

## What's Hot Today:

### ► China Internet - Tax Fears Overblown

**Event:** A rumor circulated yesterday morning suggesting that internet value-added services (such as in-game purchases and advertising) and financial services could face higher taxes or fees. This speculation was based on perceptions of their high profit margins and relatively lighter tax burden. Some conjectured that internet companies might be subject to a tax rate significantly higher than the current 6%, triggering a sell-off in internet stocks.

The rumor gained traction as it emerged shortly after China raised the VAT rate for telecom operators from 6% to 9%. Specifically, effective January 1, 2026, services like mobile data, SMS/MMS, and broadband have been reclassified from "value-added telecommunications services" to "basic telecommunications services." Consequently, they are now subject to a 9% VAT rate instead of the previous 6%. In contrast, internet companies, whose core revenues are derived from areas like gaming and advertising, are classified under modern value-added telecom services. They remain at a 6% VAT rate, as do financial services. Therefore, the higher VAT rate applying to telecom operators does not currently apply to these sectors.

Furthermore, comparing the 6% VAT rate to the 32% tax burden on liquor companies is misleading. The 32% rate refers to Consumption Tax, which comprises a 20% ad valorem tax and a specific tax of RMB0.5 per 500 grams. In-game purchases and advertising are subject to Value-Added Tax (VAT), which is a fundamentally different type of tax.

**Our view:** We believe the market has overreacted and consider this a buy-on-dip opportunity for Tencent (700 HK, HK\$581.00, HK\$5.30tn). There is no legal basis to extend the telecom operators' VAT adjustment to internet platforms like Tencent, given their distinct statutory tax classifications, and we see no substantive policy rationale for such a change.

Fundamentally, the sector's core value and growth trajectory remain intact. Looking ahead, AI adoption is expected to expand monetization opportunities, enhance conversion efficiency, and improve profitability through operational gains, thereby sustaining medium- to long-term earnings growth.

China & HK Indices	CLOSE	1D	YTD
HSI	26,834	0.2%	4.7%
HSCEI	9,053	-0.3%	1.6%
HSCCI	4,290	1.1%	6.8%
CSI300	4,660	1.2%	0.7%
Shanghai A	4,265	1.3%	3.7%
Shanghai B	263	1.4%	3.7%
Shenzhen A	2,800	2.3%	5.8%
Shenzhen B	1,232	0.5%	-2.5%

Key Int'l Indices	CLOSE	1D	YTD
Dow Jones	49,240	-0.3%	2.5%
S&P 500	6,917	-0.8%	1.1%
Nasdaq	23,255	-1.4%	0.1%
Nikkei Index	54,066	-1.2%	7.4%
FTSE Index	10,314	-0.3%	3.9%
CAC Index	8,179	-0.0%	0.4%
DAX Index	24,780	-0.1%	1.2%

Commodities	CLOSE	1D	YTD
GOLD (US\$/oz.)	4,946	6.1%	15.4%
STEEL (US\$/oz.)	2,999	5.2%	17.9%
SILVER (US\$/oz.)	85	7.4%	18.6%
CRUDE OIL (US\$/bbl)	63	1.7%	11.1%
COPPER (US\$/oz.)	13,478	2.4%	8.5%
ALUMINIUM (US\$/oz.)	3,106	-1.2%	3.7%
PLATINUM (US\$/oz.)	2,217	4.0%	9.3%
ZINC (US\$/oz.)	3,338	-1.9%	7.1%
WHEAT (US\$/bu)	528	-1.7%	4.3%
CORN (US\$/bu)	428	0.1%	-2.7%
SUGAR (US\$/lb)	71	-8.9%	
SOYBEAN (US\$/bu)	1,065	0.1%	1.7%
PVC (US\$/t.)	5,058	0.0%	4.2%
CRB	310	-3.1%	3.0%
BDI		-1.1%	13.2%

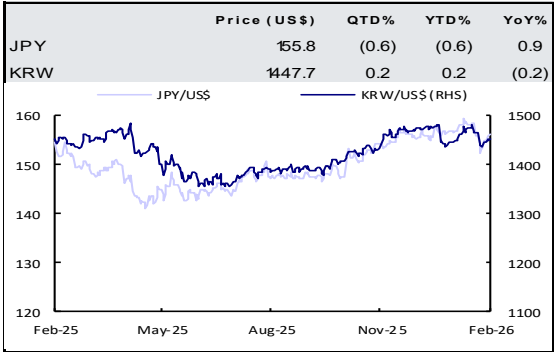
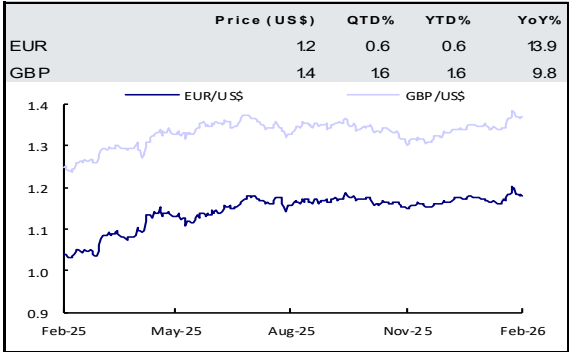
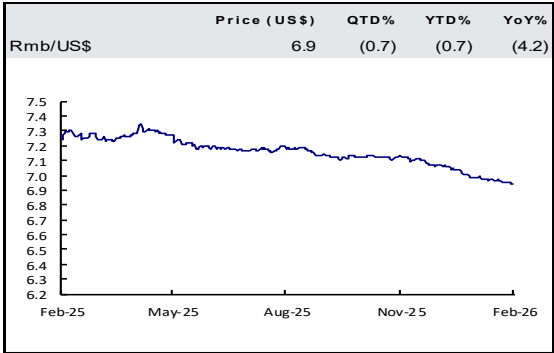
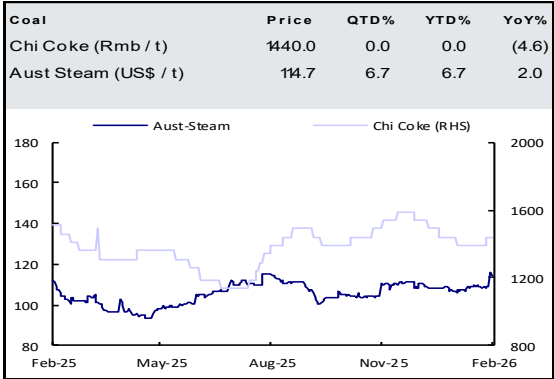
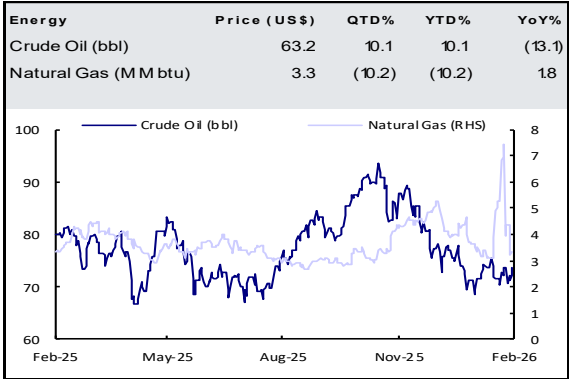
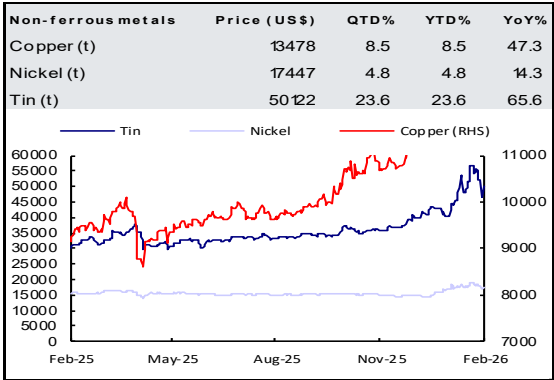
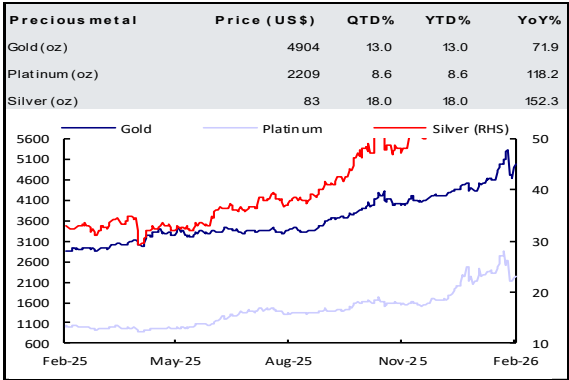
Exchange Rates	USD	HKD	EUR	JPY	CHF	RMB
USD		7.813	0.846	155.750	0.775	6.939
HKD	0.128		0.108	19.938	9.922	0.888
EUR	1.182	9.234		184.100	1.091	8.195
JPY	0.006	5.015	0.543		0.498	0.045
CHF	1.290	10.078	1.091	200.868		8.945
RMB	0.144	1.126	0.122	22.430	0.112	

Market Sentiment	CURRENT	5D
CDS Monitor - USD SR 5Y		
Greece	N/A	N/A
Ireland	83	-2.4%
Italy	139	-0.6%
Portugal	207	-0.0%
Spain	108	0.3%
VIX	18	10.1%
Source: Bloomberg		

Tencent exemplifies this strength. In 2025, its Games revenue grew 23% YoY, outperforming the global gaming market's 3% growth by 20 percentage points. Overseas gaming revenue surpassed US\$10bn, now accounting for 30% of the total. The recent launch of "Yuanbao AI", an ecosystem product with social and viral features—demonstrates its execution. A concurrent Lunar New Year campaign, featuring an RMB1bn cash red envelope pool, is boosting near-term engagement and broadening access to this new AI ecosystem.

We believe Tencent is uniquely positioned to build compelling AI products by leveraging its integrated platform and vast user base. The counter is currently trading at 18x FY2025E P/E. (Research department)

Market Watch – Major Commodities and Currencies



Source: Bloomberg

US Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
Initial Jobless Claims	WoW		5-Feb-26
Retail Sales	MoM		10-Feb-26
Business Inventories	MoM		10-Feb-26
CPI	MoM		11-Feb-26
Existing Home Sales	MoM		12-Feb-26
Employment Report	MoM		13-Feb-26
Durable Goods Orders	MoM		18-Feb-26
Housing Starts / Building Permits	MoM		18-Feb-26
Industrial Production	MoM		18-Feb-26
Trade Balance	MoM		19-Feb-26
Wholesale Inventories	MoM		19-Feb-26
Personal Income & Spending	MoM		20-Feb-26
GDP	QoQ		20-Feb-26
New home Sales	MoM		20-Feb-26
Factory Orders	MoM		23-Feb-26
Consumer Confidence	MoM		24-Feb-26
PPI	MoM		27-Feb-26
ISM Manufacturing PMI	MoM		2-Mar-26
Auto Sales	MoM		

China Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
Foreign Exchange Reserves	QoQ		7-Feb-26
Money Supply - M2	MoM		9-Feb-26
PPI	MoM		11-Feb-26
CPI	MoM		11-Feb-26
PMI Manufacturing	MoM		4-Mar-26
Trade Balance	MoM		14-Apr-26
Retail Sales	MoM		16-Apr-26
Industrial Production	MoM		16-Apr-26
GDP	YoY		16-Apr-26

Hong Kong Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
PMI	MoM		4-Feb-26
Foreign Currency Reserve	MoM		6-Feb-26
Unemployment Rate	MoM		20-Feb-26
CPI	MoM		25-Feb-26
GDP	QoQ		25-Feb-26
Trade Balance	MoM		27-Feb-26
Money Supply - M2	MoM		27-Feb-26
Retail Sales	MoM		4-Mar-26
Producer Prices Index	QoQ		13-Mar-26
Industrial Production	QoQ		13-Mar-26
Composite Interest Rate	MoM		

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KFS and/or its affiliates beneficially own shares of Tencent Holdings Ltd (0700.HK).

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