dates, exercise price and the respective number of share options which remained outstanding as at 30 June 2006 and 2005 are as follows:

Expiry Date	Range of Exercise Price	30 June 2006	30 June 2005
31 December 2011 (Pre-IPO options)	USD0.0497	**17,464,625**	33,407,000
	USD0.1967- USD0.4396	**5,719,749**	8,727,131
10 years commencing from the adoption date of 24 March 2004 (Post-IPO options)	HKD3.6650- HKD11.5500	**58,765,058**	27,142,352
		81,949,432	69,276,483

(d) Fair values of options

The fair values of the options granted to the employees, determined using the BS Model, during the period from 1 January 2004 to 30 June 2006 are as follows:

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (ii))	Dividend yield (Note (iii))	Expected volatility (Note (iv))	Exercisable date
10/2/2004	RMB31,741,000	8,730,960	USD0.1967	HKD4.3235 (Note (i))	4.43%	0.6%	62.75%	Based on option grant date (Note (vi))
24/3/2004	HKD3,509,000	1,733,270	USD0.1967 or 0.4396	HKD3.4292 (Note (i))	3.300%	1.4%	80%	Based on the commencement date of employment (Note (v))
14/9/2004	HKD9,688,000	6,311,520	HKD3.6650	HKD3.6000	3.633%	1.4%	60%	Based on the commencement date of employment or based on option grant date (Note (v)&(vi))

12 Share option (Continued)

(d) Fair values of options (Continued)

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (ii))	Dividend yield (Note (iii))	Expected volatility (Note (iv))	Exercisable date
26/1/2005	HKD27,864,000	16,006,530	HKD4.4850	HKD4.4750	3.305%	1.4%	55%	Based on the commencement date of employment or based on option grant date (Note (v)&(vi))
3/2/2005	HKD8,360,000	4,513,600	HKD4.8000	HKD4.8000	3.349%	1.4%	55%	Based on option grant date (Note (vi))
23/3/2005	HKD1,489,000	660,000	HKD5.5500	HKD5.5500	4.199%	1.4%	55%	Based on option grant date or based on the commencement date of employment (Note (v) & (vi))
6/4/2005	HKD1,954,000	810,918	HKD5.6700	HKD5.5500	4.086%	1.4%	55%	Based on the commencement date of employment (Note(v))
19/5/2005	HKD1,222,000	500,000	HKD5.6000	HKD5.6000	3.793%	1.4%	55%	Based on the commencement date of employment (Note(v))
7/7/2005	HKD9,961,000	4,799,920	HKD6.0100	HKD5.9000	3.463%	1.4%	50%	Based on option grant date (Note (vi))
19/10/2005	HKD16,535,000	5,365,000	HKD8.2400	HKD8.0000	4.176%	1.4%	55%	Based on option grant date (Note (vi))
20/12/2005	HKD51,437,000	15,053,300	HKD8.3500	HKD8.3500	4.219%	1.4%	58%	Based on option grant date (Note (vi))
20/12/2005	HKD1,920,000	500,000	HKD8.3500	HKD8.3500	4.219%	1.4%	58%	Based on option grant date (Note (vii))
23/3/2006	HKD51,697,000	10,950,000	HKD11.5500	HKD11.5500	4.40%	1.4%	57%	Based on option grant date (Note (vi))

12 Share option (Continued)

(d) Fair values of options (Continued)

Note:

(i) The fair values of the shares of the Company determined by a third party valuer, were used in the BS Model adopted in order to determine the fair values of the options granted before the IPO of the Company on 16 June 2004.

(ii) The risk free rate for the options granted on 10 February 2004 was determined based on the yield of the Chinese Government International Bond maturing in 2011 as at the date of valuation. The risk free rate for the options granted after February 2004 was determined based on the yield to maturity of Hong Kong Government Bonds with maturity in June 2012 as at the date of valuation.

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

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

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

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

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

12 Share option (Continued)

(e) Expected turnover rate of grantees

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

13 Other payables and accruals

	Unaudited	Audited
	30 June 2006	31 December 2005
	RMB'000	RMB'000
Current portion of deferred purchase consideration payable for the Joymax Acquisition	**81,649**	—
Staff costs and welfare accruals	**116,290**	100,097
Marketing and administrative expenses accruals	**80,935**	40,062
Prepayments received from customers	**29,398**	25,153
Professional fees accruals	**3,771**	10,223
Others	**41,913**	20,652
	353,956	196,187

14 Deferred revenue

Deferred revenue mainly represents prepaid service fees made by customers for certain Internet value-added services in the form of prepaid cards and tokens of which the related services have not been rendered as at 30 June 2006.

15 Deferred income taxes

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

The gross movements in the deferred tax account were as follows:

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
At beginning of period/year	**(95,552)**	—
Deferred taxation arising from the Joymax Acquisition	**11,180**	—
Credit to income statement	**(9,453)**	(110,234)
Charge to income statement	**19,374**	14,682
At end of period/year	**(74,451)**	(95,552)

Movements of deferred tax assets were as follows:

Deferred tax assets:

	Deferred tax assets arising from intra-group software and technology sales RMB'000
At 1 January 2005	—
Credit to income statement	(110,020)
Charge to income statement	13,658
At 31 December 2005	(96,362)
Credit to income statement, unaudited	**(8,775)**
Charge to income statement, unaudited	**13,154**
At 30 June 2006, unaudited	**(91,983)**

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

15 Deferred income taxes (Continued)

The movements of deferred tax liabilities were as follows:

Deferred tax liabilities:

	Transfer of surplus cash RMB'000 (Note)	Intangible assets acquired in business combination at fair values RMB'000	Total RMB'000
At 1 January 2005	—	—	—
Credit to income statement	(214)	—	(214)
Charge to income statement	1,024	—	1,024
At 31 December 2005	810	—	810
Acquisition of the Joymax Acquisition	**—**	**11,180**	**11,180**
Credit to income statement	**—**	**(678)**	**(678)**
Charge to income statement	**6,220**	**—**	**6,220**
At 30 June 2006	**7,030**	**10,502**	**17,532**

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

16 Long term payable

The long term payable as at 30 June 2006 represents the non-current portion of deferred purchase consideration of the Joymax Acquisition, which is expected to be paid by the Group after 30 June 2007.

17 Other gains, net

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest income	18,302	9,165	35,637	18,022
Fair value gains on financial assets held for trading	3,055	5,252	7,256	8,300
Others	—	731	—	731
	21,357	15,148	42,893	27,053

18 Expenses by nature

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Employee benefits expenses (Note (a), (b))	144,758	72,278	270,635	134,099
Mobile and telecom charges and bandwidth and server custody fees	113,214	66,101	211,900	132,916
Promotion and advertising expenses	40,650	22,062	82,905	39,647
Travelling and entertainment expenses	17,607	12,361	35,433	22,739
Depreciation of fixed assets (Note (a))	25,588	11,372	47,597	21,375
Amortisation of intangible assets	6,773	352	12,016	352
Operating lease rentals in respect of office buildings	9,123	6,717	15,984	12,074
Value-added tax paid upon transfer of software within the Group	—	—	1,500	—
Other expenses	58,600	38,817	123,591	75,825
Total cost of revenues, selling and marketing expenses and general and administrative expenses	416,313	230,060	801,561	439,027

18 Expenses by nature (Continued)

Note:

(a) Research and development expenses were RMB72,356,000 (for the three months ended 30 June 2005: RMB32,527,000) and RMB135,276,000 (for the six months ended 30 June 2005: RMB59,092,000) for the three and six months ended 30 June 2006, respectively. The expenses included employee benefit expenses of RMB61,241,000 and depreciation of fixed assets of RMB9,449,000 (for the three months ended 30 June 2005: RMB26,510,000 and RMB4,423,000, respectively) for the three months ended 30 June 2006 and employee benefit expenses of RMB113,164,000 and depreciation of fixed assets of RMB17,963,000 (for the six months ended 30 June 2005: RMB48,766,000 and RMB7,725,000, respectively) for the six months ended 30 June 2006. The Group had not capitalised any research and development expenses for the six months ended 30 June 2006 (for the six months ended 30 June 2005: Nil).

(b) Employee benefits expenses included share-based compensation charge in the income statement amounting to RMB19,375,000 (for the three months ended 30 June 2005: RMB5,306,000) and RMB33,804,000 (for the six months ended 30 June 2005: RMB9,843,000) for the three and six months ended 30 June 2006, respectively.

19 Finance costs, net

Finance costs for the six months ended 30 June 2006 mainly represent foreign exchange losses arising from the translation of non-RMB denominated monetary assets and the charge arising from the discounting of the Earn-out Considerations of the Joymax Acquisition.

20 Tax expenses

(a) Income tax

(i) Cayman Islands and British Virgin Islands Profits Tax

The Group has not been subject to any taxation in these jurisdictions for the six months ended 30 June 2006 and 2005, respectively.

(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 six months ended 30 June 2006 and 2005, respectively.

20 Tax expenses (Continued)

(a) Income tax (Continued)

(iii)PRC Enterprise Income Tax

PRC Enterprise Income Tax ("EIT") has been provided on the assessable income of entities within the Group incorporated in the PRC for the six months ended 30 June 2006 and 2005, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Certain direct and indirect subsidiaries of the Company are registered in the PRC. The EIT tax rates applicable to these companies for the six months ended 30 June 2006 range from 0% to 15%.

The taxation charges of the Group for the six months ended 30 June 2006 and 2005 are analysed as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
PRC current tax	**24,830**	18,119	**47,476**	24,459
Deferred tax	**10,769**	(86,390)	**9,921**	(86,390)
	35,599	(68,271)	**57,397**	(61,931)

20 Tax expenses (Continued)

(a) Income tax (Continued)

(iii)PRC Enterprise Income Tax (Continued)

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit before income tax	**303,488**	118,702	**574,986**	221,996
Tax calculated at a tax rate of 15%	**45,523**	17,805	**86,248**	33,299
Effects of different tax rates available to different companies of the Group	**6,182**	(1,497)	**10,734**	(2,953)
Effects of tax holiday on assessable profit of subsidiaries	**(23,854)**	3,097	**(52,764)**	(979)
Expenses not deductible for tax purposes	**7,748**	794	**13,179**	1,452
Utilisation of previously unrecognised tax assets/ deferred tax assets not recognised	**—**	(1,091)	**—**	(6,760)
Recognition of previously unrecognised deferred tax assets	**—**	(88,638)	**—**	(88,638)
Unrecognised tax losses	**—**	1,259	**—**	2,648
Tax charge/(credit)	**35,599**	(68,271)	**57,397**	(61,931)

20 Tax expenses (Continued)

(b) Value-added tax, 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
Value-added tax("VAT")	17%	Sales value of goods sold, offsetting by VAT on purchases
Business tax ("BT")	3-5%	Services fee income
City construction tax	1%	Net VAT and BT payable amount
Educational surcharge	3%	Net VAT and BT payable amount

21 Earnings per share

Basic

Basic earnings per share ("EPS") are calculated by dividing the profit for the periods by the weighted average number of ordinary shares in issue during each period.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006	2005	**2006**	2005
Profit attributable to the equity holders of the Company for the period (RMB'000)	**267,889**	186,973	**517,589**	283,927
Weighted average number of ordinary shares in issue (thousand shares)	**1,771,006**	1,771,925	**1,781,989**	1,768,895
Basic EPS (RMB per share)	**0.151**	0.106	**0.290**	0.161

21 Earnings per share (Continued)

Diluted

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006	2005	**2006**	2005
Profit attributable to the equity holders of the Company for the period (RMB'000)	**267,889**	186,973	**517,589**	283,927
Weighted average number of ordinary shares in issue (thousand shares)	**1,771,006**	1,771,925	**1,781,989**	1,768,895
Adjustments for share options (thousand shares)	**56,093**	43,718	**52,840**	45,540
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	**1,827,099**	1,815,643	**1,834,829**	1,814,435
Diluted EPS (RMB per share)	**0.147**	0.103	**0.282**	0.156

22 Dividends

A final dividend for 2005 of HKD0.08 per share, totalling approximately HKD140,635,000 (equivalent to RMB145,402,000) (2004: HKD124,052,000 (equivalent to RMB132,036,000)), was proposed pursuant to a resolution passed by the Board on 22 March 2006, and was approved by the shareholders in the annual general meeting held on 24 May 2006. Such dividends have been shown as an appropriation in these Interim Financial Statements and been paid as at 30 June 2006.

23 Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Contracted:		
Purchase of fixed assets	20,763	13,491
Construction of buildings	8,972	—
	29,735	13,491
Authorised but not contracted:		
Construction of buildings	59,221	80,702
	88,956	94,193

23 Commitments (Continued)

(b) Operating lease commitments

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

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Not later than one year	**21,616**	20,519
Later than one year and not later than five years	**11,059**	5,458
	32,675	25,977

(c) Other commitments

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

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Contracted:		
Not later than one year	**32,420**	37,190
Later than one year and not later than five years	**77**	81
	32,497	37,271
Authorised but not contracted:		
Not later than one year	**52,308**	—
	84,805	37,271

24 Related parties transactions

No material related parties transactions occurred during the three and six months ended 30 June 2006.

25 Approval of the Interim Financial Statements

The Interim Financial Statements have been approved by the Board on 23 August 2006.

Review Report of Auditors

TO THE BOARD OF DIRECTORS OF
TENCENT HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

We have reviewed the accompanying condensed consolidated balance sheet of Tencent Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") as at 30 June 2006 and the related condensed consolidated income statement for the three and six months then ended, condensed consolidated statements of cash flow and changes in shareholders' equity for the six months then ended (collectively defined as the "Interim Financial Statements") set out on pages 1 to 34.

These Interim Financial Statements are the responsibility of the Company's management. Our responsibility is to issue a report on these Interim Financial Statements based on our review. We conducted our review in accordance with International Standard on Review Engagements 2400 "Engagements to Review Financial Statements" (the "Standard"). This Standard requires that we plan and perform the review to obtain moderate assurance about whether the Interim Financial Statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Financial Statements have not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2006

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 15-day period ended 30 June 2006	For the 16-day period ended 31 March 2006	Percentage change
	(in millions)		
Registered IM user accounts (at end of period)	**549.0**	531.5	3.3%
Active user accounts (at end of period)	**224.2**	220.5	1.7%
Peak simultaneous online user accounts (for the quarter)	**20.1**	19.6	2.6%
Average daily user hours	**301.7**	272.2	10.8%
Average daily messages(1)	**3,334.1**	2,883.8	15.6%
Fee-based Internet value-added services registered subscriptions (at end of period)	**14.7**	13.5	8.9%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)(2)	**10.1**	9.5	6.3%

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

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

Our IM platform generally showed healthy growth in the second quarter of 2006. The growth in user accounts, both registered IM user accounts and active user accounts, mainly reflected the continuing organic growth of our services, partly reduced by our increased effort in limiting the activity of certain accounts which were used for spamming other users. The growth in fee-based registered subscriptions resulted from our focus to enhance user experience for our services, our targeted marketing and our efforts to cross-market our value-added services to the users of our Internet platforms such as IM, QQ Game portal and QQ.com portal.

Financial Performance Highlights

First Half of 2006

The following table sets forth the figures for the first half of 2006 and the first half of 2005:

	Unaudited Six months ended 30 June	
	2006	2005
	(RMB in thousands)	
Revenues	**1,350,286**	634,136
Cost of revenues	**(374,728)**	(210,891)
Gross profit	**975,558**	423,245
Other gains, net	**42,893**	27,053
Selling and marketing expenses	**(154,586)**	(84,014)
General and administrative expenses	**(272,247)**	(144,122)
Operating profit	**591,618**	222,162
Finance costs, net	**(16,632)**	(166)
Profit before income tax	**574,986**	221,996
Income tax (expenses)/benefit	**(57,397)**	61,931
Profit for the period	**517,589**	283,927

First Half of 2006 (Continued)

Revenues. Revenues increased by 112.9% to RMB1,350.3 million for the first half of 2006 from RMB634.1 million for the first half of 2005.

	Six months ended			
	30 June 2006		30 June 2005	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**898,798**	**66.6%**	318,947	50.3%
Mobile and telecommunications value-added services	**341,781**	**25.3%**	270,769	42.7%
Online advertising	**104,742**	**7.8%**	40,463	6.4%
Others	**4,965**	**0.3%**	3,957	0.6%
Total revenues	**1,350,286**	**100.0%**	634,136	100.0%

Cost of revenues. Cost of revenues increased by 77.7% to RMB374.7 million for the first half of 2006 from RMB210.9 million for the first half of 2005.

	Six months ended			
	30 June 2006		30 June 2005	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**200,492**	**22.3%**	95,352	29.9%
Mobile and telecommunications value-added services	**125,215**	**36.6%**	96,601	35.7%
Online advertising	**38,362**	**36.6%**	12,798	31.6%
Others	**10,659**	**214.7%**	6,140	155.2%
Total cost of revenues	**374,728**		210,891	

Second Quarter of 2006

Our unaudited consolidated revenues for the second quarter of 2006 were RMB705.0 million, an increase of 111.3% over the same period in 2005 and an increase of 9.2% from the first quarter of 2006.

Revenues from our Internet value-added services for the second quarter of 2006 were RMB462.3 million, an increase of 172.1% over the same period in 2005 and an increase of 5.9% from the first quarter of 2006.

Revenues from our mobile and telecommunications value-added services for the second quarter of 2006 were RMB178.4 million, an increase of 30.7% over the same period in 2005 and an increase of 9.1% from the first quarter of 2006.

Revenues from online advertising for the second quarter of 2006 were RMB63.0 million, an increase of 150.2% over the same period in 2005 and an increase of 50.8% from the first quarter of 2006.

Cost of revenues for the second quarter of 2006 were RMB199.0 million, an increase of 82.7% over the same period in 2005 and an increase of 13.3% from the first quarter of 2006.

Selling and marketing expenses for the second quarter of 2006 were RMB74.8 million, an increase of 64.5% over the same period in 2005 and a decrease of 6.2% from the first quarter of 2006.

General and administrative expenses for the second quarter of 2006 were RMB142.4 million, an increase of 88.4% over the same period in 2005 and an increase of 9.7% from the first quarter of 2006.

Operating profit for the second quarter of 2006 was RMB310.0 million, representing an increase of 161.1% over the same period in 2005 and an increase of 10.1% quarter on quarter. As a percentage of revenues, operating profit represented 44.0% for the second quarter of 2006, compared to 35.6% for the same period of 2005 and 43.6% for the first quarter of 2006.

Profit for the second quarter of 2006 was RMB267.9 million, representing an increase of 43.3% over the same period in 2005 and an increase of 7.3% from the first quarter of 2006. As a percentage of revenues, profit for the period represented 38.0% for the second quarter of 2006, compared to 56.0% for the same period of 2005 and 38.7% for the first quarter of 2006.

Management Discussion and Analysis

Second Quarter of 2006 Compared to First Quarter of 2006

The following table sets forth the figures for the second quarter of 2006 and the first quarter of 2006:

	Unaudited Three months ended 30 June 2006	31 March 2006
	(RMB in thousands)	
Revenues	**704,981**	645,305
Cost of revenues	**(199,035)**	(175,693)
Gross profit	**505,946**	469,612
Other gains, net	**21,357**	21,536
Selling and marketing expenses	**(74,838)**	(79,748)
General and administrative expenses	**(142,440)**	(129,807)
Operating profit	**310,025**	281,593
Finance costs, net	**(6,537)**	(10,095)
Profit before income tax	**303,488**	271,498
Income tax expenses	**(35,599)**	(21,798)
Profit for the period	**267,889**	249,700

Second Quarter of 2006 Compared to First Quarter of 2006 (Continued)

Revenues. Revenues increased by 9.2% to RMB705.0 million for the second quarter of 2006 from RMB645.3 million for the first quarter of 2006. The following table sets forth our revenues by line of business for the second quarter of 2006 and the first quarter of 2006:

	Three months ended			
	30 June 2006		31 March 2006	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**462,260**	**65.6%**	436,538	67.6%
Mobile and telecommunications value-added services	**178,355**	**25.3%**	163,426	25.3%
Online advertising	**62,972**	**8.9%**	41,770	6.5%
Others	**1,394**	**0.2%**	3,571	0.6%
Total revenues	**704,981**	**100.0%**	645,305	100.0%

Revenues from our Internet value-added services increased by 5.9% to RMB462.3 million for the second quarter of 2006 from RMB436.5 million for the first quarter of 2006. Our online identity and community business, including QQ Show, QQ Pet, an Internet-based virtual pet, and Qzone, a personal homepage that bundles avatars, blog, photo album and online music, continued to grow. We also benefited from the growth of our online games. In addition, Premium QQ grew as we began to bundle some of our other value-added services, including QQ Magic, E-cards, self-defined personal icons and QQ Ring into its service package during the second quarter of 2006.

Revenues from our mobile and telecommunications value-added services increased by 9.1% to RMB178.4 million for the second quarter of 2006 from RMB163.4 million for the first quarter of 2006. This increase reflected the growth in our content-based services, as well as the revenues attributable to Joymax group, which was acquired in late January 2006, being reflected for the full quarter. In addition, revenues from our 2.5G services grew as a result of increased promotion for both WAP and MMS. Revenues from mobile voice value-added services comprising ringback tones and mobile IVR also grew. Such increase in revenues were partially offset by the slight decrease in revenues from our communication-based SMS services. For a detailed description of policy changes announced in July 2006 that will affect our wireless services on China Mobile's Monternet platform, please refer to "Business Outlook" below.

Second Quarter of 2006 Compared to First Quarter of 2006 (Continued)

Revenues from online advertising increased by 50.8% to RMB63.0 million for the second quarter of 2006 from RMB41.8 million for the first quarter of 2006. The increase was mainly attributable to one significantly large order for a special cross-marketing promotion campaign with a consumer product customer, increased volume through agency sales and the increase in advertising on our QQ Game portal. Advertising revenues relating to the Internet searching functions also grew.

Cost of revenues. Cost of revenues increased by 13.3% to RMB199.0 million for the second quarter of 2006 from RMB175.7 million for the first quarter of 2006. The increase principally reflected increase in bandwidth and server custody fees as our business volume expanded, an increase in telecommunications operators' revenue share and increased staff costs. As a percentage of revenues, cost of revenues increased to 28.2% for the second quarter of 2006 from 27.2% for the first quarter of 2006. The following table sets forth our cost of revenues by line of business for the second quarter of 2006 and the first quarter of 2006:

	Three months ended			
	30 June 2006		31 March 2006	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	105,809	22.9%	94,683	21.7%
Mobile and telecommunications value-added services	65,774	36.9%	59,441	36.4%
Online advertising	21,596	34.3%	16,766	40.1%
Others	5,856	420.1%	4,803	134.5%
Total cost of revenues	199,035		175,693	

Second Quarter of 2006 Compared to First Quarter of 2006 (Continued)

Cost of revenues for our Internet value-added services increased by 11.8% to RMB105.8 million for the second quarter of 2006 from RMB94.7 million for the first quarter of 2006. The increase reflected higher expenses associated with our bandwidth capacity and servers as usage increased and as we supported more bandwidth intensive services, such as Qzone and online games. The increase also reflected higher staff costs. We also recognized higher amounts of telecommunications operators' revenue share as the volume of our Internet value-added services increased.

Cost of revenues for our mobile and telecommunications value-added services increased by 10.7% to RMB65.8 million for the second quarter of 2006 from RMB59.4 million for the first quarter of 2006. The increase mainly reflected the higher amounts of telecommunications operators' revenue share, an increase in sharing and subscription costs relating to our content services as the volume of our mobile and telecommunications value-added services increased and higher staff costs.

Cost of revenues for our online advertising increased by 28.8% to RMB21.6 million for the second quarter of 2006 from RMB16.8 million for the first quarter of 2006. The increase mainly reflected higher staff costs as well as the increased amount of sales commission paid to advertising agencies as the scale of our advertising business grew.

Other gains, net. Other gains during the reported periods reflected primarily the interest income generated from bank deposits and other interest-earning financial assets and fair value gains on financial instruments. Other gains decreased slightly by 0.8% to RMB21.4 million for the second quarter of 2006 from RMB21.5 million for the first quarter of 2006. During the second quarter of 2006, interest rates, particularly on US dollar-denominated financial instruments, generally increased. Our average balance of cash and financial instruments, however, was lower than that for the first quarter of 2006 as a result of our share repurchase during the second quarter of 2006.

Second Quarter of 2006 Compared to First Quarter of 2006 (Continued)

Selling and marketing expenses. Selling and marketing expenses decreased by 6.2% to RMB74.8 million for the second quarter of 2006 from RMB79.7 million for the first quarter of 2006. Although we continued to actively promote our Internet value-added services and products through mid-May 2006, we reduced our selling and marketing spending during the low season period from mid-May to mid-June. As a percentage of revenues, selling and marketing expenses decreased to 10.6% in the second quarter of 2006 from 12.4% in the first quarter of 2006 as we reduced our selling and marketing expenses and also spread the expenses over a larger revenue base.

General and administrative expenses. General and administrative expenses increased by 9.7% to RMB142.4 million for the second quarter of 2006 from RMB129.8 million for the first quarter of 2006. The increase was mainly due to the continuing expansion of our strategic research and development staff as we focused on our various products and services, including IM functionalities, online games and our web portals. It was also attributable to the increased staff expenses, as the scope and scale of our business increased, and increased lease expenses relating to our rental of additional branch premises. As a percentage of revenues, general and administrative expenses increased to 20.2% in the second quarter of 2006 from 20.1% in the first quarter of 2006.

Finance costs, net. Finance costs represent foreign exchange loss and interest expenses. We recorded finance costs of RMB6.5 million for the second quarter of 2006 compared to RMB10.1 million for the first quarter of 2006. Foreign exchange loss for the second quarter of 2006 relating to our US dollar-denominated cash and investments was lower compared to that for the first quarter of 2006 when the appreciation of Renminbi had a significant impact. This improvement was partially offset by the amortization costs on the payables attributable to the Joymax group acquisition.

Income tax expenses. We recorded income tax expenses of RMB35.6 million for the second quarter of 2006 compared to RMB21.8 million for the first quarter of 2006. The increase mainly reflected the increase in our profit before tax. In addition, in the first quarter of 2006, we had a tax credit related to deferred tax assets attributable to the sales of self-developed software and technology among our group companies.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 7.3% to RMB267.9 million for the second quarter of 2006 from RMB249.7 million for the first quarter of 2006. Net margin was 38.0% for the second quarter of 2006 compared to 38.7% for the first quarter of 2006.

Second Quarter of 2006 Compared to Second Quarter of 2005

The following table sets forth the figures for the second quarter of 2006 and the second quarter of 2005:

	Unaudited Three months ended 30 June	
	2006	2005
	(RMB in thousands)	
Revenues	**704,981**	333,665
Cost of revenues	**(199,035)**	(108,963)
Gross profit	**505,946**	224,702
Other gains, net	**21,357**	15,148
Selling and marketing expenses	**(74,838)**	(45,501)
General and administrative expenses	**(142,440)**	(75,596)
Operating profit	**310,025**	118,753
Finance costs, net	**(6,537)**	(51)
Profit before income tax	**303,488**	118,702
Income tax (expenses)/benefit	**(35,599)**	68,271
Profit for the period	**267,889**	186,973

Second Quarter of 2006 Compared to Second Quarter of 2005 (Continued)

Revenues. Revenues increased by 111.3% to RMB705.0 million for the second quarter of 2006 from RMB333.7 million for the second quarter of 2005, as a result of a significant increase in revenues from Internet value-added services. The following table sets forth our revenues by line of business for the second quarter of 2006 and the second quarter of 2005:

	Three months ended			
	30 June 2006		30 June 2005	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	462,260	65.6%	169,883	50.9%
Mobile and telecommunications value-added services	178,355	25.3%	136,498	40.9%
Online advertising	62,972	8.9%	25,170	7.6%
Others	1,394	0.2%	2,114	0.6%
Total revenues	704,981	100.0%	333,665	100.0%

Revenues from our Internet value-added services increased by 172.1% to RMB462.3 million for the second quarter of 2006 from RMB169.9 million for the second quarter of 2005. Revenues from our various online games and online identity and community services increased significantly as we continued to enhance our existing services such as our QQ Game portal and QQ Show and built on the success of relatively new products such as QQ Fantasy, QQ Pet and Qzone.

Second Quarter of 2006 Compared to Second Quarter of 2005 (Continued)

Revenues from our mobile and telecommunications value-added services increased by 30.7% to RMB178.4 million for the second quarter of 2006 from RMB136.5 million for the second quarter of 2005. The increase mainly reflected revenues from Joymax, which we acquired in January 2006. The increase also reflected an increase in revenues from content-based SMS and an increase in revenues from 2.5G related services. Revenues from mobile voice value-added services comprising ringback tones and mobile IVR also contributed to the increase. The increase was slightly offset by the termination of the 161 Mobile Chat fee sharing arrangement with China Mobile at the end of 2004, for which revenues were recognized up through the second quarter of 2005. For a detailed description of policy changes announced in July 2006 that will affect our wireless services on China Mobile's Monternet platform, please refer to "Business Outlook" below.

Revenues from online advertising increased by 150.2% to RMB63.0 million for the second quarter of 2006 from RMB25.2 million for the second quarter of 2005. The increase in revenues reflected the growth in reach and traffic on our primary advertising platforms, QQ IM and QQ.com, our growing customer base, and some new advertising revenues relating to Internet searching functions and advertising on our game portal. The increase was also attributable to one significantly large order for a special cross-marketing promotion campaign with a consumer product customer.

Second Quarter of 2006 Compared to Second Quarter of 2005 (Continued)

Cost of revenues. Cost of revenues increased by 82.7% to RMB199.0 million for the second quarter of 2006 from RMB109.0 million for the second quarter of 2005. The increase principally reflected higher amounts of telecommunications operators' revenue share, increased bandwidth and server custody fees as we supported more bandwidth intensive services, increased sharing costs due to increases in revenues and enrichment of content and increased staff costs as we increased the number of employees to support our various services and products. As a percentage of revenues, cost of revenues decreased to 28.2% in the second quarter of 2006 from 32.7% in the second quarter of 2005. The following table sets forth our cost of revenues by line of business for the second quarter of 2006 and the second quarter of 2005:

	Three months ended			
	30 June 2006		30 June 2005	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	105,809	22.9%	52,775	31.1%
Mobile and telecommunications value-added services	65,774	36.9%	46,535	34.1%
Online advertising	21,596	34.3%	6,813	27.1%
Others	5,856	420.1%	2,840	134.3%
Total cost of revenues	199,035		108,963	

Cost of revenues for our Internet value-added services increased by 100.5% to RMB105.8 million for the second quarter of 2006 from RMB52.8 million for the second quarter of 2005. The increase mainly reflected increased telecommunications operators' revenue share, expenses incurred to support more bandwidth intensive services, such as Qzone and online games, and increased staff costs to support our growing range of Internet value-added services. In addition, sharing and subscription costs associated with the offering of richer content services, such as our avatars and music offerings, increased.

Second Quarter of 2006 Compared to Second Quarter of 2005 (Continued)

Cost of revenues for our mobile and telecommunications value-added services increased by 41.3% to RMB65.8 million for the second quarter of 2006 from RMB46.5 million for the second quarter of 2005. The increase was due mainly to increased telecommunications operators' revenue share, an increase in sharing and subscription costs as we enriched our content and an increase in staff costs as we increased the number of employees to support our various services and products. In addition, increased telecommunications operators' revenue share and other costs relating to the services of Joymax group, which we acquired in late January 2006, contributed to the increase.

Cost of revenues for our online advertising increased by 217.0% to RMB21.6 million for the second quarter of 2006 from RMB6.8 million for the second quarter of 2005. The increase mainly reflected the increased sales commissions paid to advertising agencies as the volume of our advertising contracts increased and as we increased our usage of advertising agencies to help sell our advertising services. In addition, we continued to increase the number of staff on our online advertising sales team, and incurred further expenses to offer Internet searching functions.

Other gains, net. We recorded other gains of RMB21.4 million for the second quarter of 2006 compared to RMB15.1 million for the second quarter of 2005. The increase mainly reflected additional interest income due to the increase in US dollar-denominated interest rates and fair value gains generated from increased cash investments into interest-earning financial assets.

Selling and marketing expenses. Selling and marketing expenses increased by 64.5% to RMB74.8 million for the second quarter of 2006 from RMB45.5 million for the second quarter of 2005. The increase principally reflected increased promotional and advertising activities, higher staff costs and greater travel costs as we continued marketing several new products and established new distribution channels. In addition, we continued to increase our outsourcing as we expanded our customer support activities.

Second Quarter of 2006 Compared to Second Quarter of 2005 (Continued)

General and administrative expenses. General and administrative expenses increased by 88.4% to RMB142.4 million for the second quarter of 2006 from RMB75.6 million for the second quarter of 2005. The increase primarily reflected the increase in research and development costs as a result of an increase in the number of research and development staff and technical personnel developing new products and services to drive our future growth, including online games and IM functionalities. Staff costs also increased as a result of a higher number of staff employed to support our business expansion.

Finance costs, net. Finance costs represent foreign exchange loss and interest expenses. We recorded finance costs of RMB6.5 million for the second quarter of 2006 compared to RMB51,000 for the second quarter of 2005. The increase in finance costs recorded was due to foreign exchange loss relating to our US dollar-denominated cash and investments in connection with the appreciation of Renminbi. A significant portion of our cash and investments, consisting primarily of the proceeds from our initial public offering in 2004, is subject to the same risk, and if Renminbi continues to appreciate, we may incur further foreign exchange losses. Amortization costs on the payables attributable to the Joymax group acquisition also contributed to the increase.

Income tax benefit (expenses). We recorded income tax expenses of RMB35.6 million for the second quarter of 2006 compared to a net tax credit of RMB68.3 million for the second quarter of 2005. The net tax credit recorded in the second quarter of 2005 related to the recognition of deferred tax assets attributable to the sales of self-developed software and technology among our group companies.

Profit for the period. Profit for the period increased by 43.3% to RMB267.9 million for the second quarter of 2006 from RMB187.0 million for the second quarter of 2005. Net margin was 38.0% for the second quarter of 2006 compared to 56.0% for the second quarter of 2005.

Liquidity and Financial Resources

As at 30 June 2006 and 31 March 2006, we had the following major financial resources in the form of cash and investments:

	Unaudited 30 June 2006	31 March 2006
	(RMB in thousands)	
Cash and cash equivalents	**1,458,733**	1,679,200
Term deposits with original maturities of over three months	**711,543**	511,587
Financial assets held for trading	**286,343**	335,487
Held-to-maturity investments	**239,868**	241,386
Total	**2,696,487**	2,767,660

A large portion of our financial resources represents non-Renminbi denominated proceeds raised from our initial public offering in 2004, and is held in deposits and investments denominated in US dollars. As there are no cost-effective hedges against the appreciation of Renminbi, we have not used any means to hedge our exposure to foreign exchange risk. In addition, generally there is no effective manner to convert a significant amount of US dollars into Renminbi, which is not a freely exchangeable currency. Therefore, we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no interest-bearing borrowings as at 30 June 2006.

During the six months ended 30 June 2006, we repurchased 18,357,000 of our ordinary shares for approximately HKD232,141,000. Such ordinary shares were subsequently cancelled. From the time of our initial public offering through 30 June 2006, we have repurchased 32,623,000 of our ordinary shares for an aggregate amount of HKD350,121,000.

Business Outlook

In July 2006, we issued a press release describing a number of policy changes for all wireless value-added services on China Mobile's Monternet platform including SMS, MMS and WAP services. Firstly, starting in July 2006, new subscribers have been given month-long free trials; after registration they are asked to confirm their subscriptions; and at the end of the trial period they are reminded of the subscription and cancellation procedures. Secondly, during August and September 2006, existing subscribers will receive SMS reminders about active subscriptions, fees being charged and cancellation procedures. China Mobile provincial subsidiaries are also expected to cancel existing WAP subscriptions that have been inactive for more than four months. In addition, we also understand that wireless service providers who are currently providing mobile chat services on the Monternet platform would have their service contracts extended until 31 December 2006 only. We are engaging in a constructive dialogue with China Mobile to discuss the possible options thereafter. We anticipate that these policies will have a negative impact on our mobile and telecommunication services as they will reduce the number of new subscribers, reduce revenues due to the free trial period and increase the churn of existing monthly subscriptions for our wireless value-added services and certain Internet services that offer wireless functionalities. To manage the challenging and uncertain operating environment around our mobile and telecommunication services, we will focus on closely interacting with China Mobile, improving our services to increase user stickiness and product differentiation, and exploring alternative ways of promoting our services under the new policies.

As we proactively manage the challenges in the wireless sector, we believe our diversified revenue model will offer an important source of stability. We will continue to invest in R&D, operations and strategic marketing to strengthen our Internet platforms and various online services.

In our core IM platform, we have implemented a number of operational measures to eliminate spam messages and enhance user password protection with good initial results. Although these measures partially offset the increase in the number of peak concurrent user accounts and active user accounts, we believe that these efforts will foster a healthy long-term growth for our platforms.

Business Outlook (Continued)

With respect to our QQ.com portal platform, we have achieved a historical milestone in its development. According to Alexa.com, our QQ.com portal has become the number 1 portal in China in terms of traffic. Alexa.com also currently ranks QQ.com as the number 5 website in the world in terms of traffic. We believe the rapid growth of QQ.com since its launch in the end of 2003 is yet another demonstration of the strength of our Internet platforms. We believe the position of QQ.com will allow us to increase our advertising revenue and contribute to the growth of our other Internet services through cross-marketing.

In our Internet value-added services, our online identities business benefited from growth in our Qzone and QQ Pet products. We are continuing to improve system performance and product experience for these products. With respect to online games, we are focusing on expanding the content of QQ Fantasy following a successful commercialization of the MMOG in the first quarter of 2006. We launched a major expansion pack in August which aimed to increase the stickiness of the game. We also launched our second advanced casual game, R2Beat, in July for open beta testing and are actively looking for new games to expand our portfolio of advanced casual games. Owing to seasonal factors, our mini casual game registered a small decline in peak concurrent users. After a period of heavy focus on building monetization mechanisms into our casual games portal, we are now shifting more of our attention to building new games and enhancing basic user experience in order to reinforce our market leadership.

Our advertising business continued to grow at a fast pace during the second quarter as we have been able to leverage the significant traffic on our IM and portal platforms. With a focus on team development, product innovation and client servicing, we believe we are well poised to capitalize on the secular growth trend in the online advertising industry in China.

Directors' Interests in Securities

As at 30 June 2006, 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 OF THE COMPANY

Name of Director	Nature of interest	Number of shares held	Percentage of issued share capital
Ma Huateng	Corporate (Note 1)	231,683,080	13.15%
Zhang Zhidong	Corporate (Note 2)	90,085,530	5.12%

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.

Directors' Interests in Securities (Continued)

(B) LONG POSITION IN THE SHARES OF 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	Personal	RMB9,500,000 (registered capital)	47.5%
	Shenzhen Shiji Kaixuan Technology Company Limited	Personal	RMB5,225,000 (registered capital)	47.5%
Zhang Zhidong	Shenzhen Tencent Computer Systems Company Limited	Personal	RMB4,000,000 (registered capital)	20%
	Shenzhen Shiji Kaixuan Technology Company Limited	Personal	RMB2,200,000 (registered capital)	20%

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 30 June 2006.

Share Option Schemes

The Company has adopted two share option schemes, namely, the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, under which the directors may, at their discretion, grant options to employees, including any directors, of the Company or its subsidiaries to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. No further options will be granted under the Pre-IPO Share Option Scheme. Movements of the options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are detailed in Note 12 to the Interim Financial Statements as included in this interim report. As at 30 June 2006, there were no outstanding share options granted to the directors of the Company.

Substantial Shareholders

As at 30 June 2006, 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 of 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 of the Company

Name of shareholder	Nature of interest	Number of shares held	Percentage of issued share capital
MIH QQ (BVI) Limited	Corporate (Note 1)	630,240,380	35.78%
Advance Data Services Limited	Corporate (Note 2)	231,683,080	13.15%
Best Update International Limited	Corporate (Note 3)	90,085,530	5.12%
ABSA Bank Limited	Corporate (Note 4)	185,000,000	10.50%

Notes:

1 As MIH QQ (BVI) Limited is wholly owned by Naspers Limited through its intermediary companies MIH (BVI) Limited, MIH Holdings Limited and MIH Investments (Pty) Ltd, Naspers Limited, MIH (BVI) Limited, MIH Holdings Limited and MIH Investments (Pty) Ltd are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO.

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 Best Update International Limited is wholly owned by Zhang Zhidong, Mr. Zhang has interest in these shares as disclosed under the section of "Directors' Interests in Securities".

4 As ABSA Bank Limited has a security interest in 185,000,000 shares, which are held by MIH QQ (BVI) Limited, and ABSA Bank Limited is wholly owned by Barclays through its intermediary company ABSA Group Limited, Barclays 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 30 June 2006, 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.

Employee and Remuneration Policies

As at 30 June 2006, the Group had 2,443 employees (30 June 2005: 1,648), most of whom are based in the Company's head office in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2006 was RMB 270.6 million (30 June 2005: RMB134.1 million).

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

During the six months ended 30 June 2006, the Company repurchased 18,357,000 shares on the Stock Exchange for an aggregate consideration of HKD232,141,000 before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase on the Stock Exchange for the six months ended 30 June 2006	Number of shares repurchased	Purchase consideration per share		Aggregate consideration paid
		Highest price paid	Lowest price paid	
		HKD	HKD	HKD
January	4,584,000	9.75	9.50	44,227,000
February	3,471,000	9.95	9.80	34,242,000
April	10,302,000	15.10	14.05	153,672,000
Total	18,357,000			232,141,000

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

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, together with the Auditors, has reviewed the Group's unaudited Interim Financial Statements for the three and six months ended 30 June 2006.

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 of the Company have complied with such code of conduct throughout the accounting periods covered by this interim report.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2005 annual report of the Company which was the position as at 31 December 2005, 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 six months ended 30 June 2006, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, which became effective from 1 January 2005.

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

Appreciation

The dedication of the staff of the Group is the most important ingredient of our success and its continuation is critical for the Group to meet the challenges and opportunities ahead. We would like to take this opportunity to record our cordial thanks to them all.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 23 August 2006

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