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 2004

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 2004. 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, comprising a majority of independent non-executive directors of the Company.

Results

The Group's audited profit after tax for the year ended 31 December 2004 was RMB446.7 million, an increase of 38.6% compared with the results for the year ended 31 December 2003. Basic and diluted earnings per share for the year ended 31 December 2004 were RMB0.293 and RMB0.287 respectively.

Dividend

The Board has recommended the payment of a final dividend of HKD0.07 per share (2003: RMB0.023) for the year ended 31 December 2004, subject to the approval of the shareholders in the Annual General Meeting to be held on 27 April 2005. Such proposed dividend will be payable on 17 May 2005 to shareholders whose names appear on the register of members of the Company on 27 April 2005.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2004 *RMB'000*	2003 *RMB'000*
Revenues			
Mobile and telecommunications value-added services		641,190	467,369
Internet value-added services		439,041	229,690
Online advertising		54,801	32,841
Others		8,501	5,057
	2	1,143,533	734,957
Cost of revenues		(416,216)	(229,548)
Gross profit	2	727,317	505,409
Other operating income/(expenses), net	3	11,039	(1,226)
Selling and marketing expenses		(108,482)	(55,967)
General and administrative expenses		(170,050)	(112,011)
Profit from operations	3	459,824	336,205
Finance income, net		9,412	2,004
Profit before tax		469,236	338,209
Income tax expenses	4	(22,534)	(16,013)
Net profit		446,702	322,196
Earnings per share (expressed in RMB per share)			
- basic	6	0.293	0.244
- diluted	6	0.287	0.244

CONSOLIDATED BALANCE SHEET

	As at 31 December 2004 RMB'000	2003 RMB'000
ASSETS		
Non-current assets		
Fixed assets	142,080	80,139
Deposit in connection with the formation of a subsidiary	-	11,000
Held-to-maturity investments	167,374	-
	309,454	91,139
Current assets		
Accounts receivable	192,725	99,726
Amounts due from shareholders	-	82
Prepayments, deposits and other receivables	50,347	35,872
Trading investments	666,900	-
Term deposits with original maturities of over three months	784,054	23,311
Cash and cash equivalents	859,841	325,586
	2,553,867	484,577
Total assets	2,863,321	575,716
EQUITY		
Shareholders' equity		
Share capital	192	138
Share premium	1,777,721	15,261
Other reserves	874,325	456,558
Total shareholders' equity	2,652,238	471,957
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	-	988
Current liabilities		
Accounts payable	2,506	-
Other payables and accruals	79,912	59,301
Dividends payable	145	-
Current income tax liabilities	5,648	7,115
Other tax liabilities	59,650	32,679
Deferred revenue	63,222	3,676
	211,083	102,771
Total liabilities	211,083	103,759
Total equity and liabilities	2,863,321	575,716

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2003	149	53,105	144,696	197,950
Dividend relating to 2002	-	-	(10,334)	(10,334)
Net profit	-	-	322,196	322,196
Shares cancelled during the year	(10)	(37,844)	-	(37,854)
Shares cancelled after share split during the year	(1)	-	-	(1)
Balance at 31 December 2003/ 1 January 2004	138	15,261	456,558	471,957
Dividend relating to 2003	-	-	(28,935)	(28,935)
Net profit	-	-	446,702	446,702
Issue of shares in the IPO	52	1,905,195	-	1,905,247
Shares issuance expenses	-	(151,506)	-	(151,506)
Issue of shares - share options	2	8,771	-	8,773
Balance at 31 December 2004	192	1,777,721	874,325	2,652,238

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2004	2003
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities *(note a)*	(207,576)	352,409
Net cash used in investing activities	(995,156)	(23,888)
Net cash generated from/(used in) financing activities	1,736,987	(48,189)
Net increase in cash and cash equivalents	534,255	280,332
Cash and cash equivalents at beginning of year	325,586	45,254
Cash and cash equivalents at end of year	859,841	325,586

Note a: Cash outflow for acquisition of trading investments of approximately RMB663,112,000 has been included in the determination of the net cash used in operating activities for the year ended 31 December 2004.

1 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements 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 of Hong Kong Limited (the "Stock Exchange").

During the year, certain changes were introduced to IFRS which include IFRS3 "Business Combinations", IAS36 "Impairment of Assets" and IAS38 "Intangible Assets". These changes do not have any material impact on the financial statements of the Group in 2004.

2 SEGMENT INFORMATION

Business segments

Year ended 31 December 2004	**Mobile and telecommunications value-added services**	**Internet value-added services**	**Online advertising**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenues	641,190	439,041	54,801	8,501	1,143,533
Gross profit/(loss)	397,263	295,908	37,287	(3,141)	727,317
Other operating income, net					11,039
Selling and marketing expenses					(108,482)
General and administrative expenses					(170,050)
Profit from operations					459,824
Finance income, net					9,412
Profit before tax					469,236
Income tax expenses					(22,534)
Net profit					446,702
Segment assets	132,213	151,084	9,617	5,965	298,879
Unallocated assets					2,564,442
Total assets					2,863,321
Segment liabilities	9,614	76,666	982	3,078	90,340
Unallocated liabilities					120,743
Total liabilities					211,083
Other segment items					
Capital expenditure	13,510	43,968	1,799	2,914	62,191
Unallocated capital expenditure					28,345
Total capital expenditure					90,536
Depreciation	4,540	14,520	605	987	20,652
Unallocated depreciation					7,157
Total depreciation					27,809

Year ended 31 December 2003	Mobile and telecommunications value-added services	Internet value-added services	Online advertising	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenues	467,369	229,690	32,841	5,057	734,957
Gross profit	325,453	154,201	22,342	3,413	505,409
Other operating expenses, net					(1,226)
Selling and marketing expenses					(55,967)
General and administrative expenses					(112,011)
Profit from operations					336,205
Finance income, net					2,004
Profit before tax					338,209
Income tax expenses					(16,013)
Net profit					322,196
Segment assets	75,250	73,985	3,515	1,148	153,898
Unallocated assets					421,818
Total assets					575,716
Segment liabilities	3,527	3,052	405	447	7,431
Unallocated liabilities					96,328
Total liabilities					103,759
Other segment items					
Capital expenditure	8,769	25,725	676	937	36,107
Unallocated capital expenditure					23,352
Total capital expenditure					59,459
Depreciation	1,512	5,899	306	122	7,839
Unallocated depreciation					9,349
Total depreciation					17,188

3 PROFIT FROM OPERATIONS

The following items have been included in arriving at profit from operations:

	2004	**2003**
	RMB'000	*RMB'000*
Depreciation of fixed assets	27,809	17,188
(Profit)/loss on sale of fixed assets	(2)	983
Research and development expenses (note a)	55,129	26,010
Operating lease rentals in respect of office buildings (included in general and administrative expenses)	15,597	8,211
Auditors' remuneration	3,110	869
Staff costs	151,124	81,921
Government subsidies (included in other operating income) (note b)	7,233	-
Fair value gains on trading investments (included in other operating income)	3,788	-
Value-added tax paid upon transfer of software within the Group (included in general and administrative expenses)	12,243	5,550

Note a: Research and development expenses included staff costs and depreciation of approximately RMB43,330,000 for the year (2003: RMB21,933,000). The Group had not capitalised any of the research and development expenses for the year (2003: Nil).

Note b: During the year, Tencent Computer was granted financial subsidy (the "Subsidy") by the local ministry of finance in Shenzhen, the PRC. The Subsidy was granted as an incentive offered to that subsidiary for engaging in the Hi-tech software business.

4 TAX EXPENSES

(a) Income Tax

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

The Group is not subject to any taxation under these jurisdictions for the year (2003: 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 (2003: Nil).

(iii) *PRC Enterprise Income Tax*

PRC Enterprise Income Tax ("EIT") is provided on the assessable income of the Group for the year, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan") and Shidai Zhaoyang Technology (Shenzhen) Company Limited ("Shidai Zhaoyang") were established in the Shenzhen Special Economic Zone of the PRC where they conduct their operations. Accordingly, they are subject to EIT at a rate of 15%.

According to the provisions stipulated in the tax circular, Shendishuierhan 2002 No. 128, Tencent Computer is exempt from EIT for the one year commencing 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 year (2003: 7.5%).

Tencent Technology was approved by the 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 commencing 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 and 2004 were the first and second profit-making years of Tencent Technology, after offsetting all tax losses brought forward from prior years. Accordingly, no provision for EIT was made in the financial statements for the year (2003: Nil).

In addition, Shiji Kaixuan is exempt from EIT for two years starting from the first year of operations according to the provisions stipulated in the tax circular, Shenguoshuifu jianmian 2004 No. 0272. 2004 was the first year of operations of Shiji Kaixuan and accordingly, no provision for EIT had been made in the financial statements for the year.

Shidai Zhaoyang was incorporated in PRC and it had no assessable profits during the year.

An analysis of the income tax charges for the year is as follows:

	2004	2003
	RMB'000	*RMB'000*
PRC current tax	23,522	18,083
Deferred tax	(988)	(2,070)
	22,534	16,013

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:

	2004	2003
	RMB'000	*RMB'000*
Profit before tax	469,236	338,209
Tax calculated at a tax rate of 15% (2003: 15%)	70,386	50,731
Effects of different tax rates applicable to companies within the Group	(1,799)	(15,111)
Effects of tax holiday on assessable profit of subsidiaries	(111,556)	(56,003)
Income not subject to tax	–	(129)
Expenses not deductible for tax purposes	1,573	34
Deferred tax assets not recognised	61,596	36,491
Losses reported by companies within the Group not subject to tax	2,334	–
Tax charge	22,534	16,013

(b) **Value-added tax, Business tax and related taxes**

The operations of the Group are also subject to the following taxes in the PRC:

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

Note a: These three charges are recorded as a reduction against gross revenue.

Certain intragroup software sales have been transacted. The costs of the software purchased can be amortised as expenses over their contracted useful lives (the "Amortisation") for income tax deduction claims in ascertaining the assessable profits of Tencent Computer with the approval of the local tax bureau. These have given rise to a temporary difference between the accounting base and the tax base of the amounts of software sold in these transactions. As at 31 December 2004, the net book value of software recorded by Tencent Computer was RMB653,911,000 (2003: RMB271,118,000).

The related deferred tax assets, estimated to be in the amount RMB98,087,000 based on the enacted tax rate of enterprises based in Shenzhen at 15%, had not been recognised in the consolidated financial statements as at 31 December 2004 (2003: RMB36,491,000) because there was no reasonable certainty that Tencent Computer would obtain the approval from the local tax bureau.

5 DIVIDEND

Pursuant to a resolution passed by the board of directors on 17 March 2005, subject to the approval of the shareholders in the Annual General Meeting to be held on 27 April 2005, a final dividend for 2004 of HKD0.07 per share was proposed. Such proposed dividend has not been shown as an appropriation in these financial statements. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005.

The dividend declared in respect of the year ended 31 December 2003 (approved in 2004) and the year ended 31 December 2002 (approved in 2003) were USD3,500,000 (equivalent to approximately RMB28,935,000) and USD1,250,000 (equivalent to approximately RMB10,334,000), respectively.

6 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year.

	2004	**2003**
	RMB'000	*RMB'000*
Net profit	446,702	322,196
Weighted average number of ordinary shares in issue (thousands) (note a)	1,523,376	1,321,151
Basic earnings per share (RMB per share) (note a)	0.293	0.244

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

There were no potential dilutive instruments for 2003 as the Pre-IPO share options as stated in note 7 had not met the pre-condition for their exercisability before the IPO. Accordingly, the diluted earnings per share for 2003 is equal to the basic earnings per share.

	2004	**2003**
	RMB'000	*RMB'000*
Net profit	446,702	322,196
Weighted average number of ordinary shares in issue (thousands) (note a)	1,523,376	1,321,151
Adjustments for - share options (thousands)	30,652	–
Weighted average number of ordinary shares for diluted earnings per share (thousands) (note a)	1,554,028	1,321,151
Diluted earnings per share (RMB per share) (note a)	0.287	0.244

Note a: All per share information has been adjusted retroactively as if the aggregate effect of the two share splits undertaken in 2003 and 2004 had taken place at the beginning of 2003.

7 **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.

Options exercised in 2004 resulted in 21,239,150 shares being issued at USD0.0497 each. As at 31 December 2004, there were 50,406,917 options outstanding. No further options will be granted under the Pre-IPO Option Scheme.

(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.

As at 31 December 2004, there were 6,300,961 options outstanding. On 26 January and 3 February 2005, 16,006,530 options and 4,513,600 options were granted under the Post-IPO Option Scheme at exercise price of HKD4.485 and HKD4.8 each, respectively.

Financial Performance — Comparison of Fourth Quarter of 2004 with Third Quarter of 2004 and Fourth Quarter of 2003

Our unaudited consolidated revenues for the three months ended 31 December 2004 were RMB314.5 million, an increase of 35.7% over the same period in 2003 and an increase of 4.5% quarter on quarter.

Revenues from our Internet value-added services were RMB125.1 million, representing an increase of 60.1% from the same period in 2003 and an increase of 14.4% quarter on quarter.

Revenues from our mobile and telecommunications value-added services were RMB168.7 million, representing an increase of 18.6% from the same period in 2003 and a decrease of 2.9% quarter on quarter.

Revenues from our online advertising were RMB17.7 million, representing an increase of 81.5% from the same period in 2003 and an increase of 10.9% quarter on quarter.

Cost of revenues was RMB114.0 million, representing an increase of 52.5% from the same period in 2003 and a decrease of 0.5% quarter on quarter. As a percentage of revenues, cost of revenues accounted for 36.3% for the fourth quarter of 2004, compared to 32.3% for the same period in 2003 and 38.1% for the third quarter of 2004.

Other operating income was RMB9.6 million, increasing more than 100% compared to the same period in 2003 and on a quarter on quarter basis.

Selling and marketing expenses were RMB31.5 million, representing an increase of 80.7% from the same period in 2003 and an increase of 14.7% quarter on quarter.

General and administrative expenses were RMB58.0 million, representing an increase of 43.4% from the same period in 2003 and an increase of 16.9% quarter on quarter.

Profit for the fourth quarter of 2004 was RMB118.1 million, representing an increase of 25.0% from the same period in 2003 and an increase of 9.4% quarter on quarter. As a percentage of revenues, profit for the period accounted for 37.6% for the fourth quarter of 2004, compared to 40.8% for the fourth quarter of 2003 and 35.9% for the third quarter of 2004.

Operating Information

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

	For the 16-day period ended 31 December 2004	**For the 15-day period ended 30 September 2004**
	(in millions)	
Registered IM user accounts (at end of period)	369.7	355.3
Active user accounts	134.8	119.3
Peak simultaneous online user accounts (for the quarter)	9.4	7.3
Average daily user hours	114.6	79.2
Average daily messages[1]	1,580.2	1,210.7
Fee-based Internet value-added services registered subscriptions (at end of period)	8.3	6.9
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)[2]	8.8	12.5

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. Substantially all the decline in paying subscriptions was due to the discontinuation of the 161 Mobile Chat fee sharing arrangement at the end of December 2004.

Management's Discussion and Analysis

Fourth Quarter of 2004 Compared to Third Quarter of 2004

The following discussion covers the results of the two quarters ended 31 December 2004. The quarterly results, however, are not necessarily indicative of our results for the full year. You should read the following discussion together with the annual discussion below.

The following table sets forth the comparative figures for the fourth quarter ended 31 December 2004 and the third quarter ended 30 September 2004:

	Three months ended	
	31 December 2004	**30 September 2004**
	(Unaudited)	
	RMB'000	*RMB'000*
Revenues	314,481	300,986
Cost of revenues	(114,037)	(114,652)
Gross profit	200,444	186,334
Other operating income, net	9,564	1,457
Selling and marketing expenses	(31,501)	(27,472)
General and administrative expenses	(58,019)	(49,647)
Profit from operations	120,488	110,672
Finance income, net	4,053	3,425
Profit before tax	124,541	114,097
Income tax expenses	(6,407)	(6,122)
Net profit	118,134	107,975

Revenues. Revenues increased by 4.5% from RMB301.0 million for the third quarter of 2004 to RMB314.5 million for the fourth quarter of 2004. The following table sets forth our revenues by lines of business for the third quarter of 2004 and the fourth quarter of 2004:

	Three months ended			
	31 December 2004		30 September 2004	
	Amount	% of total revenues	Amount	% of total revenues
	RMB'000		*RMB'000*	
Internet value-added services	125,149	39.8%	109,393	36.4%
Mobile and telecommunications value-added services	168,664	53.6	173,655	57.7
Online advertising	17,744	5.6	15,995	5.3
Others	2,924	1.0	1,943	0.6
Total revenues	314,481	100.0%	300,986	100.0%

Revenues from our Internet value-added services increased by 14.4% from RMB109.4 million for the third quarter of 2004 to RMB125.1 million for the fourth quarter of 2004. The increase mainly reflected the healthy growth in our Internet value-added services, including the continuing success of avatars and the growth in our fairly new products and services, such as online games and "cyber hard disk" online data storing services. In addition, revenues from various newly launched products also contributed to our revenue growth. The increase was partially offset by a decrease in some of the more mature services, such as online dating and QQXing.

Revenues from our mobile and telecommunications value-added services decreased by 2.9%, from RMB173.7 million for the third quarter of 2004 to RMB168.7 million for the fourth quarter of 2004. The "cleaning up" of inactive customer accounts undertaken by mobile operators and the slowdown of mobile content industry in general negatively impacted our mobile IVR services, some of our mobile news and information content services and our music and picture/image downloading services. These decreases, however, were partially compensated by increased revenues from our ringback tones and mobile chat services.

Revenues from online advertising increased by 10.9%, from RMB16.0 million for the third quarter of 2004 to RMB17.7 million for the fourth quarter of 2004. The increase reflected the continued growth of our online advertising business offered through our IM platform and the QQ.com portal.

Cost of revenues. Cost of revenues decreased by 0.5%, from RMB114.7 million in the third quarter of 2004 to RMB114.0 million in the fourth quarter of 2004. The decrease principally reflected the decrease in the amount of telecommunications operators' revenue share and imbalance fees. Content subscription costs, however, increased as we offered richer content. Expenses associated with our bandwidth capacity and servers also increased as we supported more bandwidth intensive services. In addition, staff costs increased as we recruited additional staff to support our broader range of products and services. As a percentage of revenues, cost of revenues decreased from 38.1% in the third quarter of 2004 to 36.3% in the fourth quarter of 2004. The following table sets forth our cost of revenues by lines of business for the third quarter of 2004 and the fourth quarter of 2004:

	Three months ended			
	31 December 2004		**30 September 2004**	
	Amount	**% of segment revenues**	**Amount**	**% of segment revenues**
	RMB'000		*RMB'000*	
Internet value-added services	37,827	30.2%	38,570	35.3%
Mobile and telecommunications value-added services	68,144	40.4	67,682	39.0
Online advertising	5,216	29.4	5,105	31.9
Others	2,850	97.5	3,295	169.6
Total cost of revenues	114,037		114,652	

Cost of revenues for our Internet value-added services decreased by 1.9% from RMB38.6 million for the third quarter of 2004 to RMB37.8 million for the fourth quarter of 2004. The decrease mainly reflected the lower amount of fees paid to mobile operators for their share of revenues and imbalance fees as we gradually diversified some of our collection channels into non-mobile based channels and as we incurred smaller imbalance fees as the volume of traffic imbalance decreased. These decreases were partially offset by increased expenses associated with our bandwidth capacity and servers as we supported more bandwidth intensive services and increased staff costs as we recruited additional staff to develop and support our new products and services.

Cost of revenues for our mobile and telecommunications value-added services increased by 0.7% from RMB67.7 million for the third quarter of 2004 to RMB68.1 million for the fourth quarter of 2004. Content sharing costs and staff costs continued to increase as we offered a broader range of products. However, the amount of fees retained by mobile operators for their share of revenues and imbalance fees decreased due to smaller imbalance fees as the volume of traffic imbalance decreased.

Cost of revenues for our online advertising increased slightly by 2.2% from RMB5.1 million for the third quarter of 2004 to RMB5.2 million for the fourth quarter of 2004. Sales commission paid to advertising agencies increased mainly due to our increased online advertising business volume.

Other operating income/(expenses), net. We recorded other operating income of RMB9.6 million in the fourth quarter of 2004 relating to a financial subsidy of RMB7.2 million received from the local government and fair value gains on financial instruments of RMB2.4 million. The financial subsidy was granted to us as part of the local government's efforts to promote development of the high-tech software business.

Selling and marketing expenses. Selling and marketing expenses increased by 14.7% from RMB27.5 million for the third quarter of 2004 to RMB31.5 million for the fourth quarter of 2004. The increase principally reflected increased promotional and advertising activities relating to our broader products and services portfolio and the higher staff costs relating to our expanded marketing staff. As a percentage of revenues, selling and marketing expenses increased from 9.1% in the third quarter of 2004 to 10.0% in the fourth quarter of 2004.

General and administrative expenses. General and administrative expenses increased by 16.9% from RMB49.6 million for the third quarter of 2004 to RMB58.0 million for the fourth quarter of 2004. The increase was mainly attributable to increased research and development expenses as we increased our research and development staff with an emphasis on online gaming, web portal and IM functionalities. Staff cost also increased as we recruited heavily to support our future growth. As a percentage of revenues, general and administrative expenses increased from 16.5% in the third quarter of 2004 to 18.4% in the fourth quarter of 2004.

Taxation. We recorded profit taxes of RMB6.4million for the fourth quarter of 2004 compared to RMB6.1 million for the third quarter of 2004. The effective tax rate applicable for the fourth quarter of 2004 was 5.1%, only slightly lower than that for the third quarter of 2004.

Net profit. As a result of the factors discussed above, net profit increased by 9.4% from RMB108.0 million for the third quarter of 2004 to RMB118.1 million for the fourth quarter of 2004. Net margin for the period was 37.6% for the fourth quarter of 2004 compared to 35.9% for the third quarter of 2004.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

The following discussion covers the results for the two years ended 31 December 2004. Our results, however, fluctuate from quarter to quarter. You should read the following discussion together with the quarterly discussion above.

Revenues. Revenues increased by 55.6% from RMB735.0 million for the year ended 31 December 2003 to RMB1,143.5 million for the year ended 31 December 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 years ended 31 December 2003 and 2004:

	Years ended 31 December			
	2004		2003	
	Amount	% of total revenues	Amount	% of total revenues
	RMB'000		*RMB'000*	
Internet value-added services	439,041	38.4%	229,690	31.3%
Mobile and telecommunications value-added services	641,190	56.1	467,369	63.6
Online advertising	54,801	4.8	32,841	4.4
Others	8,501	0.7	5,057	0.7
Total revenues	1,143,533	100.0%	734,957	100.0%

Revenues from our Internet value-added services increased by 91.1% from RMB229.7 million for the year ended 31 December 2003 to RMB439.0 million for the year ended 31 December 2004. Revenues from our various community services and interactive entertainment, in particular avatars, increased as our user adoption grew. In addition, we continued to grow our membership subscriptions through various promotional activities. Several new products and services, particularly online games and "cyber hard disk", and the development of new fee collection channels also contributed to the increase in revenues from Internet value-added services.

Revenues from our mobile and telecommunications value-added services increased by 37.2% from RMB467.4 million for the year ended 31 December 2003 to RMB641.2 million for the year ended 31 December 2004. Although some of our mature products and services, such as Mobile QQ, were affected by the "cleaning up" of inactive customer accounts undertaken by mobile operators, revenues from mobile chat services and mobile content services continued to grow. In addition, revenues from newly launched services, such as mobile voice value-added services comprising ringback tones and mobile IVR, contributed to the increased revenues. Revenues from 2.5G-related services also increased significantly due to the increased popularity of 2.5G services offered by mobile operators.

Revenues from online advertising increased by 66.9% from RMB32.8 million for the year ended 31 December 2003 to RMB54.8 million for the year ended 31 December 2004. The increase in revenues reflected our growing customer base and our increased advertising generated by the QQ.com portal. Moreover, revenues from online advertising for the year ended 31 December 2003 were negatively affected due to the outbreak of the SARS epidemic.

Cost of revenues. Cost of revenues increased by 81.3% from RMB229.5 million for the year ended 31 December 2003 to RMB416.2 million for the year ended 31 December 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 31.2% in the year ended 31 December 2003 to 36.4% in the year ended 31

December 2004 mainly due to the increase in the amount of imbalance fees as a result of the increased volume of traffic imbalance. Staff costs also increased in advance of our revenues as we recruited additional staff to support our growing product and service offerings. The following table sets forth our cost of revenues by lines of business for the year ended 31 December 2003 and 2004:

	Years ended 31 December			
	2004		**2003**	
	Amount *RMB'000*	**% of segment revenues**	**Amount** *RMB'000*	**% of segment revenues**
Internet value-added services	143,133	32.6%	75,489	32.9%
Mobile and telecommunications value-added services	243,927	38.0	141,916	30.4
Online advertising	17,514	32.0	10,499	32.0
Others	11,642	136.9	1,644	32.5
Total cost of revenues	416,216		229,548	

Cost of revenues for our Internet value-added services increased by 89.6% from RMB75.5 million for the year ended 31 December 2003 to RMB143.1 million for the year ended 31 December 2004. The amount of fees retained by mobile operators for their share of revenues and imbalance fees increased as the fees collected through that channel increased for the full year. However, in the fourth quarter of 2004, these fees decreased as a result of a gradual diversification of some of our collection channels into non-mobile based channels and smaller imbalance fees as we reduced the traffic imbalance volume. As we offered an increasing variety of Internet value-added services in 2004, we had to increase our bandwidth and server capacity, content subscription and support staff.

Cost of revenues for our mobile and telecommunications value-added services increased by 71.9% from RMB141.9 million for the year ended 31 December 2003 to RMB243.9 million for the year ended 31 December 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. As we enriched our content offering, content subscription charges increased.

Cost of revenues for our online advertising increased by 66.8% from RMB10.5 million for the year ended 31 December 2003 to RMB17.5 million for the year ended 31 December 2004. The increase mainly reflected increased amount of sales commissions paid to advertising agencies and increased bandwidth charges as we increased the volume of advertising contracts.

Other operating income/(expenses), net. We recorded other operating income of RMB11.0 million for the year ended 31 December 2004 relating to a financial subsidy of RMB7.2 million received from the local government and fair value gains on financial instruments of RMB3.8 million. The financial subsidy was granted to us as part of the local government's efforts to promote development of the high-tech software business.

Selling and marketing expenses. Selling and marketing expenses increased by 93.8% from RMB56.0 million for the year ended 31 December 2003 to RMB108.5 million for the year ended 31 December 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 Vnet, E-sales and banks. For the year ended 31 December 2004, we increased our outsourcing as we expanded our customer support activities. 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 by 51.8% from RMB112.0 million for the year ended 31 December 2003 to RMB170.1 million for the year ended 31 December 2004. The increase primarily reflected the increase in research and development costs as a result of an increase in the number of research and development staff and technical personnel supporting our overall business, including in particular online gaming, web portal and IM functionalities. Staff cost also increased significantly as a result of a higher number of staff and increased salary. The increase in our office lease rental payments relating to our new Shenzhen headquarters was mostly offset by the reductions in office maintenance expenses incurred at our previous offices.

Finance income, net. Finance income, net increased by 369.7% from RMB2.0 million for the year ended 31 December 2003 to RMB9.4 million for the year ended 31 December 2004. The increase was mainly due to the interest income generated from depositing the cash proceeds from our initial public offering into interest-earning financial assets. Increases in interest rates in general that occurred in 2004 also contributed to the increase.

Taxation. We recorded profit taxes of RMB22.5 million for the year ended 31 December 2004 compared to RMB16.0 million for the year ended 31 December 2003. The increase in profit taxes mainly reflected the increase in our profit before tax. Starting from 2003, Tencent Technology has been selling software to Tencent Computer under our structural contracts. Upon obtaining a formal approval from the local tax bureau in the PRC, the cost of the software, which is amortised as expenses at Tencent Computer over its estimated contractual useful lives, will be allowed for income tax deduction claims in ascertaining the assessable profits of Tencent Computer. Accordingly, these intra-group arrangements have given rise to a potential temporary difference between the accounting base in our consolidated financial statements and the tax base in the financial statements of Tencent Computer. The related potential deferred tax assets, estimated to be in the amount RMB98.1 million as at 31 December 2004 based on the enacted 15% tax rate applicable to enterprises based in Shenzhen, have not been recognised in our consolidated financial statements because there is no reasonable certainty that Tencent Computer will obtain the necessary approval from the local tax bureau. Management has lodged an application with the relevant authorities in

2004, but there has not been any affirmative confirmation obtained. In addition, we are also actively seeking additional tax savings opportunities, and as part of such efforts, started the application process to reduce the enterprise income tax for Tencent Technology in the future.

Net profit. As a result of the factors discussed above, net profit increased by 38.6% from RMB322.2 million for the year ended 31 December 2003 to RMB446.7 million for the year ended 31 December 2004. Net margin was 39.1% for the year ended 31 December 2004 compared to 43.8% for the year ended 31 December 2003.

Liquidity and Financial Resources

We completed our initial public offering on the Stock Exchange in June 2004. In connection with the initial public offering, a total of 420,160,500 shares of HKD0.0001 per share were issued at HKD3.70 each and were fully paid up in the form of cash on 16 June 2004. In addition, on 8 July 2004, a total of 63,024,000 additional shares were issued at HKD3.70 each after the exercise of an over-allotment option in full and were fully paid up in the form of cash. Our financial position significantly improved in the year ended 31 December 2004 as we received gross proceeds of RMB1,905.2 million from the initial public offering.

As of 31 December 2004, we had cash and cash equivalents of RMB859.8 million compared to RMB325.6 million as of 31 December 2003. A large portion of our cash has been held in deposits and investments denominated in U.S. dollars. As we have not used any means to hedge our exposure to foreign exchange risk, 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 of 31 December 2004.

Business Outlook

We believe the Internet value-added service and mobile and telecommunications value-added service market in China offers exciting long-term opportunities for us. During 2004, the number of Internet and mobile users in China continued to grow. Despite the large user base, we believe the market is still at a nascent stage of development from a revenue generation perspective, and accordingly, the market is susceptible to short-term volatilities and uncertainties. For example, the mobile value-added services segment in China has seen a number of changes in 2004 that caused a negative impact to value-added service providers in general. However, we believe that as Chinese consumers become more affluent and more experienced in the Internet, and as new technology, applications and services are introduced, the strong secular growth trend in the Internet and mobile and telecommunications value-added service market will be intact over the long-term. We are committed to making investments in research and development, contents, servers and bandwidth as well as marketing to strengthen our leading position and prepare ourselves for the significant opportunities ahead of us.

In our core IM platform, we aim to continue to enrich the platform's functionalities to provide not only IM services, but also a whole range of value-added services to facilitate the interaction among our users and to provide entertainment to them. In the past year, we have strengthened our IM platform, as demonstrated in the rapid growth in both our active user accounts and peak simultaneous users, and we will continue to focus on this area.

In our Internet value-added services, we intend to continue to grow our QQ Membership service by offering additional functionalities, such as an expanded version of our mail service, as well as performing targeted marketing to increase its still very low penetration among our users. We intend to further enrich the product offerings of our avatar service, which has been a significant revenue growth driver for us in recent quarters. We also intend to further extend the leadership of our QQ Game Portal, and to monetize such leadership by increasing paid-subscriptions and game item purchases for the casual games. In addition, we plan to promote our advanced casual game, QQTang, aggressively and beta test our new MMOG in the next few months. We are targeting to generate new revenues from these games in the later part of 2005.

To further strengthen its email product offering, the Company agreed to acquire the developer of Foxmail, a leading email client software in China, in March 2005. The Company plans to leverage the technology and technical personnel acquired in the transaction to enhance its QQ email client, and to launch a compelling web mail service in future.

In our mobile and telecommunications value-added services, the termination of 161 Mobile Chat fee sharing arrangement with China Mobile will negatively impact our revenues from this segment starting from the first quarter of 2005. In addition, our MMS revenue will also see some pressure in the first quarter of 2005 becuase of the change in billing policy of that service. We will strive to lessen such negative impact by actively promoting our Mobile QQ and other existing services, enriching our 2.5G offerings and taking advantage of the growth potential of the PHS market.

In our online advertising business, we will continue to optimize our IM advertising to strike a better balance between growing advertising revenue and reducing disturbance to our IM users. We intend to attract more advertisers to QQ.com by developing more content targeted for various vertical industries, and strengthening its brand recognition as a premier destination portal for the young generation in China. We will also start advertising business in our QQ Game Portal. We expect to see strong growth in our online advertising business in 2005.

Other Information

Post Balance Sheet Event

There were no material subsequent events after 31 December 2004.

Employee and Remuneration Policies

As at 31 December 2004, the Group had 1,108 employees (2003: 614), 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 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 year ended 31 December 2004 was RMB 151.1 million (2003: RMB 81.9 million).

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

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Closure of Register of Members

The register of members will be closed from Thursday, 21 April 2005 to Wednesday, 27 April 2005 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 Annual General Meeting and to qualify for the proposed final 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, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00p.m. on Wednesday, 20 April 2005.

Corporate governance

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 2004.

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 year ended 31 December 2004 since listing, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Publication of the annual results and annual 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 and the Company (www.tencent.com) in due course.

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, 17 March 2005

As at the date of this announcement, the directors of the Company are:
Executive Directors: Ma Huateng 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of Tencent Holdings Limited (the "Company") will be held at Salon 4, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 27 April 2005, at 10:30 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2004.

2. To declare a final dividend.

3. To re-elect Directors and authorize the Board of Directors to fix the Directors' remuneration.

4. To re-appoint Auditors and authorize the Board of Directors to fix their remuneration.

As special business, to consider and if thought fit, to pass with or without modification the following Resolutions as Ordinary Resolutions:

5. "**That**:

   (a) subject to paragraph (c), a general mandate be and is hereby unconditionally granted to the Directors of the Company to exercise during the Relevant Period all the powers of the Company to allot, issue and dispose of additional shares in the Company and to make or grant offers, agreements, options or warrants which would or might require the exercise of such powers;

   (b) the mandate in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the mandate in paragraph (a), otherwise than pursuant to (i) a Rights Issue, or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iii) any scrip dividend or similar arrangement pursuant to the articles of association of the Company from time to time, shall not exceed twenty per cent (20%) of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution and the said mandate shall be limited accordingly;

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by law to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong)."

6. "**That**:

(a) a general mandate be and is hereby unconditionally granted to the Directors of the Company to exercise during the Relevant Period all the powers of the Company to purchase or otherwise acquire shares of HKD0.0001 each in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, provided that the aggregate nominal amount of shares so purchased or otherwise acquired shall not exceed ten per cent (10%) of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution;

(b) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by law to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

7. "**That**, conditional upon the passing of Resolutions 5 and 6 set out in the Notice convening this Meeting, the aggregate nominal amount of the shares which are purchased or otherwise acquired by the Company pursuant to Resolution 6 shall be added to the aggregate nominal amount of the shares which may be issued pursuant to Resolution 5."

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 17 March 2005

Notes:

1. The register of members will be closed from Thursday, 21 April 2005 to Wednesday, 27 April 2005, 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 Annual General Meeting and to qualify for the proposed final 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 Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 20 April 2005.

2. Any member entitled to attend and vote at the Annual General Meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint one, if he holds two or more shares, or more person(s) as his proxy or proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.

4. A circular containing further details regarding Resolutions 5 to 7 above is expected to be despatched to shareholders on or about 1 April 2005.

Please also refer to the published version of this announcement in The Standard.