

Tencent

騰訊

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 results for the three and nine months ended 30 September 2004

The Board of Directors of Tencent Holdings Limited (the “Company”) 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 nine months ended 30 September 2004, respectively. These 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 Statement of Auditing Standards 700 “Engagements to review interim reports” issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2004

	Note	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
		RMB'000	RMB'000	RMB'000	RMB'000
Revenues		300,986	206,057	829,050	503,209
Mobile and telecommunications value-added services		173,655	125,798	472,526	325,181
Internet value-added services		109,393	70,608	313,892	151,518
Online advertising		15,995	7,720	37,057	23,067
Others		1,943	1,931	5,577	3,443
Cost of revenues		(114,652)	(66,978)	(302,179)	(154,754)
Gross profit		186,334	139,079	526,873	348,455
Other operating income/(expense), net		—	35	18	(1,111)
Selling and marketing expenses		(27,472)	(15,255)	(76,981)	(38,538)
General and administrative expenses		(49,647)	(32,384)	(112,031)	(71,538)
Profit from operations	4	109,215	91,475	337,879	237,268
Finance income, net		3,425	1,196	5,359	1,433
Fair value gains	5	1,457	—	1,457	—
Profit before taxation		114,097	92,671	344,695	238,701
Taxation	6	(6,122)	(4,531)	(16,127)	(10,996)
Profit for the period		107,975	88,140	328,568	227,705
Earnings per share - basic (RMB)	8	0.062	0.067	0.228	0.170
- diluted (RMB)	8	0.060	0.067	0.224	0.170
Proposed Dividends	7	N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

	Unaudited 30 September 2004 RMB'000	Audited 31 December 2003 RMB'000
Assets		
Non-current assets		
Fixed assets	125,062	80,139
Deposit in connection with the formation of a subsidiary	—	11,000
Held-to-maturity investments	83,359	—
Other non-current assets	759	—
	209,180	91,139
Current assets		
Accounts receivable	193,673	99,726
Amounts due from shareholders	—	82
Prepayments, deposits and other receivables	62,641	35,872
Financial assets held for trading	666,257	—
Term deposits with initial term of over three months	723,406	23,311
Cash and cash equivalents	818,537	325,586
	2,464,514	484,577
Total assets	2,673,694	575,716
Equity and liabilities		
Current liabilities		
Accounts payable	2,261	—
Other payables and accruals	81,707	59,301
Dividends payable	145	—
Income taxes payable	6,880	7,115
Other taxes payable	20,400	32,679
Deferred revenue	33,837	3,676
	145,230	102,771
Non-current liabilities		
Deferred tax liabilities	—	988
Total liabilities	145,230	103,759
Shareholders' equity		
Share capital	191	138
Reserves	2,528,273	471,819
Total shareholders' equity	2,528,464	471,957
Total liabilities and shareholders' equity	2,673,694	575,716

NOTES

- 1 **Basis of preparation and presentation**
These unaudited consolidated condensed accounts of 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 of Hong Kong Limited (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.
- 2 **Accounting policies of financial assets**
The Group currently classifies its financial assets into the following categories: financial assets held for trading and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.
(a) *Financial assets held for trading*
Financial assets held for trading are acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.
(b) *Held-to-maturity investments*
Held-to-maturity investments are non-derivatives financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity.

Purchases and sales of investments are recognized on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets held for trading” category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial asset is impaired.

3 **Segment information**

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

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

	Unaudited Three months ended 30 September 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	173,655	109,393	15,995	1,943	300,986
Gross profit/(loss)	105,973	70,823	10,890	(1,352)	186,334
Selling and marketing expenses					(27,472)
General and administrative expenses					(49,647)
Profit from operations					109,215
Finance income, net					3,425
Fair value gains					1,457
Profit before taxation					114,097
Taxation					(6,122)
Profit for the period					107,975

	Unaudited Three months ended 30 September 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	125,798	70,608	7,720	1,931	206,057
Gross profit	84,787	48,543	4,524	1,225	139,079
Other operating income, net					35
Selling and marketing expenses					(15,255)
General and administrative expenses					(32,384)
Profit from operations					91,475
Finance income, net					1,196
Profit before taxation					92,671
Taxation					(4,531)
Profit for the period					88,140

	Unaudited Nine months ended 30 September 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	472,526	313,892	37,057	5,577	829,052
Gross profit/(loss)	296,743	208,586	24,759	(3,215)	526,873
Other operating income, net					18
Selling and marketing expenses					(76,981)
General and administrative expenses					(112,031)
Profit from operations					337,879
Finance income, net					5,359
Fair value gains					1,457
Profit before taxation					344,695
Taxation					(16,127)
Profit for the period					328,568

	Unaudited Nine months ended 30 September 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	325,181	151,518	23,067	3,443	503,209
Gross profit	230,407	99,742	15,837	2,469	348,455
Other operating expenses, net					(1,111)
Selling and marketing expenses					(38,538)
General and administrative expenses					(71,538)
Profit from operations					237,268
Finance income, net					1,433
Profit before taxation					238,701
Taxation					(10,996)
Profit for the period					227,705

4 **Profit from operations**

Profit from operations is stated after charging the following:

	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Staff costs	38,876	26,977	103,840	54,689
Value-added tax paid upon transfer of software within the Group	3,000	—	8,402	—
Depreciation of fixed assets	8,556	6,300	20,741	10,838
Operating lease rentals in respect of land and buildings	4,740	2,286	10,464	6,066
Research and development expenses (Note)	15,596	6,778	36,310	15,554
Auditors’ remuneration	623	—	1,510	574

Note: Research and development expenses included staff costs and depreciation of approximately RMB5,570,000, RMB13,825,000 for the three months ended 30 September 2003 and 2004; and RMB12,593,000 and RMB27,069,000 for the nine months ended 30 September 2003 and 2004, respectively. The Group had not capitalized any of research and development expenses for the periods.

	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets held for trading - Fair value gains (realised and unrealised)	1,457	—	1,457	—

- 6 **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 nine months ended 30 September 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 nine months ended 30 September 2003 and 2004, respectively.
(c) **PRC Enterprise Income Tax**
PRC Enterprise Income Tax (“EIT”) is provided on the assessable income of the Group for the three and nine months ended 30 September 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 nine months ended 30 September 2003 and 2004, respectively.

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, Shendishuierhan 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 nine months ended 30 September 2003 and 2004, respectively.

In addition, Shiji Kaixuan Technology Limited (“SKTL”), a subsidiary of the Group, is exempt from EIT for two years starting from the first year of operations according to the provisions stipulated in the tax circular, Shengguoshufu jianmian 2004 No. 0272 (the “SKTL Tax Holiday”). 2004 is the first year of operations of SKTL and accordingly, no provision for EIT had been made in the financial statements for the three and nine months ended 30 September 2004.

The other subsidiaries of the Group incorporated in the PRC had insignificant or no assessable profits during the three and nine months ended 30 September 2003 and 2004.

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

	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
PRC current tax	6,122	4,531	17,115	10,996
Deferred tax	—	—	(988)	—
	6,122	4,531	16,127	10,996

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 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	114,097	92,671	344,695	238,701
Tax calculated at a tax rate of 15%	17,114	13,901	51,704	35,806
Effects of different tax rates available to different companies of the Group	—	(3,745)	—	(15,744)
Effects of tax holiday on assessable income of companies within the Group	(27,014)	(6,587)	(79,272)	(13,019)
Expenses not deductible for tax purposes	288	—	870	—
Deferred tax assets not recognised	15,131	—	41,926	—
Unrecognised tax losses sustained by companies of the Group	603	962	899	3,953
Tax charge	6,122	4,531	16,127	10,996

- (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

	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
	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) 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 September 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 September 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 nine months ended 30 September 2004.

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

8. **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 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period (RMB'000)	107,975	88,140	328,568	227,705

Weighted average number of ordinary shares in issue (in thousand) (Note)
1,738,870 1,305,805 1,444,109 1,341,609

Basic earnings per share (RMB) (Note)
0.062 0.067 0.228 0.170

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 and Post-IPO share options granted to employees which remained outstanding as at 30 September 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.

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 nine months ended 30 September 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 nine months ended 30 September 2003 as the Pre-IPO share options had not met the pre-condition for their exercisability before the listing. Accordingly, the diluted earnings per share for the two periods are equal to the basic earnings per share.

	Unaudited Three months ended 30 September 2004		Unaudited Nine months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period (RMB'000)	107,975	88,140	328,568	227,705

Weighted average number of ordinary shares in issue (in thousand) (Note)
1,738,870 1,305,805 1,444,109 1,341,609

Weighted average number of ordinary shares for diluted earnings per share (in thousand)
1,799,946 1,305,805 1,468,037 1,341,609

Diluted earnings per share (RMB) (Note)
0.060 0.067 0.224 0.170

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

