Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The board of directors (the "Board") of Tencent Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008. These results have been audited by PricewaterhouseCoopers, the auditors of the Company (the "Auditors"), in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the "Audit Committee"), comprising a majority of the independent non-executive directors of the Company.

RESULTS

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

DIVIDENDS

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

FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000 (Restated)
ASSETS			
Non-current assets			
Fixed assets		**1,165,048**	839,256
Construction in progress		**875,897**	112,232
Investment property		**64,981**	66,414
Leasehold land and land use rights		**36,046**	36,796
Intangible assets		**370,314**	391,994
Investment in a jointly controlled entity		**–**	179
Investment in associates		**302,712**	–
Deferred income tax assets		**334,164**	287,652
Held-to-maturity investments		**–**	73,046
Available-for-sale financial assets		**86,180**	63,605
Prepayments, deposits and other receivables		**124,354**	219,138
		3,359,696	2,090,312
Current assets			
Inventories		**5,483**	1,701
Accounts receivable	3	**983,459**	535,528
Prepayments, deposits and other receivables		**378,340**	130,406
Financial assets held for trading		**329,804**	266,495
Derivative financial instruments		**–**	47,759
Held-to-maturity investments		**68,346**	–
Term deposits with initial term of over three months		**1,662,501**	604,486
Restricted cash		**–**	300,000
Cash and cash equivalents		**3,067,928**	2,948,757
		6,495,861	4,835,132
Total assets		**9,855,557**	6,925,444

	Note	As at 31 December 2008 RMB'000	2007 RMB'000 (Restated)
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		195	**194**
Share premium		1,155,209	**1,455,854**
Shares held for share award scheme		(21,809)	**–**
Share-based compensation reserve		381,439	**220,230**
Other reserves		(433,038)	**80,295**
Retained earnings		5,938,930	**3,413,823**
		7,020,926	**5,170,396**
Minority interests in equity		98,406	**64,661**
Total equity		7,119,332	**5,235,057**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		78,368	**40,770**
Long-term payable	5	566,260	**–**
		644,628	**40,770**
Current liabilities			
Accounts payable	6	244,647	**117,062**
Other payables and accruals		1,013,542	**669,194**
Short-term bank borrowing		–	**292,184**
Derivative financial instruments		–	**30,060**
Current income tax liabilities		47,307	**71,133**
Other tax liabilities		103,933	**134,746**
Deferred revenue		682,168	**335,238**
		2,091,597	**1,649,617**
Total liabilities		2,736,225	**1,690,387**
Total equity and liabilities		9,855,557	**6,925,444**
Net current assets		4,404,264	**3,185,515**
Total assets less current liabilities		7,763,960	**5,275,827**

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

		Year ended 31 December	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Revenues			
Internet value-added services		**4,914,974**	2,513,728
Mobile and telecommunications value-added services		**1,398,984**	807,645
Online advertising		**826,049**	493,018
Others		**14,537**	6,532
		7,154,544	3,820,923
Cost of revenues	8	**(2,170,421)**	(1,117,557)
Gross profit		**4,984,123**	2,703,366
Other gains, net	7	**112,205**	69,212
Selling and marketing expenses	8	**(518,147)**	(297,439)
General and administrative expenses	8	**(1,332,207)**	(840,113)
Operating profit	*	**3,245,974**	1,635,026
Finance costs	**	**(140,732)**	(100,192)
Share of loss of associates/a jointly controlled entity		**(347)**	(331)
Profit before income tax		**3,104,895**	1,534,503
Income tax (expense)/benefit	9	**(289,245)**	33,505
Profit for the year		**2,815,650**	1,568,008
Attributable to:			
Equity holders of the Company		**2,784,577**	1,566,020
Minority interests		**31,073**	1,988
		2,815,650	1,568,008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
- basic	10	**1.552**	0.880
- diluted	10	**1.514**	0.853
Dividends per share			
Final dividend proposed	11	**HKD0.25**	HKD0.16
Special dividend proposed	11	**HKD0.10**	–
		HKD0.35	HKD0.16

* After deduction of share-based compensation charge amounting to RMB160,507,000 for the year end 31 December 2008 (2007: RMB101,433,000).

** Included foreign exchange losses of RMB140,732,000 for the year ended 31 December 2008 (2007: RMB98,603,000).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for share award scheme *RMB'000*	Share-based compensation reserve *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2007	192	1,459,020	–	118,078	80,925	2,059,541	3,717,756	–	3,717,756
Profit for the year / total recognised income for 2007	–	–	–	–	–	1,566,020	1,566,020	1,988	1,568,008
Employee share option schemes:									
- value of employee services	–	–	–	102,152	–	–	102,152	–	102,152
- proceeds from shares issued	3	104,087	–	–	–	–	104,090	–	104,090
Repurchase and cancellation of shares	(1)	(107,253)	–	–	–	–	(107,254)	–	(107,254)
Profit appropriations to statutory reserves	–	–	–	–	5,544	(5,544)	–	–	–
Dividend relating to 2006 (Note 11)	–	–	–	–	–	(210,211)	(210,211)	–	(210,211)
Business combination (Restated)	–	–	–	–	(6,174)	4,017	(2,157)	62,673	60,516
Balance at 31 December 2007	194	1,455,854	–	220,230	80,295	3,413,823	5,170,396	64,661	5,235,057
Balance at 1 January 2008	**194**	**1,455,854**	**–**	**220,230**	**80,295**	**3,413,823**	**5,170,396**	**64,661**	**5,235,057**
Profit for the year / total recognised income for 2008	**–**	**–**	**–**	**–**	**–**	**2,784,577**	**2,784,577**	**31,073**	**2,815,650**
Employee share option schemes:									
- value of employee services	**–**	**–**	**–**	**150,217**	**–**	**–**	**150,217**	**–**	**150,217**
- proceeds from shares issued	**2**	**86,940**	**–**	**–**	**–**	**–**	**86,942**	**–**	**86,942**
Employee share award scheme:									
- value of employee services	**–**	**–**	**–**	**10,992**	**–**	**–**	**10,992**	**–**	**10,992**
- shares purchased for share award scheme	**–**	**–**	**(21,809)**	**–**	**–**	**–**	**(21,809)**	**–**	**(21,809)**
Repurchase and cancellation of shares	**(1)**	**(387,585)**	**–**	**–**	**–**	**–**	**(387,586)**	**–**	**(387,586)**
Profit appropriations to statutory reserves	**–**	**–**	**–**	**–**	**1,667**	**(1,667)**	**–**	**–**	**–**
Dividend relating to 2007 (Note 11)	**–**	**–**	**–**	**–**	**–**	**(257,803)**	**(257,803)**	**–**	**(257,803)**
Recognition of the financial liabilities in respect of the put option granted to minority shareholders (Note 5)	**–**	**–**	**–**	**–**	**(515,000)**	**–**	**(515,000)**	**–**	**(515,000)**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,672**	**2,672**
Balance at 31 December 2008	**195**	**1,155,209**	**(21,809)**	**381,439**	**(433,038)**	**5,938,930**	**7,020,926**	**98,406**	**7,119,332**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**3,579,627**	1,835,704
Net cash flows used in investing activities	**(2,514,533)**	(734,247)
Net cash flows (used in)/generated from financing activities	**(869,940)**	78,809
Net increase in cash and cash equivalents	**195,154**	1,180,266
Cash and cash equivalents at beginning of the year	**2,948,757**	1,844,320
Exchange losses on cash and cash equivalents	**(75,983)**	(75,829)
Cash and cash equivalents at end of the year	**3,067,928**	2,948,757

Notes:

1 **General information, basis of preparation and presentation**

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

The Company is an investment holding company. The 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").

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

Assessment and adoption of new interpretations and amendment

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

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

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

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

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

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

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

2 **Segment information**

Business segment is the Group's primary basis of segment reporting. The segment results of the Group for the years ended 31 December 2008 and 2007 are presented as follows:

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

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

3 **Accounts receivable**

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

A substantial balance of the receivable balances as at 31 December 2008 and 31 December 2007 were due from China Mobile, China Unicom and China Telecom and their respective branches, subsidiaries and affiliates.

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

4 **Share option and share award schemes**

(a) **Share option schemes**

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

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

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

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

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I. The Post-IPO Option Scheme I was terminated upon the adoption of a new post IPO share option scheme mentioned below.

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

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

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

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

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

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

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

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

Of 70,455,125 options outstanding as at 31 December 2008 (2007: 76,380,620 options), 20,038,250 options (2007: 16,944,746 options) were currently exercisable.

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

(b) **Share award scheme**

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

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

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

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

Movement in the number of awarded shares for 2008 is as follows:

	Awarded shares		
	Shares acquired by the Trustee	**Shares allotted to share scheme trust**	**Total**
At 1 January 2008	–	–	–
Granted	465,480	883,970	1,349,450
Vested	–	–	–
Lapsed	–	–	–
At 31 December 2008	465,480	883,970	1,349,450

No shares were granted under the Share Scheme to any director of the Company.

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

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

In addition, on 29 August 2008, 1,016,050 shares were allotted by the Company to the share scheme trust, of which the grant of 883,970 shares had been completed.

5 Long-term payables

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

Note:

On 5 August 2008, Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan"), a subsidiary of the Company, entered into (i) a loan agreement (the "Loan Agreement"); and (ii) a put option agreement (the "Put Option Agreement") with Zhang Yan, a founder, CEO, director and substantial shareholder of Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"), which is a subsidiary of Shiji Kaixuan.

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

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

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

6 Accounts payable

Accounts payable and their ageing analysis are as follows:

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

7 Other gains, net

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

8 **Expenses by nature**

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

Note:

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

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

9 **Income tax expense**

(i) **Cayman Islands and British Virgin Islands Profits Tax**

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2008 (2007: Nil).

(ii) **Hong Kong Profits Tax**

No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the year ended 31 December 2008 (2007: Nil).

(iii) **PRC Enterprise Income Tax ("EIT")**

EIT is provided on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

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

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

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

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

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

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

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from EIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was the first year of operation for Tencent Beijing and accordingly, the provision for EIT was provided at a rate of 7.5% for 2008 (2007: Nil).

As approved by the relevant tax authority, Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin") is exempt from EIT for two years commencing from the first year of profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years if its annual productive sales income exceeded 50% of its reported total sales income. 2008 was the first profit-making year of Cyber Tianjin, and no provision for EIT was provided for the year.

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

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 18% for the year ended 31 December 2008 (2007: 15%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

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

10 Earnings per share

(a) Basic

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

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

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

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

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

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

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

11 Dividends

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

12 Comparatives

Certain comparative figures in respect of the acquisition of Shenzhen Domain have been restated to reflect the completion of its initial accounting treatments according to IFRS 3.

In addition, for the purpose of better representation of the Group's activities, the running royalty fee of approximately RMB219,138,000, which had previously been captured under intangible assets in the financial statements for 2007, was reclassified to non-current portion of "Prepayments, deposits and other receivables".

OPERATING INFORMATION

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

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

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

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

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

FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2008

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

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

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

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

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

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

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

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

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

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

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

Fourth Quarter of 2008

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2008 Compared to Third Quarter of 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

CAPITAL EXPENDITURES

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

BUSINESS REVIEW AND OUTLOOK

2008 was another exciting year for the Internet market in China. According to China Internet Network Information Center, total number of Internet users in China reached 298 million at the end of 2008, representing a year-on-year growth of 42%. While China has already surpassed the US and become the largest Internet market in the world by number of users, its Internet penetration was only 23% at the end of 2008.

This is significantly lower than that for developed markets, reflecting that China is still a nascent market with strong potential for future growth. More importantly, Internet has increasingly become an indispensable part of everyday life for people in China, thanks to the increasing adoption of broadband and mobile Internet connectivity as well as the emergence of a broad range of applications that allow people to stay in touch with each other, to get entertained, to get access to information and to conduct business transactions.

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

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

IM platform

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

QQ.com

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

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

Internet value-added services

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

For online gaming, after years of planning and execution, we have started to reap the benefits of our strategy of building a diversified product portfolio leveraging the advantage of our massive online platform. In 2008, we launched a range of popular

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

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

Mobile and telecommunications value-added services

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

Online advertising

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

OTHER INFORMATION

Employee and Remuneration Policies

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

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

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

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

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

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

Save as disclosed above and in the "Financial Information" section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Closure of Register of Members

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

AUDIT COMMITTEE

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

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the 2007 annual report of the Company which was the position as at 31 December 2007, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2008, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

PUBLICATION OF THE ANNUAL RESULTS, ANNUAL REPORT AND CORPORATE GOVERNANCE REPORT

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.tencent.com) in due course.

APPRECIATION

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

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 18 March 2009

As at the date of this announcement, the directors of the Company are:

Executive Directors:
Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:
Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. The forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements are a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents.