Interim Results

Following the initial listing of the shares in Tencent Holdings Limited (the "Company") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 June 2004, the board of directors of the Company (the "Board") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and companies consolidated for accounting purposes (collectively, the "Group") for the three and six months ended 30 June 2004, respectively. These interim results have been reviewed by the Audit Committee of the Company, comprising a majority of independent non-executive directors, and by PricewaterhouseCoopers, the auditors of the Company (the "Auditors"), in accordance with SAS700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

Condensed Consolidated Profit and Loss Accounts

For the three and six months ended 30 June 2004

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	Note	**2004 RMB'000**	2003 RMB'000	**2004 RMB'000**	2003 RMB'000
Revenues					
Mobile and telecommunications value-added services		**156,054**	115,086	**298,871**	199,383
Internet value-added services		**99,913**	47,898	**204,499**	80,910
Online advertising		**12,847**	8,529	**21,062**	15,347
Others		**1,699**	646	**3,634**	1,512
		270,513	172,159	**528,066**	297,152
Cost of revenues		**(100,159)**	(51,437)	**(187,527)**	(87,776)
Gross profit		**170,354**	120,722	**340,539**	209,376
Other operating income/(expense), net		**—**	(1,182)	**18**	(1,146)
Selling and marketing expenses		**(26,465)**	(10,970)	**(49,509)**	(23,283)
General and administrative expenses		**(28,310)**	(22,502)	**(62,384)**	(39,154)
Profit from operations	3	**115,579**	86,068	**228,664**	145,793
Finance income, net		**1,003**	494	**1,934**	237
Profit before taxation		**116,582**	86,562	**230,598**	146,030
Taxation	4	**(3,293)**	(4,342)	**(10,005)**	(6,465)
Profit for the period		**113,289**	82,220	**220,593**	139,565
Earnings per share					
- basic (RMB)	6	**0.085**	0.060	**0.170**	0.103
- diluted (RMB)	6	**0.085**	0.060	**0.170**	0.103
Proposed dividends	5	**N/A**	N/A	**N/A**	N/A

Condensed Consolidated Balance Sheets

As at 30 June 2004 and 31 December 2003

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Assets			
Non-current assets			
Fixed assets	7	113,298	80,139
Deposit in connection with the formation of an operating company, Shiji Kaixuan Technology	15	—	11,000
Current assets			
Accounts receivable	8	141,856	99,726
Amounts due from shareholders		—	82
Prepayments, deposits and other receivables	9	42,572	35,872
Term deposits with initial term of over three months		62,971	23,311
Cash and cash equivalents		1,950,665	325,586
		2,198,064	484,577
Total assets		2,311,362	575,716
Equity and liabilities			
Current liabilities			
Trade payables	10	3,864	—
Other payables and accruals	11	86,129	59,301
Dividends payable		145	—
Income taxes payable		4,644	7,115
Other taxes payable		23,656	32,679
Deferred revenue		12,839	3,676
		131,277	102,771
Non-current liabilities			
Deferred tax liabilities	13	—	988
Total liabilities		131,277	103,759
Shareholders' equity			
Share capital	12	183	138
Reserves		2,179,902	471,819
Total shareholders' equity		2,180,085	471,957
Total liabilities and shareholders' equity		2,311,362	575,716

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Unaudited					
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2004	138	15,261	20,000	3,653	432,905	471,957
Dividends paid	—	—	—	—	(28,935)	(28,935)
Profit for the period	—	—	—	—	220,593	220,593
Issue of shares	45	1,656,687	—	—	—	1,656,732
Shares issue expenses	—	(140,262)	—	—	—	(140,262)
Balance at 30 June 2004	183	1,531,686	20,000	3,653	624,563	2,180,085

	Unaudited					
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2003	149	53,105	1,000	—	143,696	197,950
Dividends paid	—	—	—	—	(10,334)	(10,334)
Profit for the period	—	—	—	—	139,565	139,565
Balance at 30 June 2003	149	53,105	1,000	—	272,927	327,181

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	Unaudited Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	**177,860**	126,526
Net cash used in investing activities	**(69,383)**	(17,495)
Net cash inflow/ (used) in financing activities	**1,516,602**	(10,334)
Increase in cash and cash equivalents	**1,625,079**	98,697
Cash and cash equivalents at 1 January	**325,586**	45,254
Cash and cash equivalents at 30 June	**1,950,665**	143,951
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**1,950,665**	143,951

Notes to the Condensed Accounts

1 Basis of preparation and presentation

These unaudited consolidated condensed accounts of the Company, its subsidiaries and companies consolidated for accounting purposes (collectively, the "Group") are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting" issued by the International Accounting Standards Board.

These condensed accounts should be read in conjunction with the Accountants' Report and audited financial statements of the Group for the three years ended 31 December 2003 and the three months ended 31 March 2004 (collectively, the "IPO Financial Statements") for inclusion in the prospectus of the Company dated 7 June 2004 in connection with the initial listing of the shares on the Main Board of the Stock Exchange.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the IPO Financial Statements. In particular, we have consolidated Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer") and Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan") into the financial statements of the Group notwithstanding the lack of legal share ownership, because in substance certain contractual arrangements enacted with these companies give the Company control over the two companies by way of controlling more than one half of the voting rights of the two companies, governing their financial and operational policies and appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual arrangements also transfer the risks and rewards of the two companies to the Company.

2 Segment information

As all of the Group's activities are conducted in the PRC, no analysis by geographical segment is presented.

The business segment information of the Group for the three and six months ended 30 June 2003 and 2004, respectively, is presented as follows:

	Unaudited Three months ended 30 June 2004				
	Mobile and telecommunications value-added services RMB'000	Internet value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	156,054	99,913	12,847	1,699	270,513
Gross profit/(loss)	96,218	65,864	9,511	(1,239)	170,354
Selling and marketing expenses					(26,465)
General and administrative expenses					(28,310)
Profit from operations					115,579
Finance income, net					1,003
Profit before taxation					116,582
Taxation					(3,293)
Profit for the period					113,289

2 Segment information (Continued)

	Unaudited Three months ended 30 June 2003				
	Mobile and telecommunications value-added services RMB'000	Internet value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	115,086	47,898	8,529	646	172,159
Gross profit	82,554	31,123	6,644	401	120,722
Other operating expenses, net					(1,182)
Selling and marketing expenses					(10,970)
General and administrative expenses					(22,502)
Profit from operations					86,068
Finance income, net					494
Profit before taxation					86,562
Taxation					(4,342)
Profit for the period					82,220

2 Segment information (Continued)

	Unaudited Six months ended 30 June 2004 Mobile and telecommunications value-added services RMB'000	Internet value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	298,871	204,499	21,062	3,634	528,066
Gross profit/(loss)	190,770	137,763	13,869	(1,863)	340,539
Other operating income, net					18
Selling and marketing expenses					(49,509)
General and administrative expenses					(62,384)
Profit from operations					228,664
Finance income, net					1,934
Profit before taxation					230,598
Taxation					(10,005)
Profit for the period					220,593

2 Segment information (Continued)

	Unaudited Six months ended 30 June 2003				
	Mobile and telecommunications value-added services RMB'000	Internet value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	199,383	80,910	15,347	1,512	297,152
Gross profit	145,620	51,199	11,313	1,244	209,376
Other operating expenses, net					(1,146)
Selling and marketing expenses					(23,283)
General and administrative expenses					(39,154)
Profit from operations					145,793
Finance income, net					237
Profit before taxation					146,030
Taxation					(6,465)
Profit for the period					139,565

3 Profit from operations

Profit from operations is stated after charging the following:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Staff costs	**32,686**	17,751	**64,964**	27,712
Value-added tax paid upon transfer of software within the Group	**3,300**	—	**5,402**	—
Depreciation on fixed assets	**6,454**	2,112	**12,185**	4,538
Operating lease rentals in respect of land and buildings	**2,827**	2,014	**5,724**	3,780
Research and development expenses (Note)	**8,075**	4,939	**20,714**	8,776
Auditors' remuneration	**797**	4	**887**	574

Note: Research and development expenses included staff costs and depreciation of approximately RMB3,943,000, RMB7,059,000, RMB7,023,000 and RMB13,244,000 for the three and six months ended 30 June 2003 and 2004, respectively. The Group had not capitalized any of research and development expenses for the three and six months ended 30 June 2003 and 2004, respectively.

4 Taxation

(A) CAYMAN ISLANDS AND BRITISH VIRGIN ISLANDS PROFITS TAX

The Group is not subject to any taxation under these jurisdictions for the three and six months ended 30 June 2003 and 2004, respectively.

(B) 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 three and six months ended 30 June 2003 and 2004, respectively.

4 Taxation (Continued)

(C) PRC ENTERPRISE INCOME TAX

PRC Enterprise Income Tax ("EIT") is provided on the assessable income of the Group for the three and six months ended 30 June 2003 and 2004, respectively, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

According to the provisions stipulated in the tax circular, Shendishuierhan 2002 No. 128, a subsidiary of the Group, Tencent Computer, is exempt from EIT for the one year starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction for the next two years (the "Tencent Computer Tax Holiday"). The first profit-making year of Tencent Computer was 2002 and the Tencent Computer Tax Holiday commenced in that year. EIT was levied at 7.5% on its assessable profits for the three and six months ended 30 June 2003 and 2004, respectively.

In addition, another subsidiary of the Group, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), has been approved by relevant tax authorities as a foreign invested enterprise with productive sales income under the provisions stipulated in the tax circular, Shendishuiwaihan 2003 No. 413. Tencent Technology is exempt from EIT for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction for the next three years if its annual productive sales income exceeds 50% of its reported total sales income (the "Tencent Technology Tax Holiday"). 2003 is the first profit-making year of Tencent Technology after offsetting all tax losses brought forward from prior years. 2004 is the second year of the Tencent Technology Tax Holiday and accordingly, no provision for EIT was made in the financial statements for the three and six months ended 30 June 2003 and 2004, respectively.

The other subsidiaries of the Group incorporated in the PRC had insignificant or no assessable profits during the three and six months ended 30 June 2004.

4 Taxation (Continued)

(C) PRC ENTERPRISE INCOME TAX (Continued)

An analysis of the profits tax charges for the three and six months ended 30 June 2003 and 2004, respectively, is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC current tax	**4,644**	4,342	**10,993**	6,465
Deferred tax (Note 13)	**(1,351)**	—	**(988)**	—
	3,293	4,342	**10,005**	6,465

4 Taxation (Continued)

(C) PRC ENTERPRISE INCOME TAX (Continued)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of 15%, the tax rate enacted in Shenzhen, the PRC, where the principal activities of the Group are conducted, as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit before taxation	**116,582**	86,562	**230,598**	146,030
Tax calculated at a tax rates of 15%	**17,488**	12,985	**34,590**	21,905
Effects of different tax rates available to different companies of the Group	—	(5,624)	—	(11,999)
Effects of tax holiday on assessable income of companies within the Group	**(30,912)**	(4,502)	**(52,258)**	(6,432)
Expenses not deductible for tax purposes	**229**	—	**582**	—
Deferred tax assets not recognised (Note 13)	**16,667**	—	**26,795**	—
Utilisation of previously unrecognized tax losses	**(230)**	—	**(230)**	—
Unrecognised tax losses sustained by companies of the Group	**51**	1,483	**526**	2,991
Tax charge	**3,293**	4,342	**10,005**	6,465

4 Taxation (Continued)

(D) 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

5 Dividends

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Final, paid, of RMB0.023 (2003: RMB0.008) per ordinary share	**28,935**	10,334	**28,935**	10,334

Pursuant to a resolution passed by the Board on 20 January 2004, the final dividend of 2003 was proposed at RMB0.023 per ordinary share (after taking into account two share splits mentioned in Note 12) with an aggregate amount of US$3,500,000 (equivalent to approximately RMB28,935,000) of which approximately US$3,482,500 (equivalent to approximately RMB28,790,000) had been paid up to 30 June 2004. The remaining balance of US$17,500 (equivalent to approximately RMB145,000) was recorded as dividends payable in the condensed consolidated balance sheet as at 30 June 2004. This proposed dividend was not reflected as dividends payable in 2003, but was reflected as an appropriation of retained earnings for the three and six months ended 30 June 2004.

5 Dividends (Continued)

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2004 (2003: Nil).

6 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the periods by the weighted average number of ordinary shares in issue during the period.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
Profit for the period (RMB'000)	**113,289**	82,220	**220,593**	139,565
Weighted average number of ordinary shares in issue (in thousand) (Note)	**1,329,738**	1,359,808	**1,295,109**	1,359,808
Basic earnings per share (RMB) (Note)	**0.085**	0.060	**0.170**	0.103

The diluted earnings per share are calculated based on the weighted average number of ordinary shares outstanding and the potentially dilutive ordinary shares. The potential dilutive shares of the Company mainly relate to the pre-IPO share options granted to employees which remained outstanding as at 30 June 2004. The number of dilutive shares is determined by the number of ordinary shares of the Company that could have been acquired at fair value (determined based on the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to these share options. The number of shares calculated as above is compared with 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.

6 Earnings per share (Continued)

Upon the listing of the Company's shares on the Stock Exchange on 16 June 2004, the exercisability of the pre-IPO share options granted to employees became unconditional, subject to the vesting schedule. As a result, the diluted earnings per share for the three and six months ended 30 June 2004 were presented to reflect the dilutive effects of the pre-IPO share options granted. There were no potential dilutive instruments for the three and six months ended 30 June 2003 as the pre-IPO share options had not met the pre-condition for their exercisabilty before the listing. Accordingly, the diluted earnings per share are equal to the basic earnings per share.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004	2003	**2004**	2003
Profit for the period (RMB'000)	**113,289**	82,220	**220,593**	139,565
Weighted average number of ordinary shares in issue (in thousand) (Note)	**1,329,738**	1,359,808	**1,295,109**	1,359,808
Adjustments for - share options (in thousand) (Note)	**10,306**	—	**5,154**	—
Weighted average number of ordinary shares for diluted earnings per share (in thousand)	**1,340,044**	1,359,808	**1,300,263**	1,359,808
Diluted earnings per share (RMB) (Note)	**0.085**	0.060	**0.170**	0.103

Note : All per share information has been adjusted retroactively as if the aggregate effect of the two share splits (mentioned in Note 12) had taken place at the beginning of 2003.

7 Fixed assets

	Unaudited RMB'000
Opening net book amount as at 1 January 2004	**80,139**
Additions	**45,351**
Disposals	**(7)**
Depreciation charge	**(12,185)**
Closing net book amount as at 30 June 2004	**113,298**

8 Accounts receivable

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
0 - 30 days	**94,317**	45,694
31 days - 60 days	**32,721**	31,573
61 days - 90 days	**8,339**	17,635
Over 90 days but less than a year	**6,479**	4,824
	141,856	99,726

No specific credit period was granted by the Group to its customers but customers were usually required to settle the outstanding balances within 30 to 90 days from the billing date. Substantially all the receivable balances as at the end of the period/year were due from China United Telecommunications Corporation and China Mobile Communications Corporation and their branches, subsidiaries and affiliates.

9 Prepayments, deposits and other receivables

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
VAT refund receivable (Note)	**25,212**	25,900
Rental deposits	**3,296**	2,293
Travelling advance to employees	**3,877**	1,989
Rental payments	**684**	1,671
Interest receivable	**417**	617
Other prepayments	**9,086**	3,402
	42,572	35,872

Note: These amounts represent the tax rebate on VAT paid by Tencent Technology in intragroup software sales transactions. According to a notice of the relevant government authorities in the PRC, Caishui 2000 No. 25, the portion of VAT paid in excess of 3% on software products developed and sold by an ordinary VAT payer would be immediately refunded by the tax bureau (the "Tax Rebate") in the form of a government grant. The Tax Rebate of RMB25,900,000 as at 31 December 2003 had been fully settled by the tax bureau to Tencent Technology as at 30 June 2004 and the directors of the Company are confident that there is no recoverability problem associated with the unsettled balance of the Tax Rebate of RMB25,212,000 as at 30 June 2004 arising from intragroup software sales made during the six months ended 30 June 2004.

10 Trade payables

Trade payables and their ageing analysis are as follows:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
0 - 30 days	**2,638**	—
31 days - 60 days	**1,094**	—
61 days - 90 days	**132**	—
	3,864	—

11 Other payables and accruals

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Staff costs and welfare accruals	**19,870**	21,661
Prepayments received from customers	**20,413**	18,836
Initial public offering expenses accruals and payables	**28,921**	—
Professional fees accruals	**943**	6,625
Others	**15,982**	12,179
	86,129	59,301

12 Share capital

The authorised share capital of the Company as at 1 January 2003 was 5,000,000 shares at US$0.01 (equivalent to RMB0.083) each. Pursuant to a resolution passed on 26 September 2003, the Company undertook a share split whereby each then issued ordinary share was split into 10.788 shares. The authorized share capital was then increased from 5,000,000 shares to 53,941,626 shares and the par value of each share was also altered from US$0.01 (equivalent to RMB0.083) each to no par value.

On 24 March 2004, the Company undertook another share split whereby each then issued ordinary share was split into 70 shares. The Board also resolved to increase the authorised share capital to 10,000,000,000 ordinary shares and a par value of HK$ 0.0001 was re-assigned to each share.

Movements in the issued share capital for the year ended 31 December 2003 and for the six months ended 30 June 2004 are as follows:

	Ordinary shares	
	Number of shares	**Amount RMB'000**
At 1 January 2003	1,800,688	149
At 30 June 2003	1,800,688	149
Shares cancelled during the year (Note (a))	(131,580)	(10)
Increase in number of shares upon share split (Note (b))	16,337,772	—
Shares cancelled after share split (Note (c))	(12)	(1)
At 31 December 2003/ 1 January 2004	18,006,868	138
Increase in number of shares upon share split (Note (d))	1,242,473,892	—
Shares issued during the period (Note (e))	420,160,500	45
At 30 June 2004	1,680,641,260	183

12 Share capital (Continued)

Notes:

(a) On 11 August 2003, the Company undertook a redemption of 131,580 ordinary shares in issue from certain of the then shareholders at a consideration of US$34.80 (equivalent to RMB287.69) each. All these redeemed shares were then cancelled.

(b) On 26 September 2003, the Company undertook a share split (the "First Share Split") whereby 1 then issued ordinary share was split into 10.788 shares. Accordingly, the number of issued shares was increased from 1,669,108 to 18,006,880 with the relative percentage of shareholding among the shareholders remained unchanged. The nominal value of the ordinary shares was also decreased from US$0.01 to no par value.

(c) On 30 September 2003, the Company undertook to redeem a total of 12 ordinary shares from the then existing shareholders at a consideration of US$3.23 (equivalent to RMB26.66) each. All these redeemed shares were then cancelled.

(d) On 24 March 2004, the Company undertook another share split (the "Second Share Split") whereby 1 then issued ordinary share was split into 70 shares, while the relative rights of each shareholder remained unchanged.

(e) On 16 June 2004, a total of 420,160,500 shares of HK$0.0001 per share were issued at HK$3.70 each and were fully paid up in form of cash. This issuance consisted of (1) a public offering of 210,080,000 shares in Hong Kong and (2) a placement of 210,080,500 shares to institutional investors outside Hong Kong and the United States in reliance on Regulation S under the Securities Act and those in the United States in reliance on Rule 144A or another exemption under the Securities Act.

13 Deferred income taxes

Deferred income taxes are calculated in respect of 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 movements of deferred taxation of the Group are as follows:

Deferred tax liabilities:

	Unaudited Six months ended 30 June 2004 RMB'000	Audited Year ended 31 December 2003 RMB'000
At beginning of period/year	**988**	3,058
Increase during the period/year	**—**	988
Reversal during the period/year	**(988)**	(3,058)
At end of period/year	**—**	988
The deferred tax liabilities were provided in respect of:		
Taxes applicable to the transfer of profits derived from Tencent Computer to the Company	**—**	988

The ending deferred taxation balances of the Group are as follows:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Deferred tax liabilities	**—**	988

13 Deferred income taxes (Continued)

Certain intra-group software sales were transacted during the year ended 31 December 2003 and the six months ended 30 June 2004. The cost of the software, upon obtaining an approval from the local tax bureau in the PRC, might be amortised as expenses over their contracted useful lives (the "Amortisation") for income tax deduction claims in ascertaining the assessable profits of Tencent Computer. These gave rise to a potential temporary difference between the accounting base (in the consolidated financial statements of the Group) and the tax base (in the company financial statements of Tencent Computer) in such intra-group transactions. The related potential deferred tax assets, estimated to be in the amount RMB63,286,000 and RMB36,491,000 respectively, had not been recognised in the condensed accounts as at 30 June 2004 and the consolidated financial statements as at 31 December 2003 because there was no reasonable certainty that Tencent Computer would obtain the approval from the local tax bureau in claiming the Amortisation as tax deductible expenses of Tencent Computer, and the accounting base of such temporary difference as at the end of the two reporting periods was assessed to be zero.

The Company did not have other unprovided deferred taxation as at 30 June 2004.

14 Commitments

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments being contracted but not provided for as at 31 December 2003 and 30 June 2004, respectively:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Acquisition of fixed assets:		
- Contracted but not provided for	**10,136**	7,043

14 Commitments (Continued)

(B) OPERATING LEASE COMMITMENTS

The Group had future aggregate minimum lease payments under non-cancelable operating leases in respect of buildings as at 31 December 2003 and 30 June 2004, respectively, as follows:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Not later than one year	**15,008**	13,533
Later than one year and not later than five years	**20,269**	28,740
	35,277	42,273

(C) OTHER COMMITMENTS

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Bandwidth leasing	**46,690**	66,111

15 Related parties transactions

Deposit in connection with the formation of Shiji Kaixuan

Pursuant to an agreement entered into among the Registered Shareholders and Tencent Technology on 16 December 2003, a sum of RMB11,000,000 was advanced by Tencent Technology to the Registered Shareholders for making capital contribution into Shiji Kaixuan. The Registered Shareholders granted an irrevocable and exclusive right to Tencent Technology, and through another person, to purchase all or part of the equity interests and assets of Shiji Kaixuan at a nominal consideration. Shiji Kaixuan was formally approved to be incorporated on 13 January 2004 by the relevant PRC authorities.

Except for the above related parties transaction, no other material related parties transactions occurred.

16 Share option plans

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

A. PRE-IPO SHARE OPTION SCHEME (THE "PRE-IPO OPTION SCHEME")

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

The total number of shares in respect of which options may be granted under the Pre-IPO Option Scheme is not permitted to exceed 7.5% of the shares in issue on the date the offer of the grant of an option is made. The number of ordinary shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme. Options granted must be taken up within 15 days of the date of grant, upon payment of RMB1 per grant.

The options will vest in four equal tranches after the expiration of a 12 months, 24 months, 36 months and 48 months' period beginning on the date of the grant, respectively. All the options are exercisable in installments from the commencement of the relevant vesting period until 31 December 2011, but on the condition that the Company has been listed in a sizeable securities market. In each grant of the options, the Board may at their discretion determine the specific vesting and exercise periods, as well as the exercise price.

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

16 Share option plans (Continued)

A. PRE-IPO SHARE OPTION SCHEME (THE "PRE-IPO OPTION SCHEME") (Continued)

The movements and details of the number of share options granted to employees up to 30 June 2004 under the Pre-IPO Option Scheme are shown as follows:

Date granted	Exercisable period	Exercise price USD (Note 1)	Number of share options: Balance at 1 January (Note 1)	Granted during the period (Note 1)	Cancelled during the period (Note 1)	Balance at 30 June (Note 1)
Six months ended 30 June 2004						
10 August 2001 (Note 2)	later of Commencement Date or IPO Date to 31 December 2011	0.0497	47,845,000	–	–	47,845,000
From 10 September 2001 to 14 December 2001 (Note 2)	later of Commencement Date or IPO Date to 31 December 2011	0.0497	7,261,100	–	–	7,261,100
From 10 March 2002 to 10 June 2002	later of Commencement Date or IPO Date to 31 December 2011	0.0497	6,982,500	–	–	6,982,500
From 10 February 2004 to 24 March 2004	later of Commencement Date or IPO Date to 31 December 2011	0.1967/ 0.4396	–	10,464,230	(166,460)	10,297,770
			62,088,600	10,464,230	(166,460)	72,386,370
Six months ended 30 June 2003						
10 August 2001 (Note 2)	later of Commencement Date and IPO Date to 31 December 2011	0.0497	47,845,000	–	–	47,845,000
From 10 September 2001 to 14 December 2001	later of Commencement Date and IPO Date to 31 December 2011	0.0497	7,733,600	–	–	7,733,600
From 10 March 2002 to 10 June 2002	later of Commencement Date and IPO Date to 31 December 2011	0.0497	6,982,500	–	–	6,982,500
			62,561,100	–	–	62,561,100

16 Share option plans (Continued)

A. PRE-IPO SHARE OPTION SCHEME (THE "PRE-IPO OPTION SCHEME") (Continued)

Note 1: The exercise price and the number of share options granted as at 30 June 2003 and 2004 have been adjusted retroactively as a result of the combined effect of the two option splits effectuated on 26 September 2003 and 24 March 2004 as if the splits had taken place on 10 August 2001.

Note 2: Pursuant to the Pre-IPO Option Scheme, the Company granted 47,845,000 options at a subscription price of US$0.0497 each, out of which a cash bonus will be paid by the Company to grantees holding in aggregate 17,745,000 of the options. The bonus will be determined according to half of the amount of the subscription price payable by such grantee upon the options are exercised.

B. POST-IPO SHARE OPTION SCHEME (THE "POST-IPO OPTION SCHEME")

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

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme, and under any other share option scheme of the Company (including the Pre-IPO Option Scheme), shall not exceed 10% of the relevant class of securities of the Company in issue as of the date of listing of the Company's ordinary shares. The option period is determined according to the Board but may not exceed 10 years.

The Post-IPO Option Scheme will remain in force for a period of ten years, commencing on the adoption date.

During the six months ended 30 June 2004, no options were granted under the Post-IPO Option Scheme.

17 Subsequent events

A. EXERCISE OF OVER-ALLOTMENT OPTION

On 8 July 2004, a total of 63,024,000 additional shares in the Company (the "Over-allotment Shares") were issued after the exercise of an over-allotment option in full by Goldman Sachs (Asia) L.L.C. on behalf of the International Purchasers, and the Company received additional gross proceeds of approximately RMB249 million from the issue of the Over-allotment Shares. Such proceeds may be used as additional working capital.

B. ESTABLISHMENT OF A SUBSIDIARY

On 7 July 2004, the Company established a subsidiary, Tencent Asset Management Limited, which was incorporated in the British Virgin Islands with a registered capital of US$100.

Independent Review Report

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

Introduction

We have been instructed by the Company to review the condensed interim accounts ("the interim accounts") set out on pages 1 to 28.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of the interim accounts to be in compliance with International Accounting Standard 34 "Interim financial reporting" issued by International Accounting Standards Board and the relevant provisions thereof. The interim accounts are the responsibility of, and have been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim accounts and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the interim accounts.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim accounts.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim accounts for the six months ended 30 June 2004.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 August 2004

Financial Performance – Comparison of Second Quarter 2004 with First Quarter 2004 and Second Quarter 2003

Our unaudited consolidated revenues for the three months ended 30 June 2004 were RMB270.5 million, an increase of 57.1% over the same period in 2003 and an increase of 5.0% quarter on quarter.

Revenues from our Internet value-added services were RMB99.9 million, representing an increase of 108.6% from the same period in 2003 and a decrease of 4.5% quarter on quarter.

Revenues from our mobile and telecommunications value-added services were RMB156.1 million, representing an increase of 35.6% from the same period in 2003 and an increase of 9.3% quarter on quarter.

Revenues from our online advertising were RMB12.8 million, representing an increase of 50.6% from the same period in 2003 and an increase of 56.4% quarter on quarter.

Cost of revenues was RMB100.2 million, representing an increase of 94.7% from the same period in 2003 and an increase of 14.6% quarter on quarter. As a percentage of revenues, cost of revenues accounted for 37.0% for the second quarter of 2004, compared to 29.9% for the second quarter of 2003 and 33.9% for the first quarter of 2004.

Selling and marketing expenses were RMB26.5 million, representing an increase of 141.2% from the same period in 2003 and an increase of 14.8% quarter on quarter.

General and administrative expenses were RMB28.3 million, representing an increase of 25.8% from the same period in 2003 and a decrease of 16.9% quarter on quarter.

Profit for the second quarter of 2004 was RMB113.3 million, representing an increase of 37.8% from the same period in 2003 and 5.6% from the first quarter of 2004. As a percentage of revenues, profit for the period accounted for 41.9% for the second quarter of 2004, compared to 47.8% for the same period in 2003 and 41.7% for the first quarter of 2004.

Operating Information

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

	For the 16-day period ended 31 March 2004	For the 15-day period ended 30 June 2004
	(In millions)	
Registered IM user accounts (at end of period)	291.3	330.8
Active user accounts	97.1	110.1
Peak simultaneous online user accounts (for the quarter)	6.1	6.4
Average daily user hours	64.7	78.0
Average daily messages(1)	848.8	936.9
Fee-based Internet value-added service registered subscriptions (at end of period)	7.3	6.9
Fee-based mobile and telecommunications value-added service registered subscriptions (at end of period)(2)	12.8	12.6

Notes:

(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 the Group or through mobile operators.

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004

The following table sets forth the comparative figures for the first quarter ended 31 March 2004 and second quarter ended 30 June 2004:

	Three months ended 30 June 2004 Unaudited RMB'000	Three months ended 31 March 2004 Audited RMB'000
Revenues	270,513	257,553
Cost of revenues	(100,159)	(87,368)
Gross profit	170,354	170,185
Other operating income, net	—	18
Selling and marketing expenses	(26,465)	(23,044)
General and administrative expenses	(28,310)	(34,074)
Profit from operations	115,579	113,085
Finance income, net	1,003	931
Profit before taxation	116,582	114,016
Taxation	(3,293)	(6,712)
Profit for the period	113,289	107,304

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004 (Continued)

Revenues. Revenues increased by 5.0% from RMB257.6 million for the first quarter of 2004 to RMB270.5 million for the second quarter of 2004. The following table sets forth our revenues by lines of business for the first and second quarters of 2004:

	Three months ended 31 March 2004		Three months ended 30 June 2004	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in thousands)			
Internet value-added services	104,586	40.6%	99,913	37.0%
Mobile and telecommunications value-added services	142,817	55.5	156,054	57.7
Online advertising	8,215	3.2	12,847	4.7
Others	1,935	0.7	1,699	0.6
Total revenues	257,553	100.0%	270,513	100.0%

Revenues from our Internet value-added services decreased by 4.5% from RMB104.6 million for the first quarter of 2004 to RMB99.9 million for the second quarter of 2004. The decrease reflected a slight decline in revenues from some of our IM services as a result of the "cleaning up" of inactive customer accounts undertaken by mobile operators, which in turn reduced the number of subscriptions for some of our services. Revenues from some of our community services and interactive entertainment, such as QQ Dating, also declined. These decreases in revenues were partially offset by growth in some of our newer products and services, such as QQ Show, E-Cards and online games.

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004 (Continued)

Revenues from our mobile and telecommunications value-added services increased by 9.3% from RMB142.8 million for the first quarter of 2004 to RMB156.1 million for the second quarter of 2004. The increase in revenues reflected the growth in revenues from mobile news and information content services and our music and picture/image downloading services, which began to gain popularity among our user base, and from mobile voice services and ringback tone downloading services (together referred to as "mobile voice value-added services"), both of which were launched in recent months. In addition, revenues from WAP, K-Java, BREW and MMS (together referred to as "2.5G-related services") increased due to the increased popularity of 2.5G services offered by mobile operators. Revenues from Mobile QQ subscriptions, however, declined in the second quarter of 2004 as a result of the "cleaning up" of inactive customer accounts undertaken by mobile operators.

Revenues from online advertising increased by 56.4% from RMB8.2 million for the first quarter of 2004 to RMB12.8 million for the second quarter of 2004. The improvement reflected an increase in our pricing terms and also greater marketing efforts relating to our online advertising business following the launch of the QQ.com portal. Moreover, there was a seasonal increase from the previous fiscal quarter.

Revenues from our other businesses decreased by 12.2% from RMB1.9 million for the first quarter of 2004 to RMB1.7 million for the second quarter of 2004. The decrease was mainly the result of a strategic reduction in our short-term fee charge for RTX in order to gain market share.

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004 (Continued)

Cost of revenues. Cost of revenues increased by 14.6% from the first quarter of 2004 to RMB100.2 million in the second quarter of 2004. The increase principally reflected the increase in the amount of telecommunications operators' revenue share and imbalance fees and bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased from 33.9% in the first quarter of 2004 to 37.0% in the second quarter of 2004. The following table sets forth our cost of revenues by lines of business for the first and second quarters of 2004:

	Three months ended 31 March 2004		Three months ended 30 June 2004	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands)			
Internet value-added services	32,687	31.3%	34,049	34.1%
Mobile and telecommunications value-added services	48,265	33.8	59,836	38.3
Online advertising	3,857	47.0	3,336	26.0
Others	2,559	132.2	2,938	172.9
Total cost of revenues	87,368		100,159	

Cost of revenues for our Internet value-added services increased by 4.2% from RMB32.7 million for the first quarter of 2004 to RMB34.0 million for the second quarter of 2004. The increase mainly reflected increased expenses associated with our bandwidth capacity and servers as we supported more bandwidth intensive services. In addition, we increased the amount paid for our QQ.com website content as we continued to expand those services. These increases were partially offset by a decrease in the amount of fees retained by mobile operators for their share of revenues as the amount of revenues collected through that channel decreased.

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004 (Continued)

Cost of revenues for our mobile and telecommunications value-added services increased by 24.0% from RMB48.3 million for the first quarter of 2004 to RMB59.8 million for the second quarter of 2004. The increase mainly reflected the increase in the amount of fees retained by mobile operators for their share of revenues and imbalance fees. In addition, the amount of imbalance fees grew due to the increased traffic imbalance as we undertook various promotional activities which involved the transmission of promotional messages to our subscribers.

Cost of revenues for our online advertising decreased by 13.5% from the first quarter of 2004 to RMB3.3 million for the second quarter of 2004. The decrease reflected the reduced rate of sales commissions as we gained leverage due to seasonality and our increased user base and as we became more selective with respect to the advertising agencies that we engaged to match the IM and QQ.com portal services that we offer.

Cost of revenues for our other businesses increased by 14.8% from the first quarter of 2004 to RMB2.9 million for the second quarter of 2004. The increase mainly reflected the higher cost of sales related to RTX.

Selling and marketing expenses. Selling and marketing expenses increased by 14.8% from the first quarter of 2004 to RMB26.5 million for the second quarter of 2004. The increase principally reflected additional promotional and advertising activities and related travel expenses relating to the launch and promotion of our new products and services.

General and administrative expenses. General and administrative expenses decreased by 16.9% from the first quarter of 2004 to RMB28.3 million for the second quarter of 2004. The decrease was mainly attributable to lower research and development expenses being incurred in the second quarter of 2004 compared to the previous fiscal quarter. In the first quarter of 2004, these expenses were relatively high because several project-specific research and development activities were undertaken in that quarter. In addition, advisory fees relating to our reorganization and initial public offering preparation were recorded as part of general and administrative expenses in the first quarter of 2004, but were offset against the proceeds from our initial public offering in the second quarter of 2004 as we became a publicly-held company before the end of June 2004.

Three Months Ended 30 June 2004 Compared to Three Months Ended 31 March 2004 (Continued)

Taxation. We recorded profit taxes of RMB3.3 million for the second quarter of 2004 compared to RMB6.7 million for the first quarter of 2004. The effective tax rate applicable for the second quarter of 2004 was lower than that for the first quarter of 2004 primarily due to the reversal of deferred tax liability as a result of our transfer of profits derived from Tencent Computer to Tencent Technology by implementing our structure contracts in the second quarter of 2004.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 5.6% from RMB107.3 million for the first quarter of 2004 to RMB113.3 million for the second quarter of 2004. As a percentage of revenues, profit for the period accounted for 41.7% for the first quarter of 2004 compared to 41.9% for the second quarter of 2004.

Six Months Ended 30 June 2004 Compared to Six Months Ended 30 June 2003

Revenues. Revenues increased RMB230.9 million, or 77.7% from RMB297.2 million for the six months ended 30 June 2003 to RMB528.1 million for the six months ended 30 June 2004, as a result of a significant increase in revenues from both Internet value-added services and mobile and telecommunications value-added services. The following table sets forth our revenues by lines of business for the six months ended 30 June 2003 and 2004:

	Six months ended 30 June			
	2003		**2004**	
	Amount	% of total revenues	**Amount**	**% of total revenues**
	(RMB in thousands)			
Internet value-added services	80,910	27.2%	**204,499**	**38.7%**
Mobile and telecommunications value-added services	199,383	67.1	**298,871**	**56.6**
Online advertising	15,347	5.2	**21,062**	**4.0**
Others	1,512	0.5	**3,634**	**0.7**
Total revenues	297,152	100.0%	**528,066**	**100.0%**

Six Months Ended 30 June 2004 Compared to Six Months Ended 30 June 2003 (Continued)

Revenues from our Internet value-added services increased RMB123.6 million, or 152.7%, from RMB80.9 million for the six months ended 30 June 2003 to RMB204.5 million for the six months ended 30 June 2004. The significant increase in revenues reflected the growth in our fee-based Internet value-added services from 5.4 million registered subscriptions as of 30 June 2003 to 6.9 million registered subscriptions as of 30 June 2004. Growth in our premium IM services, QQ Membership and QQ Xing, gained momentum in the second half of 2003 through various promotional activities. As our subscriber base grew, we were also able to increase revenues from our various community services and interactive entertainment, such as QQ Show for which we started charging fees in April 2003. The revenues from Internet value-added services for the six months ended 30 June 2004 also included several new products and services, such as E-Card and MMOG, for which we began charging fees subsequent to 30 June 2003.

Revenues from our mobile and telecommunications value-added services increased RMB99.5 million, or 49.9%, from RMB199.4 million for the six months ended 30 June 2003 to RMB298.9 million for the six months ended 30 June 2004. The increase in revenues reflected the growth in subscriptions for fee-based mobile and telecommunications value-added services provided directly by us or through mobile operators from 10.3 million registered subscriptions as of 30 June 2003 to 12.6 million registered subscriptions as of 30 June 2004. Revenues from 161 Mobile Chat, mobile news and information content services and our music and picture/image downloading services grew rapidly, while new revenues from newly launched services, such as mobile voice value-added services, contributed to the increased revenues. In addition, revenues from 2.5G-related services increased significantly due to the increased popularity of 2.5G services offered by mobile operators. Revenues from Mobile QQ subscriptions, however, declined in the six months ended 30 June 2004 compared to the same period of the previous year as a result of the "cleaning up" of inactive customer accounts undertaken by mobile operators.

Revenues from online advertising increased RMB5.8 million, or 37.2%, from RMB15.3 million for the six months ended 30 June 2003 to RMB21.1 million for the six months ended 30 June 2004. The increase in revenues reflected our growing customer base and our increased pricing, as our IM services and QQ.com portal attracted more users. Moreover, revenues from online advertising for the six months ended 30 June 2003 were negatively affected due to the outbreak of the SARS epidemic.

Six Months Ended 30 June 2004 Compared to Six Months Ended 30 June 2003 (Continued)

Revenues from our other businesses increased RMB2.1 million, or 140.3%, from RMB1.5 million for the six months ended 30 June 2003 to RMB3.6 million for the six months ended 30 June 2004. The increase mainly reflected sales of RTX which was commercially launched in September 2003.

Cost of revenues. Cost of revenues increased RMB99.7 million, or 113.6%, from RMB87.8 million in the six months ended 30 June 2003 to RMB187.5 million in the six months ended 30 June 2004. The increase principally reflected the increases in the amount of telecommunications operators' revenue share and imbalance fees, bandwidth and server custody fees and staff costs directly attributable to our services and products. As a percentage of revenues, cost of revenues increased from 29.5% in the six months ended 30 June 2003 to 35.5% in the six months ended 30 June 2004 mainly due to the increase in the amount of imbalance fees as a result of the increased traffic imbalance as we undertook various promotional activities which involved the transmission of promotional messages to our subscribers. Staff costs also increased faster than our revenues as we expanded our product and service offerings. The following table sets forth our cost of revenues by lines of business for the six months ended 30 June 2003 and 2004:

	Six months ended 30 June			
	2003		2004	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands)			
Internet value-added services	29,711	36.7%	66,736	32.6%
Mobile and telecommunications value-added services	53,763	27.0	108,101	36.2
Online advertising	4,034	26.3	7,193	34.2
Others	268	17.7	5,497	151.3
Total cost of revenues	87,776		187,527	

Six Months Ended 30 June 2004 Compared to Six Months Ended 30 June 2003 (Continued)

Cost of revenues for our Internet value-added services increased RMB37.0 million, or 124.6%, from RMB29.7 million for the six months ended 30 June 2003 to RMB66.7 million for the six months ended 30 June 2004. The amount of fees retained by mobile operators for their share of revenues increased as the fees collected through that channel continued to increase. In addition, as we expanded our subscriber base and as we offered an increasing variety of Internet value-added services, we had to increase the number of employees responsible for those services and also had to increase our bandwidth and server capacity.

Cost of revenues for our mobile and telecommunications value-added services increased RMB54.3 million, or 101.1% from RMB53.8 million for the six months ended 30 June 2003 to RMB108.1 million for the six months ended 30 June 2004. The increase mainly reflected the increase in the amount of fees retained by mobile operators for their share of revenues and imbalance fees. Imbalance fees grew as the traffic imbalance grew and as certain mobile operators increased the amount of imbalance fees. Staff costs also increased as we increased the number of staff to support our various new products and services.

Cost of revenues for our online advertising increased RMB3.2 million, or 78.3%, from RMB4.0 million for the six months ended 30 June 2003 to RMB7.2 million for the six months ended 30 June 2004. The increase mainly reflected the increased rate of sales commissions paid to advertising agencies as competition increased in order to obtain advertising contracts. In addition, as the technology employed for our online advertisements became more complex, we increased the number of development and technical staff and our bandwidth and server capacity.

Cost of revenues for our other businesses for the six months ended 30 June 2004 was RMB5.5 million compared to RMB0.3 million for the six months ended 30 June 2003. The increase mainly reflected the cost of sales, such as staff costs, related to RTX which was commercially launched in September 2003.

Six Months Ended 30 June 2004 Compared to Six Months Ended 30 June 2003 (Continued)

Selling and marketing expenses. Selling and marketing expenses increased RMB26.2 million, or 112.6%, from RMB23.3 million for the six months ended 30 June 2003 to RMB49.5 million for the six months ended 30 June 2004. The increase principally reflected increased promotional and advertising activities relating to the launch of and promotional efforts relating to several new products and new distribution channels, such as RTX, mobile voice value-added services and QQ Show. In addition, we incurred higher level of travel and entertainment costs relating to our marketing efforts as we participated in trade shows and exhibitions more actively.

General and administrative expenses. General and administrative expenses increased RMB23.2 million, or 59.3%, from RMB39.2 million for the six months ended 30 June 2003 to RMB62.4 million for the six months ended 30 June 2004. The increase primarily reflected the increase in research and development costs from RMB8.8 million for the six months ended 30 June 2003 to RMB20.7 million for the six months ended 30 June 2004 as a result of an increase in the number of research and development staff and technical personnel supporting our overall business. Staff cost also increased significantly as a result of a higher number of staff and salary increases. As a result of our Shenzhen office relocation in May 2004, we discontinued the high level of office maintenance expenses recorded at our previous office space.

Taxation. We recorded profit taxes of RMB10.0 million for the six months ended 30 June 2004 compared to RMB6.5 million for the six months ended 30 June 2003. The increase in profit taxes mainly reflected the increase in our profit before tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased RMB81.0 million, or 58.1%, from RMB139.6 million for the six months ended 30 June 2003 to RMB220.6 million for the six months ended 30 June 2004. As a percentage of revenues, profit for the period accounted for 47.0% for the six months ended 30 June 2003, compared to 41.8% for the six months ended 30 June 2004.

Liquidity and Financial Resources

On 16 June 2004, a total of 420,160,500 shares of HK$0.0001 per share were issued at HK$3.70 each and were fully paid up in form of cash. Our financial position significantly improved in the six months ended 30 June 2004 as we received proceeds of RMB1,656.7 million from such issuance.

As at 30 June 2004, we had cash and cash equivalents of RMB1,950.7 million, compared to RMB325.6 million as of 31 December 2003. We had no interest-bearing borrowings as of 30 June 2004.

As substantially all of our revenues and most of our expenses are denominated in Renminbi, we have not had any material foreign exchange gains or losses in connection with our operations. A portion of our cash, however, is held in deposits denominated in U.S. dollars and Hong Kong dollars. We have not used any forward contracts, currency borrowings or other means to hedge our exposure as we consider our foreign currency exchange risk to be minimal.

The Group had not created any charges on any of its principal assets as at 30 June 2004.

The Group did not have any significant contingent liabilities as at 30 June 2004.

Business Outlook

We will continue to develop and deliver new value-added communications, community entertainment and information-based services and products to enrich the experience of our users and generate new sources of revenues.

In our Internet value-added services, we have released a new version of QQ2004 IM software client, bundling value-added services, such as avatars, e-mail, music, on-line games, network file folder, browser and enterprise IM software RTX. We will gradually introduce a charging model for QQ games portal and launch more casual games and expand online music by providing a rich collection of song and music titles on QQ music channel. In our mobile and telecommunications value-added services, we will continue to develop new products and utilize content from QQ.com portal in pace with the migration to 2.5G platform. With the rapid growth of online advertising in China, we will also leverage our QQ.com portal to drive and tap future market growth.

In addition, we will seek to diversify our billing and collection channels and look for an enhancement in our existing payment channels.

We will continue to explore any strategic acquisition that is complementary to our existing business and can be integrated into our service platforms.

We are confident that with our large user community, our ability to deliver innovative services and products to our user base and our healthy financial position, the Company is on track to achieve its financial targets for the year.

Directors' Interests in Securities

As at 30 June 2004, 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 IN THE COMPANY

Name of Director	Nature of interest	Number of shares held	Percentage of issued share capital (Note 3)
Ma Huateng	Corporate (Note 1)	242,483,080	14.43%
Zhang Zhidong	Corporate (Note 2)	108,085,530	6.43%

Notes:

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

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

3 Without taking into account the issue of the Over-allotment Shares.

Directors' Interests in Securities (Continued)

(B) LONG POSITION IN THE SHARES IN ASSOCIATED CORPORATIONS

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Shenzhen Tencent Computer Systems Company Limited	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 2004.

Share Option Schemes

The Company has adopted two share option schemes, namely, the Pre-IPO Option Scheme and the Post-IPO 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 Option Scheme after 16 June 2004. Movements of the options under the Pre-IPO Option Scheme are detailed in Note 16 to the unaudited consolidated results of the Group for the three and six months ended 30 June 2004 as included in this interim report. As at 30 June 2004, there were no outstanding share options granted to the directors of the Company.

Substantial Shareholders

As at 30 June 2004, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long position in the shares in the Company

Name of shareholder	Nature of interest	Number of Shares	Percentage of issued share capital (Note 4)
MIH QQ (BVI) Limited	Corporate (Note 1)	630,240,380	37.50%
Advance Data Services Limited	Corporate (Note 2)	242,483,080	14.43%
Best Update International Limited	Corporate (Note 3)	108,085,530	6.43%

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 Without taking into account the issue of the Over-allotment Shares.

Saved 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 2004, 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 2004, the Group had 804 employees (2003:383), most of whom are based in the head office of the Group 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 social insurance 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 2004 was RMB65 million (2003: RMB28 million).

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Audit Committee of the Company, comprising two independent non-executive directors and one non-executive director, 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 2004 and endorses the accounting treatment adopted by the Company.

Adoption of Code of Conduct regarding Directors' Securities Transactions

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

Compliance with the Code of Best Practice

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June 2004 since its listing, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Appreciation

The dedication of the management and staff of the Group is an important ingredient necessary 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, 19 August 2004