Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)

腾讯网
QQ.com

2009

Annual Report
年報

smart communication inspires

智慧溝通 靈感無限

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

AUDIT COMMITTEE

Iain Ferguson Bruce *(Chairman)*
Ian Charles Stone
Charles St Leger Searle

REMUNERATION COMMITTEE

Antonie Andries Roux *(Chairman)*
Li Dong Sheng
Ian Charles Stone

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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Cayman Islands

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Shenzhen, 518057
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3002, 30th Floor
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Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 609
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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WEBSITE

www.tencent.com

STOCK CODE

700

FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenues	1,426,395	2,800,441	3,820,923	7,154,544	**12,439,960**
Gross profit	956,526	1,983,379	2,703,366	4,984,123	**8,550,492**
Profit before income tax	437,055	1,116,771	1,534,503	3,104,895	**6,040,731**
Profit for the year/total comprehensive income for the year	485,362	1,063,800	1,568,008	2,815,650	**5,221,611**
Profit attributable to equity holders of the Company	485,362	1,063,800	1,566,020	2,784,577	**5,155,646**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
			(Restated)		
Assets					
Non-current assets	763,495	916,138	2,090,312	3,359,696	**4,348,823**
Current assets	2,663,627	3,734,434	4,835,132	6,495,861	**13,156,942**
Total assets	3,427,122	4,650,572	6,925,444	9,855,557	**17,505,765**
Equity and liabilities					
Equity attributable to the Company's equity holders	2,928,413	3,717,756	5,170,396	7,020,926	**12,178,507**
Minority interests in equity	–	–	64,661	98,406	**120,146**
Total equity	2,928,413	3,717,756	5,235,057	7,119,332	**12,298,653**
Non-current liabilities	810	64,969	40,770	644,628	**644,033**
Current liabilities	497,899	867,847	1,649,617	2,091,597	**4,563,079**
Total liabilities	498,709	932,816	1,690,387	2,736,225	**5,207,112**
Total equity and liabilities	3,427,122	4,650,572	6,925,444	9,855,557	**17,505,765**

Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2009 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2009 was RMB5,155.6 million, an increase of 85.2% compared with the results for the year ended 31 December 2008. Basic and diluted earnings per share for the year ended 31 December 2009 were RMB2.862 and RMB2.791 respectively.

BUSINESS REVIEW AND OUTLOOK

The Internet market in China continued to expand rapidly in 2009. Total number of Internet users increased by 28.9% to 384 million at the end of the year, according to China Internet Network Information Center. At the end of 2009, Internet penetration stood at 28.9%, reaching global average, but was still lower than that in developed countries. After years of rapid growth in penetration, the growth rate of new users is poised to slow down over time. On the other hand, the usage of Internet is becoming more entrenched in users' everyday life. This is evidenced by the fact that the average time spent online per user has been growing. In addition, the Internet has increasingly become a major media for people in China to communicate and network, to seek entertainment and information as well as to conduct transactions. We believe the sector is well-poised to benefit from the secular growth of the Chinese economy in the long run.

CHAIRMAN'S STATEMENT

2009 was a year in flux for both the economy and the Internet industry in China. The overall economic environment was very challenging at the beginning of the year with the global financial crisis negatively impacting on investments and consumption. However, market conditions improved substantially later on, riding on the Chinese government's enormous stimulus package. For the Internet market, the year saw rapid development of the mobile Internet, catalysed by the reduction in traffic costs, increasing penetration of Internet-enabled mobile devices, and the launch of 3G mobile networks. At the end of 2009, total mobile Internet population in China increased significantly by 98.5% to 233 million. Such rapid growth has underpinned the rising adoption of different Internet applications on mobile, including WAP portal, IM, social networking service ("SNS") and games. Another significant development in the Internet market was the evolution and substantial growth of the SNS sector, mainly driven by the rising popularity of social gaming applications. SNS platforms have increasingly become an indispensable part of everyday life for Internet users. Meanwhile, the online gaming sector continued to expand, riding on the continued growth of MMOGs, advanced casual games and mini casual games, as well as the upsurge in web-based games. During the year, usage of online video also grew significantly, although rampant piracy hampered participation of established Internet companies like ourselves. For online advertising, the industry was impacted by the global financial crisis in the first half of the year as advertisers significantly reduced their spending in response to the economic downturn. This was followed by a gradual recovery in the second half of the year as market conditions improved.

As the Chinese Internet market continues to develop, we have witnessed users' increasing demand for better services, and more intensified competition from experienced and well-funded competitors. In order to maintain our position in this dynamic and highly competitive industry, we will continue to increase our investments in research and development, technological infrastructure, people development and branding in the coming years. In this process, we will incur significant costs and may even have to forgo certain revenues that interfere with user experience. However, we believe we ought to take a long-term perspective in building our business, and these investments will benefit the Company and our shareholders in the long run.

In the year of 2009, Tencent's diversified business portfolio delivered robust growth. Our Internet value-added services ("IVAS") grew significantly during the year, underpinned by the growth of our major online games and community value-added services. Our mobile and telecommunications value-added services ("MVAS") also registered solid increase in revenues on the back of the growth in our bundled SMS packages and mobile games. Despite the impact of the global financial crisis, our online advertising business registered above-industry growth as we continued to improve the key aspects of our business, including brand, content, sales organisation and technology platform. For the fourth quarter of 2009, our IVAS registered increase in revenues as our community value-added services, which were less sensitive to seasonal fluctuation, continued to grow. Despite weaker seasonality, revenues from our online gaming business were broadly stable compared to the previous quarter, primarily driven by the strong performance of Dungeon and Fighter ("DNF") and Cross Fire. Our MVAS enjoyed significant growth in revenues on the back of the continued increase in the user base of our bundled SMS packages. Mobile games and the recovery of realisation rates, which were particularly low in the third quarter, also contributed to the growth. Our online advertising business experienced decline in revenues in the fourth quarter. This mainly reflected the contraction of our search-based advertising business as we amended service contract with our partner and switched to our self-developed search engine. Advertising revenues from our IM client and portal increased with general improvement in macro environment as well as enhanced customer recognition of the effectiveness of our advertising platforms. Looking into the first quarter of 2010, we expect more favourable seasonality for our IVAS, particularly for our online games, as the winter break for students and the Chinese New Year holidays would enhance users' propensity to spend. For MVAS, revenues would be affected by the suspension of billing for WAP services by China Mobile since 30 November 2009 and the continued decline of legacy services, including content download, colour ringback tone and IVR. The regulatory measure implemented in early 2010, which limits one SMS service code to one product only, would also have a negative impact on the business. Our online advertising business would face a weaker season in the first quarter as advertising activities generally slow down around the Chinese New Year holidays.

IM Platform

Our core IM platform enjoyed continued growth during the year, thanks to the increasing popularity of SNS, which enhanced user activity and engagement through cross-platform integration. Usage of our IM service via client software installed on Internet-enabled mobile devices also contributed to the growth. Active users at the end of the year reached 522.9 million, representing a year-on-year growth of 38.8%. Peak concurrent users ("PCU") increased by 87.1% to 93.0 million in the fourth quarter. On 5 March 2010, we made a significant milestone as our PCU exceeded 100 million, marking a new page in the history of China's Internet market.

During the year, we continued to focus on enhancing our IM platform. QQ 2009, a new generation of our IM service, was successfully launched to enhance the overall user experience, and to allow us to better address different needs of our large user base. Its improved architecture also enables broader and deeper integration with other platforms of Tencent, enhancing user value and stickiness. Going forward, we will further enhance our services for different user segments with tailored functionalities based on the new architecture.

QQ.com

QQ.com continued to generate the highest traffic among portals in China. During the year, our brand image and awareness further improved as we stepped up our advertising and promotional activities, which include a major brand TV advertising campaign that ran from December 2009 to early 2010. We also focused on enhancing QQ.com's position as a leading mainstream media by strengthening the reporting of major events, such as the 60th anniversary of National Day, and enhancing the content quality of different channels. In 2010, we will leverage our sponsorship for the 2010 World Exposition in Shanghai as well as the coverage of other major events, such as the World Cup, to further enhance our brand position and media influence. We will also continue to improve our key vertical channels and achieve stronger integration with other platforms of Tencent.

Internet value-added services

For our community value-added services, Qzone registered robust growth during the year and further consolidated its position as the largest SNS platform in China, with active users increasing by 158.4% to 387.8 million at the end of 2009. The key drivers of the strong growth were the popularity of SNS applications, especially social games, as well as the continued improvements in user experience and features. Xiaoyou, a real-name SNS launched in January 2009, gained considerable traction during the year and has become a popular service among university students and young alumni. In 2010, we will focus on offering more SNS applications, including third-party applications, to enhance user value and better address the needs of different user groups in the market. We will also enhance the integration of our SNS with other platforms of Tencent to further extend our leadership. For QQ Membership, 2009 saw significant growth in user base as well as enhanced user loyalty and stickiness, mainly attributable to the bundling of more value-added functions as well as online and offline lifestyle privileges. However, further growth of QQ Membership will become more challenging with its large base and already high penetration among the QQ users. For QQ Show, revenues increased significantly during the year as we focused on promoting its fashionable appeal with the launch of different trendy themes and offline promotions, as well as improving user loyalty and stickiness through our subscription program. Seasonal volatility of the product also decreased as the bulk of the revenue was generated through monthly subscription as opposed to item-sale before. For QQ Pets, revenues declined during the year as we reduced monetisation to increase usage and to transform it into a multi-player community platform. We will re-position the product as a game targeting younger demographics, and expect the product to generate relatively little revenue going forward.

Our online game business posted remarkable growth in 2009. Since the second quarter of 2009, we have become the largest online game operator in China by revenue, demonstrating the strengths of our platforms, our diversified product portfolio as well as our execution capabilities. During the year, our major MMOGs and advanced casual games commanded strong market response and posted significant growth in users and revenues. DNF experienced significant growth during the year. In the fourth quarter of 2009, its PCU reached 2.2 million, making it one of China's top online games. Cross Fire became the first First Person Shooting ("FPS") game in the world achieving the 1 million PCU milestone. Its PCU further increased to 1.8 million in the fourth quarter. QQ Dancer also saw its PCU surpassing 1 million during the year. QQ Game, the largest mini-casual game portal in China, continued to register solid growth with its PCU growing to 6.2 million in the fourth quarter of 2009.

During 2009, we launched Silk Road Hero, a web-based MMOG, and Hero Island, a niche market MMOG, to address various segments in the online gaming market. At the beginning of 2010, we also introduced A.V.A., an advanced FPS game, to further enrich our game portfolio. As the online game industry begins to mature, we believe gamers will demand for increasingly high quality games, increasing the investment requirements and decreasing the success rates for new games. Amid this more challenging industry environment, we will continue to leverage our platforms and extensive operational experience to launch high quality games in different market segments via self-development, licensing and investments. Our preliminary pipeline for the rest of 2010 includes four MMOGs. We will also continue to develop new content and play modes for our existing games.

Mobile and telecommunications value-added services

Our MVAS business registered solid growth in 2009 with the continued organic growth of our bundled SMS packages and mobile games. During the year, traffic on our WAP portal registered significant growth, further consolidating our position as the leading wireless portal in China. We also continued to develop mobile applications based on our existing Internet platforms to address the different needs of mobile Internet users and capture the opportunities presented by the launch of 3G in China.

Despite the opportunities ahead, outlook of the MVAS sector in China remains uncertain as the industry value chain continues to evolve. The suspension of the billing for WAP services and additional regulatory measures implemented in early 2010 exemplified the challenging regulatory environment. We are also facing shrinking business volume for our legacy services and intensifying competition from new entrants in the market. Although we have been actively adjusting our business operations to mitigate the negative impact of these risk factors, it is important to recognise that our MVAS revenues for 2010 will continue to face low visibility and high volatility.

Online advertising

Our online advertising business faced a tough operating environment in 2009, particularly at the beginning of the year, as the global financial crisis severely affected market sentiment and advertising spending. Despite the challenges, we achieved above-industry revenue growth during the year, on the back of increased customer recognition of the effectiveness of our advertising platforms as well as our enhanced operations. Riding on our success among online gaming, food and beverage and apparel advertisers, we made good progress in other major advertiser sectors including automobile and finance.

During the year, we continued to focus on enhancing the overall competitiveness of our business. Our advertising platform has been significantly improved to offer more effective support to our sales teams in satisfying customer needs. We also stepped up our brand investments which have enhanced market recognition of the strengths of our Internet platforms among advertisers.

Looking into 2010, we will continue to focus on leveraging our integrated platforms as a key differentiator to broaden our advertiser base. Significant investments in our brand will also be made. In particular, we will ride on major events, including the 2010 World Exposition and World Cup, to enhance our brand image and media influence as well as to generate advertising opportunities. We will also continue to focus on improving the key aspects of our operations, including sales organisation and advertising platform. On the other hand, we expect to see relatively little revenue from our search business during the year as we have just switched to our self-developed search engine, and the near-to-mid-term priority for us will be on improving the user experience as opposed to generating revenue.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.40 per share (2008: final dividend of HKD0.25 per share and special dividend of HKD0.10 per share) for the year ended 31 December 2009, subject to the approval of the shareholders at the annual general meeting of the Company to be held on 12 May 2010. Such proposed dividend is expected to be payable on 26 May 2010 to shareholders whose names appear on the register of members of the Company on 12 May 2010.

APPRECIATION

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

Ma Huateng
Chairman

Hong Kong, 17 March 2010

OPERATING INFORMATION

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

	As at 31 December 2009	As at 30 September 2009	Percentage change
	(in millions)		
Active user accounts of IM	**522.9**	484.9	7.8%
Peak simultaneous online user accounts of IM (for the quarter)	**93.0**	75.5	23.2%
Average daily user hours of IM (for the last 15/16 days of the quarter)	**1,382.4**	1,202.2	15.0%
Active user accounts of Qzone	**387.8**	305.3	27.0%
Peak simultaneous online user accounts of QQ Game (for the quarter)	**6.2**	5.7	8.8%
Fee-based Internet value-added services registered subscriptions	**51.6**	47.9	7.7%
Fee-based mobile and telecommunications value-added services registered subscriptions	**20.3**	17.7	14.7%

Note: In light of the latest development of the Internet market and our business, we have revised the scope of disclosure of operating statistics to better reflect the performance of our different platforms and value-added services.

In the fourth quarter of 2009, the active user base of our IM platform continued to expand. There was a significant increase in user activity and engagement of our IM platform, as evidenced by the growth in peak simultaneous online user accounts and average daily user hours. This was primarily driven by the growing popularity of social networking service ("SNS") and the increasing usage of our IM service on mobile devices. The fourth quarter saw the expansion of the active user base of Qzone as our SNS applications grew. The peak simultaneous online user accounts of QQ Game also registered growth, on the back of improved user experience and introduction of new play modes for major games. Registered subscriptions to our Internet value-added services increased during the quarter, primarily driven by the growth in Qzone and QQ Show. The increase in registered subscriptions to our fee-based mobile and telecommunications value-added services was mainly attributable to our bundled SMS packages.

QQ游戏 QQGAME.QQ.COM

QQ空间 QZONE.QQ.COM

FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2009

Consolidated revenues for the year ended 31 December 2009 were RMB12,440.0 million, an increase of 73.9% from the year ended 31 December 2008.

Revenues from our Internet value-added services for the year ended 31 December 2009 were RMB9,530.7 million, an increase of 93.9% from the year ended 31 December 2008.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2009 were RMB1,905.6 million, an increase of 36.2% from the year ended 31 December 2008.

Revenues from our online advertising business for the year ended 31 December 2009 were RMB962.2 million, an increase of 16.5% from the year ended 31 December 2008.

Cost of revenues for the year ended 31 December 2009 were RMB3,889.5 million, an increase of 79.2% from the year ended 31 December 2008.

Selling and marketing expenses for the year ended 31 December 2009 were RMB581.5 million, an increase of 12.2% from the year ended 31 December 2008.

General and administrative expenses for the year ended 31 December 2009 were RMB2,026.3 million, an increase of 52.1% from the year ended 31 December 2008.

Operating profit for the year ended 31 December 2009 was RMB6,020.5 million, representing an increase of 85.5% over the year ended 31 December 2008. As a percentage of revenues, operating profit represented 48.4% for the year ended 31 December 2009, compared to 45.4% for the year ended 31 December 2008.

Profit for the year ended 31 December 2009 was RMB5,221.6 million, representing an increase of 85.4% from the year ended 31 December 2008. As a percentage of revenues, profit for the year represented 42.0% for the year ended 31 December 2009, compared to 39.4% for the year ended 31 December 2008.

Profit attributable to equity holders of the Company for the year ended 31 December 2009 was RMB5,155.6 million, representing an increase of 85.2% from the year ended 31 December 2008.

Fourth Quarter of 2009

Unaudited consolidated revenues for the fourth quarter of 2009 were RMB3,688.3 million, an increase of 75.9% over the same period in 2008 and an increase of 9.5% from the third quarter of 2009.

Revenues from our Internet value-added services for the fourth quarter of 2009 were RMB2,847.1 million, an increase of 92.6% over the same period in 2008 and an increase of 8.6% from the third quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2009 were RMB549.9 million, an increase of 37.5% over the same period in 2008 and an increase of 23.3% from the third quarter of 2009.

Revenues from our online advertising business for the fourth quarter of 2009 were RMB279.0 million, an increase of 33.1% over the same period in 2008 and a decrease of 5.0% from the third quarter of 2009.

Cost of revenues for the fourth quarter of 2009 were RMB1,144.9 million, an increase of 67.6% over the same period in 2008 and an increase of 11.8% from the third quarter of 2009.

Selling and marketing expenses for the fourth quarter of 2009 were RMB208.1 million, an increase of 41.3% over the same period in 2008 and an increase of 29.5% from the third quarter of 2009.

General and administrative expenses for the fourth quarter of 2009 were RMB572.9 million, an increase of 50.8% over the same period in 2008 and an increase of 5.5% from the third quarter of 2009.

Operating profit for the fourth quarter of 2009 was RMB1,776.7 million, representing an increase of 90.5% over the same period in 2008 and an increase of 5.7% from the third quarter of 2009. As a percentage of revenues, operating profit represented 48.2% for the fourth quarter of 2009, compared to 44.5% for the same period of 2008 and 49.9% for the third quarter of 2009.

Profit for the fourth quarter of 2009 was RMB1,533.1 million, representing an increase of 75.0% over the same period in 2008 and an increase of 7.0% from the third quarter of 2009. As a percentage of revenues, profit for the period represented 41.6% for the fourth quarter of 2009, compared to 41.8% for the same period of 2008 and 42.5% for the third quarter of 2009.

Profit attributable to equity holders of the Company for the fourth quarter of 2009 was RMB1,507.9 million, an increase of 73.5% over the same period in 2008 and an increase of 6.2% from the third quarter of 2009.

Fourth Quarter of 2009 Compared to Third Quarter of 2009

The following table sets forth the comparative figures for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited	
	Three months ended	
	31 December 2009	30 September 2009
	RMB'000	*RMB'000*
Revenues	**3,688,264**	3,368,908
Cost of revenues	**(1,144,855)**	(1,024,086)
Gross profit	**2,543,409**	2,344,822
Interest income	**41,116**	33,329
Other (losses)/gains, net	**(26,886)**	5,685
Selling and marketing expenses	**(208,105)**	(160,671)
General and administrative expenses	**(572,882)**	(542,818)
Operating profit	**1,776,652**	1,680,347
Finance costs	**(369)**	(1,179)
Share of profit of associates	**9,542**	3,840
Profit before income tax	**1,785,825**	1,683,008
Income tax expense	**(252,772)**	(249,808)
Profit for the period/total comprehensive income for the period	**1,533,053**	1,433,200
Attributable to:		
Equity holders of the Company	**1,507,945**	1,419,851
Minority interests	**25,108**	13,349
	1,533,053	1,433,200

Revenues. Revenues increased by 9.5% to RMB3,688.3 million for the fourth quarter of 2009 from RMB3,368.9 million for the third quarter of 2009. The following table sets forth our revenues by line of business for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited Three months ended			
	31 December 2009		30 September 2009	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,847,055**	**77.2%**	2,622,625	77.8%
Mobile and telecommunications value-added services	**549,899**	**14.9%**	446,152	13.3%
Online advertising	**279,006**	**7.6%**	293,558	8.7%
Others	**12,304**	**0.3%**	6,573	0.2%
Total revenues	**3,688,264**	**100.0%**	3,368,908	100.0%

– Revenues from our Internet value-added services increased by 8.6% to RMB2,847.1 million for the fourth quarter of 2009 from RMB2,622.6 million for the third quarter of 2009. Revenues from our community value-added services, which were less sensitive to seasonal fluctuation, grew by 18.1% to RMB1,292.1 million from RMB1,093.9 million for the previous quarter, with the growth in Qzone, QQ Membership and QQ Show partly offset by the decline in QQ Pets. Qzone registered significant growth during the quarter as a result of increased user engagement and monetisation driven by the popularity of SNS applications. Subscriber base of QQ Membership expanded, thanks to our ongoing enrichment of online and offline privileges which enhanced user loyalty and stickiness. Growth in revenues from QQ Show was attributable to the increase in monthly subscription, as well as improvement in customer loyalty driven by the launch of annual subscription package and our continued enhancements in user experience. QQ Pets experienced decline in revenues as we reduced monetisation to increase usage and to transform the product into a multi-player community platform. For our online gaming business, revenues increased by 1.7% to RMB1,555.0 million from RMB1,528.7 million for the previous quarter, despite weaker seasonality. This was primarily due to the increase in revenues from Dungeon and Fighter ("DNF") and Cross Fire as a result of the launch of upgrades and promotional activities. Silk Road Hero, a web-based MMOG launched in the third quarter, started to gain popularity and registered revenue growth as well. On the other hand, revenues from more mature MMOGs declined.

– Revenues from our mobile and telecommunications value-added services increased by 23.3% to RMB549.9 million for the fourth quarter of 2009 from RMB446.2 million for the third quarter of 2009. This was primarily driven by the growth in the user base of our bundled SMS packages resulting from the launch of privileges associated with our SNS applications as well as our continued enhancements in service features. The growth in mobile games and the recovery of realisation rates, which were particularly low in the third quarter of 2009, also contributed to the revenue increase. Revenues from our WAP business declined mainly attributable to the suspension of the billing for WAP services by China Mobile since 30 November 2009.

– Revenues from our online advertising business decreased by 5.0% to RMB279.0 million for the fourth quarter of 2009 from RMB293.6 million for the third quarter of 2009. This was attributable to the significant reduction in search-based advertising revenues as a result of the amended service contract with our partner and the transition into our self-developed search engine. Albeit weaker seasonality in the fourth quarter, advertising revenues from our IM client and portal increased by 2.8% on the back of the general improvement in macro environment and improved customer recognition of the effectiveness of our advertising platforms.

Cost of revenues. Cost of revenues increased by 11.8% to RMB1,144.9 million for the fourth quarter of 2009 from RMB1,024.1 million for the third quarter of 2009. This mainly reflected the increase in telecommunications operators' revenue share, sharing costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 31.0% for the fourth quarter of 2009 from 30.4% for the third quarter of 2009. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited Three months ended			
	31 December 2009		30 September 2009	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**834,649**	**29.3%**	744,797	28.4%
Mobile and telecommunications value-added services	**206,629**	**37.6%**	172,477	38.7%
Online advertising	**83,795**	**30.0%**	88,389	30.1%
Others	**19,782**	**160.8%**	18,423	280.3%
Total cost of revenues	**1,144,855**		1,024,086	

– Cost of revenues for our Internet value-added services increased by 12.1% to RMB834.6 million for the fourth quarter of 2009 from RMB744.8 million for the third quarter of 2009. This primarily reflected the increase in sharing costs driven by the revenue growth in our licensed games. Telecommunications operators' revenue share as well as bandwidth and server custody fees also increased along with the expansion of our business volume.

– Cost of revenues for our mobile and telecommunications value-added services increased by 19.8% to RMB206.6 million for the fourth quarter of 2009 from RMB172.5 million for the third quarter of 2009. The increase was mainly driven by higher telecommunications operators' revenue share due to the growth in revenues.

– Cost of revenues for our online advertising business decreased by 5.2% to RMB83.8 million for the fourth quarter of 2009 from RMB88.4 million for the third quarter of 2009. This mainly reflected the reduction in revenues.

Interest income. Interest income increased by 23.4% to RMB41.1 million for the fourth quarter of 2009 from RMB33.3 million for the third quarter of 2009. This was primarily driven by the growth in cash and term deposits.

Other (losses)/gains, net. We recorded other losses, net of RMB26.9 million for the fourth quarter of 2009 compared to other gains, net of RMB5.7 million for the third quarter of 2009. The change was primarily due to the donation of RMB30.0 million made to the Tencent Charity Fund during the fourth quarter, whereas no donation was made in the previous quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 29.5% to RMB208.1 million for the fourth quarter of 2009 from RMB160.7 million for the third quarter of 2009. The increase was mainly driven by the launch of a TV brand advertising campaign in December 2009 which aims to further enhance our brand recognition and image. As a percentage of revenues, selling and marketing expenses increased to 5.6% for the fourth quarter of 2009 from 4.8% for the third quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 5.5% to RMB572.9 million for the fourth quarter of 2009 from RMB542.8 million for the third quarter of 2009. This was primarily driven by the expansion of our research and development team for supporting the long-term growth of our business. Other administrative expenses also increased as our business scale expanded. As a percentage of revenues, general and administrative expenses decreased to 15.5% for the fourth quarter of 2009 from 16.1% for the third quarter of 2009.

Finance costs. Finance costs decreased by 68.7% to RMB0.4 million for the fourth quarter of 2009 from RMB1.2 million for the third quarter of 2009. This reflected lower foreign exchange losses associated with our US dollar-denominated cash and investments.

Income tax expense. Income tax expense increased by 1.2% to RMB252.8 million for the fourth quarter of 2009 from RMB249.8 million for the third quarter of 2009. This was principally driven by the increase in deferred tax liabilities recognised in respect of intra-group dividends expected to be paid by our PRC subsidiaries to their overseas parent companies, as well as higher profit before tax. The increase was largely offset by the reversal of income tax expenses as certain subsidiaries were qualified during the fourth quarter of 2009 to enjoy lower tax rates. In addition, certain donations made to the Tencent Charity Fund were qualified as tax deductible expenses. This also helped offset the increase in income tax expense.

Profit for the period. Profit for the period increased by 7.0% to RMB1,533.1 million for the fourth quarter of 2009 from RMB1,433.2 million for the third quarter of 2009. Net margin was 41.6% for the fourth quarter of 2009 compared to 42.5% for the third quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 6.2% to RMB1,507.9 million for the fourth quarter of 2009 from RMB1,419.9 million for the third quarter of 2009.

Year Ended 31 December 2009 Compared to Year Ended 31 December 2008

The following table sets forth the comparative figures for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Revenues	**12,439,960**	7,154,544
Cost of revenues	**(3,889,468)**	(2,170,421)
Gross profit	**8,550,492**	4,984,123
Interest income	**136,014**	105,216
Other (losses)/gains, net	**(58,213)**	6,989
Selling and marketing expenses	**(581,468)**	(518,147)
General and administrative expenses	**(2,026,347)**	(1,332,207)
Operating profit	**6,020,478**	3,245,974
Finance costs	**(1,953)**	(140,732)
Share of profit/(loss) of associates	**22,206**	(347)
Profit before income tax	**6,040,731**	3,104,895
Income tax expense	**(819,120)**	(289,245)
Profit for the year/total comprehensive income for the year	**5,221,611**	2,815,650
Attributable to:		
Equity holders of the Company	**5,155,646**	2,784,577
Minority interests	**65,965**	31,073
	5,221,611	2,815,650

Revenues. Revenues increased by 73.9% to RMB12,440.0 million for the year ended 31 December 2009 from RMB7,154.5 million for the year ended 31 December 2008. The following table sets forth our revenues by line of business for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December			
	2009		2008	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	9,530,711	76.6%	4,914,974	68.7%
Mobile and telecommunications value-added services	1,905,599	15.3%	1,398,984	19.6%
Online advertising	962,171	7.7%	826,049	11.5%
Others	41,479	0.4%	14,537	0.2%
Total revenues	12,439,960	100.0%	7,154,544	100.0%

– Revenues from our Internet value-added services increased by 93.9% to RMB9,530.7 million for the year ended 31 December 2009 from RMB4,915.0 million for the year ended 31 December 2008. Online gaming revenues grew by 131.5% to RMB5,385.4 million from RMB2,325.9 million for the previous year as the MMOGs and advanced casual games launched in 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, commanded strong market response. QQ Game also contributed to the growth on a year-on-year basis. The growth in online gaming revenues was partially offset by the decline in revenues from more mature MMOGs. Our community value-added services increased by 60.1% to RMB4,145.3 million from RMB2,589.1 million for the previous year, with the growth in Qzone, QQ Membership and QQ Show partly offset by the decline in QQ Pets. Increase in revenues from Qzone was stimulated by the launch of new SNS applications which enhanced user activity and engagement. User base of QQ Membership expanded on the back of improved user loyalty and stickiness due to the continued enhancements in value-added functions as well as online and offline privileges. Revenues from QQ Show benefited from the growth in monthly subscription as we focused on enhancing the fashionable appeal and user experience of the product. Revenues from QQ Pets declined as we reduced monetisation to increase usage and to transform the product into a multi-player community platform.

– Revenues from our mobile and telecommunications value-added services increased by 36.2% to RMB1,905.6 million for the year ended 31 December 2009 from RMB1,399.0 million for the year ended 31 December 2008. The increase was mainly driven by the growth in revenues from our bundled SMS packages as we improved the functionalities and privileges of our products and services. It also reflected growth in mobile gaming revenues as a result of the increasing popularity of mobile games and our continued content enrichment. Revenues from mobile SNS applications also increased, albeit from a low base. The increase was partly offset by the decline in revenues from legacy services, including content download, colour ringback tone and IVR.

– Revenues from our online advertising business increased by 16.5% to RMB962.2 million for the year ended 31 December 2009 from RMB826.0 million for the year ended 31 December 2008, despite the negative impact of the global economic slowdown on advertising spending in China. The increase mainly reflected the growth of our user base, the strengthening of our advertising platforms and sales organisation, as well as the enhancements in our brand position and media influence. Revenues from search-based advertising decreased significantly in the fourth quarter of 2009 as we amended the service contract with our partner and switched to our self-developed search engine.

Cost of revenues. Cost of revenues increased by 79.2% to RMB3,889.5 million for the year ended 31 December 2009 from RMB2,170.4 million for the year ended 31 December 2008. This primarily reflected increase in sharing costs, telecommunications operators' revenue share, staff costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased slightly to 31.3% for the year ended 31 December 2009 from 30.3% for the year ended 31 December 2008. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December			
	2009		2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,789,225**	**29.3%**	1,393,878	28.4%
Mobile and telecommunications value-added services	**727,747**	**38.2%**	514,669	36.8%
Online advertising	**297,608**	**30.9%**	211,889	25.7%
Others	**74,888**	**180.5%**	49,985	343.8%
Total cost of revenues	**3,889,468**		2,170,421	

– Cost of revenues for our Internet value-added services increased by 100.1% to RMB2,789.2 million for the year ended 31 December 2009 from RMB1,393.9 million for the year ended 31 December 2008. This mainly reflected growth in sharing costs due to the significant increase in revenues from our licensed games, including DNF and Cross Fire. Telecommunications operators' revenue share, bandwidth and server custody fees as well as staff costs also increased, driven by the growth of our business.

– Cost of revenues for our mobile and telecommunications value-added services increased by 41.4% to RMB727.7 million for the year ended 31 December 2009 from RMB514.7 million for the year ended 31 December 2008. This was primarily driven by the increase in telecommunications operators' revenue share and sharing costs as a result of revenue growth. Staff costs also increased as our business scale expanded.

– Cost of revenues for our online advertising business increased by 40.5% to RMB297.6 million for the year ended 31 December 2009 from RMB211.9 million for the year ended 31 December 2008. This primarily reflected the increase in sales commissions paid to advertising agencies and staff costs as a result of our business expansion.

Interest income. Interest income increased by 29.3% to RMB136.0 million for the year ended 31 December 2009 from RMB105.2 million for the year ended 31 December 2008. This was primarily due to the increased amount of cash and term deposits, partially offset by lowered interest rates.

Other (losses)/gains, net. We recorded other losses, net of RMB58.2 million for the year ended 31 December 2009, compared to other gains, net of RMB7.0 million for the year ended 31 December 2008. This mainly reflected the increase in donations made to the Tencent Charity Fund from RMB30.0 million for the year ended 31 December 2008 to RMB85.0 million for the year ended 31 December 2009, as well as the reduction in government subsidies. The decrease was partially offset by the increase in fair value gains on financial assets held for trading. In addition, we recognised an impairment loss of RMB18.7 million with respect to one of our investees and an impairment charge of RMB11.3 million for leasehold improvements in 2008. Such items were not repeated in 2009.

Selling and marketing expenses. Selling and marketing expenses increased by 12.2% to RMB581.5 million for the year ended 31 December 2009 from RMB518.1 million for year ended 31 December 2008. The increase was primarily driven by increased staff costs due to the hiring of additional selling and marketing personnel. Promotional and advertising spending also increased as we stepped up our brand advertising campaign during the year. Impact of the increase in spending on brand advertisement and promotion was partly offset by the expenses related to the reporting of Beijing Olympics in August 2008, which were not incurred in 2009. As a percentage of revenues, selling and marketing expenses decreased to 4.7% for the year ended 31 December 2009 from 7.2% for the year ended 31 December 2008.

General and administrative expenses. General and administrative expenses increased by 52.1% to RMB2,026.3 million for the year ended 31 December 2009 from RMB1,332.2 million for the year ended 31 December 2008. The increase mainly reflected increased staff costs as a result of the growth in the headcount of our research and development team and other supporting departments. As a percentage of revenues, general and administrative expenses decreased to 16.3% for the year ended 31 December 2009 from 18.6% for the year ended 31 December 2008.

Finance costs. Finance costs decreased by 98.6% to RMB2.0 million for the year ended 31 December 2009 from RMB140.7 million for the year ended 31 December 2008. This was mainly due to the significant reduction in foreign exchange losses attributable to our US dollar-denominated cash and investments.

Income tax expense. We recorded income tax expense of RMB819.1 million for the year ended 31 December 2009 compared to RMB289.2 million for the year ended 31 December 2008. The change primarily reflected the growth in profit before tax as well as the increase in deferred tax liabilities recognised relating to intra-group dividends expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the year. Profit for the year increased by 85.4% to RMB5,221.6 million for the year ended 31 December 2009 from RMB2,815.7 million for the year ended 31 December 2008. Net margin was 42.0% for the year ended 31 December 2009 compared to 39.4% for the year ended 31 December 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 85.2% to RMB5,155.6 million for the year ended 31 December 2009 from RMB2,784.6 million for the year ended 31 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009 and 30 September 2009, we had the following major financial resources in the form of cash and investments:

	Audited 31 December 2009	Unaudited 30 September 2009
	RMB'000	*RMB'000*
Cash and cash equivalents	**6,043,696**	5,159,322
Term deposits with initial term of over three months	**5,310,168**	4,115,240
Held-to-maturity investments	**341,410**	341,450
Total	**11,695,274**	9,616,012

Note: The above table excludes RMB200.0 million of restricted deposits pledged as part of a USD29.8 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amount at the maturity of the loan.

As at 31 December 2009, RMB1,089.7 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the fluctuation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no other interest-bearing borrowings as at 31 December 2009.

CAPITAL EXPENDITURES

For the year ended 31 December 2009, our capital expenditures consisted of additions to fixed assets, investment properties, construction in progress, leasehold land and land user rights and intangible assets totalling RMB1,026.5 million. For the year ended 31 December 2008, our capital expenditures consisted of similar items totalling RMB1,448.9 million.

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 11 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 61 of this annual report.

The directors have recommended the payment of a final dividend of HKD0.40 per share for the year ended 31 December 2009. The dividend is expected to be payable on 26 May 2010 to shareholders whose names appear on the Register of Members of the Company on 12 May 2010. The total dividend for the year under review is HKD0.40 per share.

RESERVES

The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2009, the Company had distributable reserves amounting to RMB1,801.9 million (2008: RMB1,539.1 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 20 and Note 21 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 20 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2009 are set out in Note 11 to the consolidated financial statements.

BANK LOANS

Particulars of the Group's bank borrowing is set out in Note 26 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3.

USE OF PROCEEDS

The application of the proceeds from the initial public offering does not materially change from the possible allocation outlined in the prospectus of the Company dated 7 June 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased 1,922,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate consideration of approximately HKD84.4 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the board of directors of the Company ("the Board") for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

		Purchase consideration per share		Aggregate
Month of purchase in 2009	**No. of shares purchased**	**Highest price paid**	**Lowest price paid**	**consideration paid**
		HKD	*HKD*	*HKD*
January	1,822,000	45.80	41.50	79,706,000
February	100,000	47.00	45.80	4,644,000
Total	1,922,000			84,350,000

Save as disclosed above and in Note 22 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Share Option Scheme (the "Pre-IPO Option Scheme"), the Post-IPO Share Option Scheme (the "Post-IPO Option Scheme I") , the Share Option Scheme adopted on 16 May 2007 (the "Post-IPO Option Scheme II") and the Share Option Scheme adopted on 13 May 2009 (the "Post-IPO Option Scheme III"). No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

As at 31 December 2009, there were a total of 10,443,600 outstanding share options granted to the directors of the Company, details of which are as follows:

			Number of shares issuable under the options				
Name of director	Date of grant	Exercise price (HKD)	As at 1 January 2009	Granted during the year	Exercised during the year	As at 31 December 2009	Exercise period
Lau Chi Ping Martin	3 February 2005	4.8	2,103,600	—	1,400,000	703,600	3 February 2006 to 23 March 2014 *(Note 1)*
	20 December 2005	8.35	2,000,000	—	—	2,000,000	20 December 2006 to 23 March 2014 *(Note 1)*
	23 March 2006	11.55	1,500,000	—	—	1,500,000	23 March 2007 to 23 March 2014 *(Note 1)*
	4 April 2007	25.26	1,000,000	—	—	1,000,000	4 April 2008 to 23 March 2014 (Note 2)
	5 July 2007	33.05	2,000,000	—	—	2,000,000	5 July 2009 to 4 July 2014 *(Note 3)*
	5 July 2007	33.05	3,000,000	—	—	3,000,000	5 July 2010 to 4 July 2014 *(Note 4)*
		Total:	11,603,600	—	1,400,000	10,203,600	
Li Dong Sheng	4 April 2007	25.26	100,000	—	—	100,000	4 April 2008 to 23 March 2014 *(Note 2)*
Iain Ferguson Bruce	4 April 2007	25.26	100,000	—	20,000	80,000	4 April 2008 to 23 March 2014 *(Note 2)*
Ian Charles Stone	4 April 2007	25.26	100,000	—	40,000	60,000	4 April 2008 to 23 March 2014 *(Note 2)*
		Grand Total:	11,903,600	—	1,460,000	10,443,600	

Notes:

1. For options granted with exercisable date determined based on the grant date of options, the first 25% of the option can be exercised one year after the grant date, and 25% each of the total options will become exercisable in each subsequent year.

2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised one year after the grant date, and 20% each of the total options will become exercisable in each subsequent year.

3. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised two years after the grant date, and 20% each of the total options will become exercisable in each subsequent year.

4. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised three years after the grant date, and then 20% each of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

5. The weighted average closing prices immediately before the dates on which the options were exercised by each of the directors were as follows:

Name of director	Weighted average closing price (HKD)
Lau Chi Ping Martin	99.93
Iain Ferguson Bruce	122.30
Ian Charles Stone	115.10

6. No option was granted, cancelled/lapsed during the period.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
1.	Purposes	To recognise the contribution that certain individuals have made to the Group, to attract the best available personnel and to promote the success of the Group's business			
2.	Qualifying participants	Any eligible employee, including executive directors of the Company	Any employee, consultant or director of any company within the Group	Any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, have contributed or will contribute to the growth and development of the Group or any invested entity	Any senior executives or senior officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity and any consultant, adviser or agent of any member of the Board, have contributed or will contribute to the growth and development of the Group or any invested entity

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 88,903,654 shares, 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued share capital from time to time *(Note)*.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall be 36,018,666 shares, 2% of the relevant class of securities of the Company in issue as at 13 May 2009. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme III and any other share option scheme(s), including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II, must not in aggregate exceed 30% of issued share capital from time to time *(Note)*.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
4.	Maximum entitlement of each participant	The number of ordinary shares in respect of which options may be granted is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	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. The Board may at their discretion determine the specific vesting and exercise periods.	The option period is determined according to the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the option.	The option period is determined according to the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined according to the Board provided that it is not later than the last day of the 10-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.
6.	Acceptance of offer	Options granted must be taken up within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 per grant.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
7.	Subscription price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
8.	Remaining life of the scheme	It will expire on 31 December 2011.	It will remain in force for a period of ten years, commencing on 24 March 2004.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.

Note: The total number of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III is 90,892,657, which is approximately 4.99% of the issued share capital as at the date of the annual report.

MOVEMENTS OF THE SHARE OPTIONS

Details of the movements in the share options during the year are set out in Note 22 to the consolidated financial statements.

VALUATION OF THE SHARE OPTIONS

Details of the valuation of share option during the year are set out in Note 22 to the consolidated financial statements.

SHARE AWARD SCHEME

On 13 December 2007 ("Adoption Date"), the Board adopted the Share Award Scheme (the "Scheme") in which eligible persons (including any director) of the Group will be entitled to participate. The term of the Scheme was amended from 10 to 15 years by shareholders of the Company at the extraordinary general meeting held on 13 May 2009. Unless early terminated by the Board, the Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date. The maximum numbers of shares which can be awarded under the Scheme and to an awarded person are limited to two percent (i.e. 35,755,232 shares) and one percent (i.e. 17,877,616 shares) of the issued share capital of the Company as at the Adoption Date respectively. The Board amended the definition of excluded person in the Scheme on 31 January 2008 so that substantial shareholders of the Group will be allowed to join the Scheme.

Pursuant to the Scheme, the Board shall select the eligible persons for participation in the Scheme and determine the number of shares to be awarded ("Awarded Shares"). Shares will be acquired by the independent trustee at the cost of the Company or shares will be allotted to the independent trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time and be held in trust for the awarded persons, excluding the directors and substantial shareholders of the Group, until the end of each vesting period. Vested shares will be transferred at no cost to the awarded persons. The Company shall comply with the relevant Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") when granting the Awarded Shares.

If awards are made to directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the awarded person satisfying all vesting conditions specified by the Board at the time of making the award until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the trustee.

During the year, a total of 9,194,350 Awarded Shares were granted and no Awarded Shares was granted to the directors of the Company. Details of the movements in the Scheme during the year are set out in Note 22 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

In accordance with Article 87 of the articles of association of the Company ("Articles of Association"), Messrs Zhang Zhidong and Charles St Leger Searle will retire at the Annual General Meeting ("AGM") of the Company to be held on 12 May 2010 and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and we consider them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ma Huateng, age 38, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a member of the 4th Shenzhen Municipal People's Congress. Mr Ma has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and more than 15 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which has interest in the shares of the Company.

Lau Chi Ping Martin, age 36, is an executive director with effect from 21 March 2007. Mr Lau was appointed as the President of the Company in February 2006 to assist Mr Ma Huateng, Chairman of the Board and Chief Executive Officer, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investment, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an Executive Director at Goldman Sachs (Asia) L.L.C's investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. He has over 13 years' experience in IPO, merger and acquisitions and management consulting. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange.

Zhang Zhidong, age 38, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 13 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which has interest in the shares of the Company.

Antonie Andries Roux, age 51, has been a non-executive director since 10 December 2002. Mr Roux is currently Chief Executive Officer of Internet Operations for the MIH group companies, a position he has held since 2002. Mr Roux joined the Naspers group in 1979 and was a founding member of M-Net in 1985. In 1997, he was appointed Chief Executive Officer of M-Web South Africa. Currently, Mr Roux serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Roux has more than 31 years of experience in the telecommunications industry.

Charles St Leger Searle, age 46, has been a non-executive director since 5 June 2001. Mr Searle is currently the Chief Investment Officer of MIH Internet group companies. Prior to joining the MIH group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 16 years of experience in the telecommunications and Internet industries.

Li Dong Sheng, age 53, has been an independent non-executive director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in Radio Technology and has more than 15 years of experience in the information technology field.

Iain Ferguson Bruce, age 69, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 45 years' experience in the accounting profession. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. Mr Bruce is currently an independent non-executive director of Paul Y. Engineering Group Limited, a construction and engineering services company, Sands China Limited, an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed companies in Hong Kong. Mr Bruce is also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed in Singapore, of China Medical Technologies, Inc., a China-based medical device company that is listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce is a steward of The Hong Kong Jockey Club, an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited.

Ian Charles Stone, age 59, has been an independent non-executive director since April 2004. Mr Stone is currently the Managing Director of International Projects for PCCW Limited. Mr Stone has more than 39 years of experience in the telecom and mobile industries. He was the Chief Executive Officer of SmarTone between 1999 and 2001. Prior to joining SmarTone, he was Senior Adviser to First Pacific/PLDT of the First Pacific Group, Chief Operations Officer of Piltel, Managing Director of Pacific Link and Executive Director of Asialink, the regional telecom investment arm of First Pacific, respectively. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs Ma Huateng and Zhang Zhidong has entered into a service contract with the Company for a term of three years from 25 March 2010. The term of each service contract can be extended by agreement between the Company and the relevant Director. The Company may terminate the contracts by three months' written notice at any time, subject to paying the Director his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination became effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years from 3 February 2008. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programs and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2009, 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 and short position in the shares and underlying shares of the Company

Name of Director	Long/short position	Nature of interests	Number of shares/ underlying shares held	Percentage of issued share capital
Ma Huateng	Long position	Corporate *(Note 1)*	209,892,880	11.54%
	Short position	Corporate *(Note 1)*	23,000,000	1.26%
Zhang Zhidong	Long position	Corporate *(Note 2)*	68,250,000	3.75%
Lau Chi Ping Martin	Long position	Personal	10,203,600 *(Note 3)*	0.56%
Li Dong Sheng	Long position	Personal	100,000 *(Note 4)*	0.005%
Iain Ferguson Bruce	Long position	Personal	100,000 *(Note 5)*	0.005%
Ian Charles Stone	Long position	Personal	60,000 *(Note 4)*	0.003%

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 The interest represents the underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I and Post-IPO Option Scheme II. Details of the share options granted to the directors are set out above under "Share Option Schemes".

4 The interest represents the underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I. Details of the share options granted to the directors are set out above under "Share Option Schemes".

5 The interest comprises 20,000 shares and 80,000 underlying shares in respect of the share options granted pursuant to Post-IPO Option Scheme I. Details of the share options granted to the directors are set out above under "Share Option Schemes".

(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 ("Tencent Computer")	Personal	RMB10,857,140 (registered capital)	54.29%
	Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan")	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB4,571,420 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

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 31 December 2009.

CONNECTED TRANSACTIONS

The waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004 was referred to. The Company's independent non-executive directors had reviewed the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus) as at 31 December 2009 to Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin") (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus), Tencent Technology (Beijing) Company Limited ("Tencent Beijing") and Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu") (collectively defined as "WFOEs"). The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan to the holders of their equity interests and any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period the terms of which are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to Beijing Emark Information and Technology Company Limited ("Beijing Emark"), Nanjing Wang Dian Technology Company Limited ("Wang Dian"), Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM"), Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand"), Shenzhen Shiji Tian You Technology Company Limited, Tianjin Shouzhongwanwei Network Technology Company Limited and Guangzhou Yunxun Technology Company Limited ("Guangzhou Yunxun") (collectively defined as "New OPCOs").

The Auditors had carried out agreed-upon procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that the transactions had been approved by the Board and had been entered into in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of Tencent Computer, Shiji Kaixuan and the New OPCOs as at 31 December 2009 to the WFOEs and that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan or the New OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2009, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer ("TCS CFC"), the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established a cooperation committee ("TCS Co-operation Committee") according to this agreement. During the year, other than the Structure Contracts mentioned below, Tencent Computer purchased software and technology amounting to approximately RMB120,000,000 from Tencent Technology. In addition, revenue sharing amounting to approximately RMB3,087,933,000, RMB1,206,638,000, RMB1,079,987,000, and RMB52,434,000 was paid/payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, and Tencent Chengdu, respectively.

2. Pursuant to the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan ("SKT CFC"), the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established a co-operation committee ("SKT Co-operation Committee") according to this agreement. During the year, no transaction was transacted under such contract, save as disclosed elsewhere in this section.

3. Pursuant to the amended and restated intellectual property transfer contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer, Tencent Computer shall assign to Tencent Technology its principal present and future intellectual property rights, free from encumbrances (except for licences granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no intellectual property transfer was transacted under such arrangement, save as disclosed elsewhere in this section.

4. Pursuant to the intellectual property transfer contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan, Shiji Kaixuan shall assign to Cyber Tianjin its principal present and future intellectual property rights, free from encumbrance (except for licences granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no intellectual property transfer was transacted under such arrangement, save as disclosed elsewhere in this section.

5. Pursuant to the domain name licence contract dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive license to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name license was transacted under such arrangement, save as disclosed elsewhere in this section.

6. Pursuant to the domain name licence contract dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a non-exclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the contract or the SKT CFC). During the year, no domain name licence was transacted under such arrangement, save as disclosed elsewhere in this section.

7. Pursuant to the trademark licence contract dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the contract or the TCS CFC). During the year, no trademark licence was transacted under such arrangement, save as disclosed elsewhere in this section.

8. Pursuant to the trademark licence contract dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the contract or the SKT CFC). During the year, no trademark licence was transacted under such arrangement, save as disclosed elsewhere in this section.

9. Pursuant to the information consultancy services contract dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Cooperation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, a fee of approximately RMB147,447,000 was transacted under such arrangement.

10. Pursuant to the technical consultancy services contract dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Cooperation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, a fee of approximately RMB20,631,000 was transacted under such arrangement.

11. Pursuant to the co-operation framework contracts entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each contract, the WOFE shall allow the New OPCO to use its and its affiliates' assets and provide services to the New OPCO. The New OPCO shall transfer all of its Surplus Cash to the WFOE and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, revenue sharing amounting to approximately RMB609,000, RMB2,176,000, and RMB361,000 was paid/payable by Beijing Emark to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB54,308,000, RMB87,426,000, and RMB214,266,000 was paid/payable by Wang Dian to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB12,980,000, RMB204,846,000, and RMB24,990,000 was paid/payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB2,211,000, RMB12,595,000, and RMB34,972,000 was paid/payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB825,000 was paid/payable by Guangzhou Yunxun to Tencent Technology.

Details of the related parties transactions are set out in Note 44 to the consolidated financial statements.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, 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 and short position in the shares in the Company

Name of shareholder	Long/short position	Nature of interest	Number of shares	Percentage of issued share capital
MIH China (BVI) Limited	Long position	Corporate *(Note 1)*	630,240,380	34.65%
Advance Data Services Limited	Long position	Corporate *(Note 2)*	209,892,880	11.54%
	Short position	Corporate *(Note 2)*	23,000,000	1.26%
ABSA Bank Limited	Long position	Corporate *(Note 3)*	185,000,000	10.17%

Notes:

1. As MIH China (BVI) Limited ("MIH") is wholly owned by Naspers Limited through its intermediary companies, MIH (Mauritius) Limited and MIH Holdings Limited. Naspers Limited, MIH (Mauritius) Limited and MIH Holdings Limited are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO. Out of the 630,240,380 shares held by MIH, 185,000,000 shares are pledged to ABSA Bank Limited, as referenced in Note 3 below.

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 ABSA Bank Limited has a security interest in 185,000,000 shares, which are held by MIH, and ABSA Bank Limited is wholly owned by Barclays Bank PLC through its intermediary company, ABSA Group Limited, Barclays Bank PLC and ABSA Group Limited are deemed to be interested in the same block of 185,000,000 shares under Part XV of the SFO.

Save 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 31 December 2009, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the five largest customers of the Group accounted for approximately 10.85% of the Group's total revenues while the largest customer of the Group accounted for approximately 3.73% of the Group's total revenues. In addition, for the year ended 31 December 2009, the five largest suppliers of the Group accounted for approximately 31.09% of the Group's total purchases while the largest supplier of the Group accounted for approximately 11.67% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued capital) had an interest in any of the major customers or suppliers noted above.

AUDIT COMMITTEE

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this annual report, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2009, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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

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 complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2009, the Group had 7,515 employees (2008: 6,194), most of whom were based in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

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

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the year ended 31 December 2009 was RMB2,136.8 million (2008: RMB1,365.6 million).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 7 May 2010 to Wednesday, 12 May 2010 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 May 2010.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 17 March 2010

The Company applied the principles and complied with all requirements of the code provisions set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") (the "CG Code") with the deviations in respect of the segregation of the role of the chairman and chief executive officer ("CEO") and the provision regarding the retirement and re-election of directors. The following summarises the Company's corporate governance practices and explains the deviations from the CG Code.

A. DIRECTORS

1. The board of directors of the Company (the "Board")

The Board assumes responsibility for leadership and control of the Company, is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs and takes decisions objectively in the interests of the Company.

i) The Board meets quarterly for considering and approving the financial results of the Company and additional Board meeting will be held whenever necessary.

ii) Attending directors, in person or through electronic means of communication, participated actively in Board meetings. Questions were asked and clarified before any final decision was made.

iii) Apart from physical meetings, the Board considers and consents through the circulation of written resolutions whenever necessary.

iv) Draft notices and agendas are circulated to the Board at least 14 days before the day of Board meeting for comments and inclusion of any matters which the Board deems necessary before final notices and agendas are distributed.

v) The dates of regular Board meetings are proposed, considered and determined well before the meeting date.

vi) Chief officers are usually invited to attend Board meetings. Other executives will be invited to Board meetings from time to time for making presentations or answering Board's enquiries.

vii) There exists open atmosphere for directors to contribute alternative views at meetings and major decisions will only be taken after a full discussion at Board meetings.

viii) In every Board meeting, each director declared his interest in the matters to be considered by the Board.

ix) Directors will abstain from voting on any matters in which they have an interest.

x) All directors have access to the advice and service of the legal counsel and the company secretary to ensure that all necessary Board procedures and applicable rules and regulations are followed.

xi) Within reasonable time after the Board meeting date, draft minutes of Board meetings, including details of concerns raised by directors or dissenting views expressed, are circulated to Board members, who attended the meeting, for comments before final minutes are confirmed and circulated to all members of the Board for records.

xii) Minutes of Board meetings and meetings of Board committees are kept by the company secretary and such minutes are open for inspection by any Director at any time on reasonable notice.

xiii) Whenever necessary and upon request by the Board, the company secretary will coordinate to seek independent professional advice at the expense of the Company.

xiv) Insurance for the liabilities of directors and officers of the Company is in place.

2. Chairman and CEO

The management of the Board and the day-to-day management of the business of the Company should be separate and a balance of power and authority should be ensured. The roles of the chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Note: CG Code A.2.1 is deviated with the following considered reasons.

i) Mr Ma Huateng is the Chairman and CEO of the Company and provision in CG Code A.2.1 is deviated. The Board considers that an abrupt segregation of the role of Chairman and CEO will involve a sharing of power and authority of the existing structure which might create turmoil on the daily operations of, and extra cost to, the Company. In addition, the Chairman and CEO must be proficient in IT knowledge and be sensitive to the fast and myriad changes in the business in order to lead the Company to react swiftly to any market change, make timely decisions in this fast moving IT industry and ensure the sustainable development of the Company. In addition, Mr Lau Chi Ping Martin, the President and an executive director of the Company, assists the CEO to manage the daily operations of the Company. Notwithstanding the above, the Board will review the current structure from time to time and shall make necessary amendments at the appropriate time.

ii) There are separate roles and responsibilities of the Chairman and CEO set out in writing and approved by the Board.

iii) Relevant and updated Board information is circulated to the Board to review and consider at least 3 days before the meeting is held.

iv) Directors are encouraged to make a full and active contribution to the Board's affairs and the Board acts in the best interests of the Company.

v) Directors, whether executive, non-executive or independent non-executive, communicate among themselves whenever necessary.

vi) Non-executive directors, including the independent non-executive directors, are invited to share their experience with the executive directors on matters for which views from different angles will be considered.

3. Board composition

There is a balance of skills and experience appropriate for the requirements of the business of the Company. The majority of the Board is non-executive directors (including the independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement and their views and decisions carry weight in the Board. Changes in the composition of the Board, if any, can be managed without undue disruption.

i) There are 3 independent non-executive directors, representing over one-third of the Board, 3 executive directors and 2 non-executive directors appointed for the Company.

ii) In relation to the Internet market in which the Company operates, the wide range of business, financial and management experience of the Board members provides an appropriate balance of skills and experience.

iii) A list of directors and their respective biographies are set out on pages 31 to 32 of the Directors' Report.

iv) All the directors are expressly identified, whether executive, non-executive and independent non-executive, as such in all corporate communications that disclose the names of directors.

4. Appointments, re-election and removal

A formal, considered and transparent procedure for the appointment of new directors to the Board should be established. All directors should be subject to re-election at regular intervals and the resignation or removal of any director should be explained with reasons.

(Note: CG Code A.4.2 is deviated with the following considered reasons.)

i) Except for Mr Ma Huateng, Chairman of the Company, every Director is subject to retirement by rotation at least once every three years and provision in CG Code A.4.2 is deviated. The Chairman of the Board is one of the core founders of the Company and plays a leading role in the growth and development of the Company and his continuing presence adds positive value and assurance to the sustainable development of the Company. The Board considers that the existing provision of retirement and re-election in the Articles of Association of the Company ("Articles of Association") shall not have a material impact on the operation of the Company as a whole. Notwithstanding the above, the Board will review the current provision in the Articles of Association from time to time and shall make necessary amendments at the appropriate time.

ii) Non-executive directors, including the independent non-executive directors, are appointed with specific terms for one year, subject to the retirement and re-election provisions of the Articles of Association.

iii) Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.

iv) Biographical details of the directors to be re-elected are included in the circulars sent to shareholders to enable shareholders to make an informed decision on the respective re-election.

v) Nomination to the Board

– The Board determines director selection, orientation and evaluation.

– The Board identifies and evaluates candidates for appointment as directors. Following the appointments of new directors to the Board, orientation programmes will be arranged to facilitate their understanding of the Group.

– There is no nomination committee established for the Company and the Board will review the structure from time to time and establish a nomination committee when necessary.

5. Responsibilities of director

Every director is required to keep abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company. Given the essential unitary nature of the Board, non-executive directors (including the independent non-executive directors) have the same duties of care and skill and fiduciary duties as executive directors.

i) The Board of the Company has the following primary responsibilities:

– determines the Group's mission, provides strategic direction to the Group and is responsible for the approval of strategic plans;

– approves the annual business plan and budget proposed by management and financial performance updates are presented to the Board on a quarterly basis;

– retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual budget and business plan;

– establishes Board sub-committees with clear terms of reference and responsibilities as appropriate;

– all policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions; and

– defines levels of delegation in respect of specific matters, with required authority to board sub-committees and management.

ii) Every newly appointed director had received a comprehensive, formal and tailored induction on the first occasion of his appointment and a director's handbook to ensure that he was fully aware of his responsibilities under the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

iii) The legal counsel of the Group updates the Board in relation to change in legal obligation of directors of listed companies from time to time.

iv) Non-executive directors and independent non-executive directors participate in Board meetings actively, raise queries and clarify outstanding issues, if any, before their approvals to proposals are granted.

v) The Board has delegated the day-to-day responsibility to management which includes the chief officers, President and the Executive Vice-Presidents. In addition, new members are recruited to management for strengthening the daily operation and meeting the future challenges, if required.

vi) Management meets fortnightly and is responsible for the formulation of policies for consideration of the Board, and in carrying out and implementing the policies laid down by the Board. Management is delegated with the authority from the Board to administer, enforce, interpret and supervise compliance with those parts of the internal rules and operational procedures of its subsidiaries, other than the Listing Rules, and conduct regular reviews of the same, recommend, and advise on appropriate amendments which do not involve policy matters for the approval by the Boards of the respective subsidiaries. Management reports to the Board on a regular basis and communicates with the Board whenever required.

vii) A Director will abstain from voting on matters which he has an interest.

viii) No executive directors are member of the Audit Committee and the Remuneration Committee of the Company, which are composed of non-executive and independent non-executive directors only.

ix) Directors attended Board meetings in person or through electronic means of communication.

x) The attendance records of all Board meetings held in 2009 are set out below:

Number of meetings:	**5**
Executive Directors	
Ma Huateng (Chairman)	5/5
Lau Chi Ping Martin	5/5
Zhang Zhidong	5/5
Non-Executive Directors	
Antonie Andries Roux	5/5
Charles St Leger Searle	5/5
Independent Non-Executive Directors	
Li Dong Sheng	5/5
Iain Ferguson Bruce	5/5
Ian Charles Stone	4/5

xi) Model Code set out in Appendix 10 to the Listing Rules (the "Model Code")

- The Company has adopted the Model Code.
- All directors have confirmed, following specific enquiry by the Company, full compliance with the Model Code throughout the year 2009.
- The Board has adopted a staff code for their dealing in the securities of the Company on no less exacting terms than the Model Code for staff who is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.
- Details of securities interests in the Company held by the directors are set out in the Directors' Report on pages 34 to 35 of this annual report.

xii) Each director updates the Company quarterly regarding their directorship in the other companies.

6. Supply of and access to information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of the Company.

i) For regular board/board committee meetings, Board papers that contain analysis and background materials together with the agenda, are sent to all the directors at least 3 days before the date of Board meeting or Board committee meeting.

ii) Management manages to supply the Board and its committees with adequate, complete and reliable information in a timely manner to enable the Board and its committees to make informed decisions.

iii) Where queries are raised by directors, steps will be taken to respond as promptly and fully as possible.

iv) The Board and each Director have separate and independent access to management of the Company.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

1. The level and make-up of remuneration and disclosure

Information relating to the remuneration policy and other remuneration related matters of the directors should be disclosed. There should be formal and transparent procedure for setting policy on the remuneration for executive directors and for fixing the remuneration packages for all directors. Level of remuneration should be sufficient to attract and retain the directors needed to run the Company successfully. No director should be involved in deciding his own remuneration.

i) A Remuneration Committee, of which Mr Antonie Andries Roux, a non-executive director and Messrs Li Dong Sheng and Ian Charles Stone, independent non-executive directors, are members, has been established.

ii) The Remuneration Committee has been established with specific written terms of reference which deal clearly with its authority and duties.

iii) The terms of reference of the Remuneration Committee has been posted on the website of the Company at www.tencent.com (the "website of the Company").

iv) The principal responsibilities of the Remuneration Committee include formulation of the remuneration policy, reviewing and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Board and the chief officers of the Company. The objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-caliber team which is essential to the success of the Company.

v) The Remuneration Committee considers and benchmarks the prevailing market conditions, labor market conditions and refers to reports from professional human resources bodies in determining the remuneration packages for the executive directors, which are generally linked to corporate and individual performance.

vi) No Director can determine his own remuneration.

vii) The Chairman of the Remuneration Committee reports findings and recommendations to the Board after each Remuneration Committee meeting.

viii) Details of the remuneration of the directors for the year ended 31 December 2009 are set out in Note 34 to the consolidated financial statements.

ix) The Remuneration Committee is provided with sufficient resources to discharge its duties.

2. Major Work done by the Remuneration Committee in 2009

i) Reviewed the remuneration policy of the Company and determined the remuneration packages for the Board and the general staff by benchmarking similar positions in peer companies in the industry so as to make sure that offers from the Company remain competitive in the labor market for recruitment of new staff and retaining existing core staff.

ii) Reviewed the implementation and execution of the compensation award schemes of the Company.

iii) Endorsed the adoption of an additional option scheme for senior staff for onward endorsement and approval by the Board and final approval by the shareholders.

iv) Considered and approved the compensation awards to be granted to management, which had been made in recognition of their past performance and contribution and to motivate their future performance for the growth and development of the Company.

v) The attendance of individual members at Remuneration Committee meetings held in 2009 is set out below:

Number of meetings	**3**
Non-Executive Director	
Antonie Andries Roux (Chairman)	3/3
Independent Non-Executive Directors	
Li Dong Sheng	1/3
Ian Charles Stone	3/3

C. ACCOUNTABILITY AND AUDIT

1. Financial reporting

The Board should present a balanced, clear and comprehensible assessment of the performance, position and prospects of the Company.

i) In relation to the approval of financial results of the Company, an Audit Committee meeting, in which the financial information, the internal control affairs and other related matters will be considered and discussed, will be held usually one week before the date of the Board meeting, in which the draft financial information will be considered and approved, when appropriate, by the Board.

ii) In Audit Committee meetings, queries raised by the members will be clarified, followed up and recorded. Solutions to these queries will be provided to the Audit Committee within reasonable time.

iii) Updated financial information and explanation, which will enable the Board to make an informed assessment of the financial and other information, will be sent to the Audit Committee and the Board at least 3 days before the date of the respective meeting.

iv) The chairman of the Audit Committee reports to the Board regarding the discussion and decision made in Audit Committee meetings and inform the Board if there is any matter which the Board should be aware of.

v) A report to the Board will be signed by the chairman of the Audit Committee by authority of the Audit Committee and will be sent to the Board before the date of Board meeting.

vi) The Board takes responsibility to present a balanced, clear and understandable assessment on annual reports, interim reports and quarterly announcements, price sensitive announcements and other disclosures required under the Listing Rules and reports to regulators.

vii) The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis.

viii) The Company has appointed external auditors, PricewaterhouseCoopers, to perform reviews on its interim financial statements and an audit of its annual financial statements which are prepared in accordance with the International Financial Reporting Standards.

ix) The Company announces and publishes its annual and interim results within three months and two months respectively after the end of the relevant periods.

2. Internal controls

The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

i) The Board has the ultimate responsibility for the Group's internal control system.

ii) The Company has various approval matrices, which are applicable to different managerial levels, which aim to:

- help the achievement of business objectives, safeguard assets against unauthorised use or disposition;
- ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- ensure compliance with relevant legislation and regulations.

iii) The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organizational structure exists with defined lines of authority and control responsibilities. Relevant Division/Department Heads are involved in preparing the strategic plan which lays down the corporate strategies to be pursued in the following year for achieving the annual operational and financial targets. Both the strategic plan and the annual operating plan lay down the foundation for the preparation of the annual budget by which resources are allocated in accordance with identified and prioritised business opportunities. The annual operating plan and budget are approved by the Board on an annual basis.

- Variances against budgets are analysed, and explained, and appropriate actions are taken, if necessary, to rectify deficiencies noted.

- Internal Audit Department ("IA") performs independent reviews of the operational areas and presents the findings and the prospective audit plan to the Audit Committee on a quarterly basis.

iv) Reviews of different business and functional operations and activities will be conducted by IA with audit resources being focused on higher risk areas. Ad hoc reviews will also be conducted by IA on areas of concern identified by management.

v) Division/Department Heads will be notified of the deficiencies noted for rectification, and IA will follow up with the implementation of audit recommendations. Significant internal control weaknesses are brought to the attention of the Audit Committee and if necessary to the Board, and to management for remedial action.

vi) In 2009, the Company engaged a professional consulting firm to perform a high level review of the Group's existing internal controls by benchmarking the COSO Internal Control Integrated Framework, as well as performing an internal control review of one significant business unit. Recommendations with prioritization had been proposed and management has developed remedial plan to improve the internal control procedures.

vii) Based on the internal control review report of the professional consulting firm and the prevailing system and information, no material discrepancies have been found.

viii) Mr Lo John Shek Hon, Deputy Chief Financial Officer of the Group, has the overall responsibilities for finance and accounting functions of the Group. He is a CPA member of CPA Australia and is a Fellow of the Hong Kong Institute of Certified Public Accountants. A majority of the managers of the Finance Division are members of The Chinese Institute of Certified Public Accountants or ACCA or equivalent approved society or CFA. Staff of the Finance Division are required to attend relevant training programmes provided by professional accounting firms arranged by the Group from time to time. The Board considers that the resources, qualifications and experience of staff of Finance Division, their training programmes and budget are adequate.

ix) The Board, with the recommendation of the Audit Committee, is satisfied that the Group has complied with the provisions regarding internal controls as required under the CG Code. The Board is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the internal control system.

3. Audit Committee

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the auditors of the Company. The Audit Committee established pursuant to the Listing Rules should have clear terms of reference.

i) Among the three members of the Audit Committee, namely Mr Iain Ferguson Bruce (Chairman) and Messrs Ian Charles Stone and Charles St Leger Searle, two members have accounting qualifications. Mr Bruce is a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants and Mr Searle is a member of the Institute of Chartered Accountants in Australia.

ii) No member of the Audit Committee is a former partner of the existing Auditors.

iii) Senior representatives of the external auditors and members of management are invited to attend the meetings when necessary.

iv) Draft notices and agendas of Audit Committee meetings are circulated to all members of the Audit Committee for comments and inclusion of any matters, which the Audit Committee deems necessary, before final notice and agendas are circulated.

v) Within reasonable time after the Audit Committee meeting, draft minutes of the meetings are circulated to members of the Audit Committee, who attended the meeting, for comments before final minutes are confirmed and circulated to all members of the Audit Committee for records.

vi) Final minutes of Audit Committee meetings are kept at the office of the company secretary.

vii) The terms of reference of the Audit Committee are on no less exacting terms than the requirements set out in CG Code C.3.3.

viii) The terms of reference of the Audit Committee are made available on the website of the Company.

ix) The Audit Committee is provided with sufficient resources to discharge its duties.

x) In the absence of management, the Audit Committee members have a separate meeting with the Auditors of the Company at least once a year.

xi) In 2009, the fees paid/payable to the Company's external auditors for non-audit related activities amounted to approximately RMB2,055,000.

xii) The principal responsibilities of and work done by the Audit Committee in 2009 include:

– To serve as a focal point for communication between other directors, the external auditors and internal auditors in respect of the duties relating to financial and other reporting, internal controls, external and internal audits, and such other matters as the Board determines from time to time.

– To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting.

– To review the scope and results of internal audit procedures, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.

– To review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees.

– To review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to financial reporting requirements.

– To ensure continuing auditor objectivity and to safeguard independence of the external auditors. The Audit Committee has granted authorization of non-audit services for which the external auditors may provide.

xiii) The attendance of individual members at Audit Committee meetings held in 2009 is set out below:

Number of meetings	**6**
Independent Non-Executive Directors	
Iain Ferguson Bruce (Chairman)	6/6
Ian Charles Stone	6/6
Non-Executive Director	
Charles St Leger Searle	4/6

D. DELEGATION BY THE BOARD

1. Management functions

The Company should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to the management team as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

i) The Board delegates authorities to management in accordance with the prevailing approval matrix of the Group, which is reviewed and revised on a timely basis and whenever necessary. Management manages the operation of the Group in accordance with the prevailing approval matrix of the Group and for transactions which are outside the limits indicated in the approval matrix, management will report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

ii) The Board meets at least on a quarterly basis and is updated on the recent development of the Group and its outlook in future in each Board meeting.

2. Board committees

Board committees should be formed with specific written terms of reference which deal clearly with the authorities and duties of the committees.

i) The Board establishes several Board committees, which include the Audit Committee and the Remuneration Committee, all the members of which are members of the Board.

ii) The Audit Committee, the Remuneration Committee and the Investment Committee are established with terms of reference, which are prepared based on the relevant legal and regulatory requirements and as reviewed by the Board from time to time, to enable such committees to discharge their function properly.

iii) The terms of references of the Audit Committee and the Remuneration Committee are posted on the website of the Company.

iv) Chairmen of the Audit Committee and Remuneration Committee update the Board in Board meetings regarding discussion and decisions made in previous meetings of the respective Committee.

E. COMMUNICATION WITH SHAREHOLDERS

1. Effective communication

The Board should endeavor to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

i) In May 2009, an annual general meeting (the "AGM") and an extraordinary general meeting (the "EGM") of the shareholders had been held.

ii) Relevant notices and circulars regarding the matters to be dealt with in the AGM and EGM, prepared in accordance with the applicable rules and regulations, were sent to the shareholders timely.

iii) Chairmen of the Audit Committee and the Remuneration Committee attended the shareholders' meetings in 2009.

iv) In the AGM and EGM, shareholders were encouraged to clear their queries regarding the matters to be dealt with in the meetings and separate resolutions were put to vote by poll by the shareholders.

v) Question and answer session was in place for the shareholders to communicate with management openly.

2. Voting by poll

The Company should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

i) At the commencement of the AGM and the EGM, detailed procedures for conducting a poll were explained.

ii) Questions from shareholders regarding voting by way of a poll, if any, were answered before the poll voting started.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
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TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 166, which comprise the consolidated and company statements of financial position as of 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	**2,517,202**	1,165,048
Construction in progress	7	**105,771**	875,897
Investment properties	8	**68,025**	64,981
Leasehold land and land use rights	9	**35,296**	36,046
Intangible assets	10	**268,713**	370,314
Investment in associates	12	**477,622**	302,712
Deferred income tax assets	28	**301,016**	334,164
Held-to-maturity investments	14	**341,410**	–
Available-for-sale financial assets	15	**153,462**	86,180
Prepayments, deposits and other receivables	17	**80,306**	124,354
		4,348,823	3,359,696
Current assets			
Inventories		**–**	5,483
Accounts receivable	16	**1,229,436**	983,459
Prepayments, deposits and other receivables	17	**373,642**	378,340
Financial assets held for trading	14	**–**	329,804
Held-to-maturity investments	14	**–**	68,346
Term deposits with initial term of over three months	18	**5,310,168**	1,662,501
Restricted cash	26	**200,000**	–
Cash and cash equivalents	19	**6,043,696**	3,067,928
		13,156,942	6,495,861
Total assets		**17,505,765**	9,855,557
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	**197**	195
Share premium	20	**1,244,425**	1,155,209
Shares held for share award scheme	20	**(123,767)**	(21,809)
Share-based compensation reserve	20	**703,563**	381,439
Other reserves	21	**(166,364)**	(433,038)
Retained earnings		**10,520,453**	5,938,930
		12,178,507	7,020,926
Minority interests in equity		**120,146**	98,406
Total equity		**12,298,653**	7,119,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

		As at 31 December	
		2009	2008
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	**369,983**	78,368
Long-term payables	25	**274,050**	566,260
		644,033	644,628
Current liabilities			
Accounts payable	23	**696,511**	244,647
Other payables and accruals	24	**1,626,051**	1,013,542
Short-term bank borrowing	26	**202,322**	–
Current income tax liabilities		**85,216**	47,307
Other tax liabilities	37(b)	**216,978**	103,933
Deferred revenue	27	**1,736,001**	682,168
		4,563,079	2,091,597
Total liabilities		**5,207,112**	2,736,225
Total equity and liabilities		**17,505,765**	9,855,557
Net current assets		**8,593,863**	4,404,264
Total assets less current liabilities		**12,942,686**	7,763,960

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 58 to 166 were approved by the Board of Directors on 17 March 2010 and were signed on its behalf.

Ma Huateng
Director

Zhang Zhidong
Director

STATEMENT OF FINANCIAL POSITION - THE COMPANY

As at 31 December 2009

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Fixed assets		445	80
Intangible assets		3,245	3,798
Investments in subsidiaries	11(a)	1,981,736	409,744
Available-for-sale financial assets		14,758	9,840
Contribution to Share Scheme Trust	11(c)	794	295
Amounts due from subsidiaries	11(b)	341,410	–
		2,342,388	423,757
Current assets			
Amounts due from subsidiaries	11(b)	1,060,822	1,769,976
Prepayments, deposits and other receivables		8,349	5,646
Cash and cash equivalents	19	102,081	95,957
		1,171,252	1,871,579
Total assets		3,513,640	2,295,336
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	197	195
Share premium	20	1,244,425	1,155,209
Shares held for share award scheme	20	(123,767)	(21,809)
Share-based compensation reserve	20	703,563	381,439
Retained earnings		557,521	383,888
Total equity		2,381,939	1,898,922
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	11(b)	1,107,184	374,114
Other payables and accruals		24,517	22,300
		1,131,701	396,414
Total equity and liabilities		3,513,640	2,295,336
Net current assets		39,551	1,475,165
Total assets less current liabilities		2,381,939	1,898,922

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 58 to 166 were approved by the Board of Directors on 17 March 2010 and were signed on its behalf.

Ma Huateng
Director

Zhang Zhidong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Revenues			
Internet value-added services		**9,530,711**	4,914,974
Mobile and telecommunications value-added services		**1,905,599**	1,398,984
Online advertising		**962,171**	826,049
Others		**41,479**	14,537
	5	**12,439,960**	7,154,544
Cost of revenues	29, 32	**(3,889,468)**	(2,170,421)
Gross profit		**8,550,492**	4,984,123
Interest income	30	**136,014**	105,216
Other (losses)/gains, net	31	**(58,213)**	6,989
Selling and marketing expenses	32	**(581,468)**	(518,147)
General and administrative expenses	32	**(2,026,347)**	(1,332,207)
Operating profit		**6,020,478**	3,245,974
Finance costs	36	**(1,953)**	(140,732)
Share of profit/(loss) of associates		**22,206**	(347)
Profit before income tax		**6,040,731**	3,104,895
Income tax expense	37(a)	**(819,120)**	(289,245)
Profit for the year/total comprehensive income for the year		**5,221,611**	2,815,650
Attributable to:			
Equity holders of the Company		**5,155,646**	2,784,577
Minority interests		**65,965**	31,073
		5,221,611	2,815,650
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– basic	39(a)	**2.862**	1.552
– diluted	39(b)	**2.791**	1.514
Dividends per share			
Final dividend proposed	40	**HKD0.40**	HKD0.25
Special dividend proposed	40	**–**	HKD0.10
		HKD0.40	HKD0.35

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332
Profit for the year/total comprehensive income for the year	–	–	–	–	–	5,155,646	5,155,646	65,965	5,221,611
Employee share option schemes:									
– value of employee services	–	–	–	167,178	–	–	167,178	–	167,178
– proceeds from shares issued	2	165,446	–	–	–	–	165,448	–	165,448
Employee share award scheme:									
– value of employee services	–	–	–	154,946	–	–	154,946	–	154,946
– shares purchased for share award scheme	–	–	(103,618)	–	–	–	(103,618)	–	(103,618)
– vesting of awarded shares	–	(1,660)	1,660	–	–	–	–	–	–
Repurchase and cancellation of shares	–	(74,570)	–	–	–	–	(74,570)	–	(74,570)
Profit appropriations to statutory reserves	–	–	–	–	2,193	(2,193)	–	–	–
Dividends (Note 40)	–	–	–	–	–	(554,604)	(554,604)	(32,088)	(586,692)
Equity interest purchased for an employee restricted equity interest plan in a non-wholly owned subsidiary	–	–	–	–	–	(17,326)	(17,326)	(11,856)	(29,182)
Exercise of put option granted to minority shareholders (Note 4.1(c))	–	–	–	–	281	–	281	(281)	–
Reversal of the liabilities in respect of the put options granted to minority shareholders (Note 4.1(c))	–	–	–	–	264,200	–	264,200	–	264,200
Balance at 31 December 2009	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2008	194	1,455,854	–	220,230	80,295	3,413,823	5,170,396	64,661	5,235,057
Profit for the year/total comprehensive income for the year	–	–	–	–	–	2,784,577	2,784,577	31,073	2,815,650
Employee share option schemes:									
– value of employee services	–	–	–	150,217	–	–	150,217	–	150,217
– proceeds from shares issued	2	86,940	–	–	–	–	86,942	–	86,942
Employee share award scheme:									
– value of employee services	–	–	–	10,992	–	–	10,992	–	10,992
– shares purchased for share award scheme	–	–	(21,809)	–	–	–	(21,809)	–	(21,809)
Repurchase and cancellation of shares	(1)	(387,585)	–	–	–	–	(387,586)	–	(387,586)
Profit appropriations to statutory reserves	–	–	–	–	1,667	(1,667)	–	–	–
Dividends (Note 40)	–	–	–	–	–	(257,803)	(257,803)	–	(257,803)
Recognition of the financial liabilities in respect of the put options granted to minority shareholders (Note 4.1(c))	–	–	–	–	(515,000)	–	(515,000)	–	(515,000)
Others	–	–	–	–	–	–	–	2,672	2,672
Balance at 31 December 2008	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	41(a)	**8,854,813**	3,901,927
Income tax paid		**(456,448)**	(322,300)
Net cash flows generated from operating activities		**8,398,365**	3,579,627
Cash flows from investing activities			
Payments for business combinations		**(140)**	(16,669)
Purchase of fixed assets, construction in progress and investment properties		**(788,824)**	(1,333,008)
Proceeds from disposals of fixed assets	41(a)	**595**	2,443
Payment for investment in associates		**(148,417)**	(302,951)
Purchase of intangible assets		**(31,950)**	(71,368)
Purchase of available-for-sale financial assets		**(68,782)**	(41,248)
Payment for equity interest acquired from minority interests in a non-wholly owned subsidiary		**(717)**	–
Proceeds from maturity of held-to-maturity investments		**68,346**	–
Payments for held-to-maturity investments		**(341,795)**	–
Receipt from the repayments of term deposits with initial term of over three months		**564,729**	421,296
Payments for term deposits with initial term of over three months		**(4,212,396)**	(1,479,311)
(Payment for)/receipt from the repayment of restricted cash		**(200,000)**	300,000
Receipt from/(payment for) loan made to a related party		**18,394**	(73,094)
Interest received		**116,162**	79,377
Net cash flows used in investing activities		**(5,024,795)**	(2,514,533)
Cash flows from financing activities			
Repayment of short-term bank borrowing		**–**	(292,184)
Proceeds from short-term bank borrowing		**202,322**	–
Proceeds from issuance of ordinary shares		**165,448**	86,942
Proceeds from capital injection from a minority interest		**–**	2,500
Payments for repurchase of shares		**(74,570)**	(387,586)
Payment for purchase of shares for share award scheme		**(103,618)**	(21,809)
Dividends paid to the Company's shareholders		**(554,604)**	(257,803)
Dividends paid to minority interests		**(32,088)**	–
Net cash flows used in financing activities		**(397,110)**	(869,940)
Net increase in cash and cash equivalents		**2,976,460**	195,154
Cash and cash equivalents at beginning of the year		**3,067,928**	2,948,757
Exchange losses on cash and cash equivalents		**(692)**	(75,983)
Cash and cash equivalents at end of the year		**6,043,696**	3,067,928

The notes on pages 65 to 166 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Internet value-added services, mobile and telecommunications value-added services and online advertising services to users in the People's Republic of China (the "PRC").

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the "Registered Shareholders").

The PRC laws and regulations limit foreign ownership of companies providing value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Certain contractual arrangements ("Structure Contracts") have been made among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders in order that the decision-making rights and operating and financing activities of Tencent Computer are ultimately controlled by the Company. The Company and Tencent Technology are also entitled to substantially all of the operating profits and residual benefits generated by Tencent Computer under these arrangements. In particular, the Registered Shareholders are required under their contractual arrangements with the Group to transfer these interests in Tencent Computer to the Group or the Group's designee upon the Group's request at a pre-agreed nominal consideration.

As a result, Tencent Computer is accounted for as a subsidiary and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor's carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

The Group also established/acquired certain companies in the PRC, which are providers of mobile telecommunications or Internet value-added services to users and have contractual arrangements similar to those described above (see Note 11 (a)(ii) for details).

These consolidated financial statements have been approved for issue by the board of directors (the "Board") on 17 March 2010.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Assessment and adoption of new standards, interpretations and amendments

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the financial year ended 31 December 2009.

- IAS 1 (Revised), 'Presentation of Financial Statements'

  IAS 1 (Revised) prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present statements of performance position at the end of the current period and comparative period.

  The Group has applied this revised standard from 1 January 2009 and elected to present one performance statement (the statement of comprehensive income).

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Assessment and adoption of new standards, interpretations and amendments (Cont'd)

- IAS 23 (Revised), 'Borrowing Costs'

  The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed.

  The Group has applied this revised standard from 1 January 2009 and management considers that this revised standard does not have a significant impact on the Group's financial statements.

- IFRS 2 (Amendment), 'Share-based Payment Vesting Conditions and Cancellations'

  It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services; that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remaining of the vesting period is recognised immediately.

  The Group has applied this amendment from 1 January 2009 and management considers that this amendment does not have a significant impact on the Group's financial statements.

- Amendment to IFRS 7, 'Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments'

  The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires the disclosure of fair value measurements by level of a fair value measurement hierarchy.

  The Group has applied this amendment on disclosures in its consolidated financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Assessment and adoption of new standards, interpretations and amendments (Cont'd)

- IFRS 8, 'Operating Segments'

  IFRS 8 replaces IAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purpose. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segments and to assess their performance.

  The Group has applied this standard from 1 January 2009. As the business segments reported by the Group in accordance with the requirements of IAS 14 (excluding the segment assets and liabilities) are the same as the operating segments provided to chief operating decision-makers, there are no changes to the operating segments and their respective results on the adoption of IFRS 8. In addition, the Group also early adopted the amendment to IFRS 8 in the annual improvement projects published in April 2009, which allows that the total segment assets is to be disclosed only when such information is regularly provided to the chief operating decision-makers, similar to the disclosure requirement of segment liabilities under current IFRS 8. Since the segment assets and liabilities of the Group are not regularly provided to its chief operating decision-makers, no such information has been disclosed in these consolidated financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Assessment and adoption of new standards, interpretations and amendments (Cont'd)

- IFRIC 13, 'Customer Loyalty Programmes'

  It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customers is allocated between the components of the arrangement using fair values.

  The current accounting treatment adopted by the Group for customer loyalty programmes complies with the requirements of IFRIC 13.

The Group also adopted the IASB's improvements to IFRS published in May 2008, which are relevant to the Group and effective from 1 January 2009. Such improvements have no material impact to the financial statements of the Group.

The following new interpretations and amendments to existing standards, which have been published and are mandatory for the financial year ended 31 December 2009, are not currently relevant to the Group.

IFRS 1 (Amendment)	First Time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements
IAS 32 and IAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
IFRIC 15	Agreements for Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
Amendment to IFRIC-Int 9 and IAS 39	Reassessment of Embedded Derivatives

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards and amendments to published standards which are not yet effective and have not been early adopted by the Group

The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not yet early adopted them:

- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009)

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is consistent with the Group's existing policy. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 2 (Amendment) – 'Group cash-settled share-based payment transaction' (effective from 1 January 2010)

  In addition to incorporating IFRIC 8 - 'Scope of IFRS 2' and IFRIC 11 - 'IFRS 2 - Group and Treasury Share Transactions', the amendments expand on the guidance in IFRIC 11 to address the accounting in the separate financial statements of a subsidiary when its suppliers/employees will receive cash payments from the parent that are linked to the price of the equity instruments of an entity in the group. The parent, and not the entity, has the obligation to deliver cash. The amendments state that the entity shall account for the transaction with its suppliers/employees as equity-settled, and recognise a corresponding increase in equity as a contribution from its parent. The subsidiary shall remeasure the cost of the transaction subsequently for any changes resulting from non-market vesting conditions not being met in accordance with paragraphs 19 to 21 in IFRS 2. This differs from the measurement of the transaction as cash-settled in the consolidated financial statements of the group. The Group will apply this amendment from 1 January 2010.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards and amendments to published standards which are not yet effective and have not been early adopted by the Group (Cont'd)

- IFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009)

  The revised standard may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted and managed" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

  In addition, in relation to an acquisition achieved in stage or a step acquisition (i.e. there is a previously held equity interest when obtaining control), the IFRS 3 (revised) requires that the previously held interest is measured to fair value at the acquisition date and a gain or loss is recognised in the profit or loss, which is treated as if the previously held interest has been disposed of in return, along with the other consideration transferred, for the controlling interest in the acquired subsidiary.

  The Group will apply IFRS 3 (Revised) from 1 January 2010.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) Standards and amendments to published standards which are not yet effective and have not been early adopted by the Group (Cont'd)

- IFRS 9, 'Financial Instrument' (effective from 1 January 2013)

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument, and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  This standard is effective for annual periods beginning on or after 1 January 2013 and to be applied retrospectively. However, if adopted before 1 January 2012, comparative periods do not need to be restated. In addition, entities adopting this standard before 1 January 2011 are allowed to designate any date between then and the date of issuance of IFRS 9, as the date of initial application that will be the date upon which the classification of financial assets will be determined. The Group has not yet determined when to apply this standard at current stage.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, interpretations and amendments to published standards which are not yet effective and not relevant for the Group's operations

The following new standards, amendments to standards and interpretations are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but are not relevant for the Group's operations.

IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective from 1 July 2009)
IFRIC 17	Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
IFRS 1 (Revised)	First-time Adoption of IFRSs (effective from 1 July 2009)
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters (effective from 1 January 2010)
IAS 32 (Amendment)	Classification of Rights Issue (effective from 1 February 2010)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)
IAS 24 (Revised)	Related Party Disclosures (effective from 1 January 2011)
Amendment to IFRIC 14	Prepayments of A Minimum Funding Requirement (effective from 1 January 2011)

(d) IASB's improvement to IFRS published in May 2008 and April 2009

In May 2008 and April 2009, IASB published its first and second annual improvement projects, which made some amendments to IFRSs to clarify some accounting treatments/disclosure requirements under new/revised IFRSs and eliminate inconsistency. Management does not expect these amendments have a material impact on the Group's financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.8(a)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's share award scheme, a controlled special purpose entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(b) Transaction with minority shareholders

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchase from minority interests, the difference between any consideration and the relevant share acquired of the carrying value of net assets of the subsidiary is reflected in equity. Gains and losses on disposal to minority interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is fully or partially disposed of or sold, relevant portion of the exchange differences that were recorded in equity are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in the profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.6 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciations are calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.7 Leasehold land and land use rights

Leasehold land and land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the profit or loss on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Other intangible assets

Other intangible assets mainly include licence, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are being amortised over their estimated economic lives (generally 3-7 years).

2.9 Shares held for share award scheme

Where the Share Scheme Trust purchases the Company's shares from the market, the consideration paid, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment to the share premium.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period; these are classified as non-current assets. Loans and receivables are classified as "accounts receivable", "other receivables", "term deposits with initial term of over three months", "Restricted cash" and "cash and cash equivalents" in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period; these are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(b) Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognised 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the profit or loss within "Other gains/(losses) net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established and inflow of benefits is probable.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Group's right to receive payments is established and inflow of benefits is probable.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- appearance of probability that the borrower will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Impairment of financial assets (Cont'd)

(a) Assets carried at amortised cost (Cont'd)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available for sale

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from other comprehensive income and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the year, the Group did not hold any derivative instruments designated as a hedging instrument but held certain derivative instruments which did not qualify for hedge accounting. The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit and loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit or loss within "Other gains/(losses), net".

2.15 Accounts receivable

Accounts receivable is amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial term of three months or less.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.18 Accounts payable

Accounts payable is obligation to pay for goods or services that has been acquired in the ordinary course of business from suppliers. Accounts payable is classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the profit or loss. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between their initial costs and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Share-based compensation benefits

The Group adopted four share option schemes and a share award scheme (see Note 22). The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share-based compensation reserve under equity. For grant of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model - Black-Scholes valuation model (the "BS Model"), excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. For grant of award shares, the total amount to be expensed over the vesting period is determined by reference to the market price of the Company's shares at the grant date.

From the perspective of the Company, the Company grants the share options/shares to its subsidiaries' employees to exchange for their service provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the "investment in subsidiaries".

At each end of the reporting period, the Group and the Company revise its estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision of original estimates, if any, in the profit or loss of the Group and in the "invesmtent in subsidiaries" of the Company, and a corresponding adjustment to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue recognition

The Group principally derives revenues from provision of Internet value-added services, mobile and telecommunications value-added services and online advertising services in the PRC.

(a) Internet value-added services and mobile and telecommunications value-added services

Revenue from Internet value-added services are derived principally from the provision of community and online gaming services across various Internet platforms.

Mobile and telecommunications value-added services revenues are derived principally from providing users with mobile instant messaging services, mobile chat services, and other mobile value-added services such as mobile interactive voice response services, ringback tone services, music and image/picture downloads, mobile news and information content services and mobile game services.

Internet value-added services and mobile and telecommunications value-added services are either billed on a monthly subscription basis or on a per transaction/message basis. Certain of these services are delivered to the Group's customers through the platforms of various subsidiaries of telecommunications operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Communications Corporation ("China Unicom") and China Telecommunications Corporation ("China Telecom"), and these operators also collect certain service fees (the "Internet and Mobile Service Fees") on behalf of the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(a) Internet value-added services and mobile and telecommunications value-added services (Cont'd)

In collecting the Internet and Mobile Service Fees on behalf of the Group, these telecommunications operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, a fixed per-message adjustment for the excess of messages sent over messages received between the platforms of the Group and these operators (collectively defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group.

The Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

For the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data. The historical data used in estimating revenues includes the most recent three-month history of the Internet and Mobile Service Fees actually derived from the operations, the number of subscriptions and the volume of data transmitted between the network gateways of the Group and the mobile operators. Adjustments are made in subsequent periods in the event that the actual revenue amounts are different from the original estimates.

In addition, the Internet value-added services can also be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through non-mobile channels such as sales agents appointed by the Group, telecommunications operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platform and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "deferred revenue" in the statement of financial position (see Note 27). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase the service, the revenue is recognised when the service is rendered; and (ii) when the payment unit is used to purchase the virtual products/items in Group's Internet platform, the revenue is recognised over the lifespan of the virtual products/items.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(b) Online advertising

Online advertising revenues are mainly derived from fees for selling advertising space on the Group's websites, instant messaging windows and game portal in the forms of banners, links and logos etc. and delivery of search-based advertising by various means throughout the community created by the Group.

For advertising contracts based on the actual time period that the advertisements appear on the Group's websites, instant messaging windows or game portal, the revenues are recognised ratably over the period in which the advertisements are displayed.

(c) Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established and inflow of benefits is probable.

2.25 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk) and credit risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group, which included the executive directors of the Group.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk

i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in the Company's payment of dividends, repurchase of the Company's shares, offshore investments etc, the Group holds some monetary assets denominated in USD or HKD subject to certain thresholds stated in its treasury mandate. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD and HKD as management considers that such risk could not be effectively reduced in a low-cost way. Accordingly, the Group did not purchase any forward contract to hedge the foreign exchange risk.

As at 31 December 2009, the Group and the Company's non-RMB monetary assets and liabilities are listed below.

Group

	Currency	As at 31 December	
Monetary assets	**denomination**	**2009**	2008
		RMB'000	RMB'000
Non-current assets			
Held-to-maturity investments	USD	**341,410**	–
Current assets			
Held-to-maturity investments	USD	**–**	68,346
Financial assets held for trading	USD	**–**	329,804
Term deposits with initial term of over three months	USD	**187,483**	68,196
Cash and cash equivalents	USD	**358,586**	1,061,560
Cash and cash equivalents	HKD	**202,224**	61,655

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) *Foreign exchange risk (Cont'd)*

Group

Monetary liabilities	Currency denomination	As at 31 December 2009	2008
		RMB'000	RMB'000
Non-current liabilities			
Long-term payables	USD	25,606	51,260
Current liabilities			
Other payables and accruals	USD	50,657	98,231

Company

Monetary liabilities	Currency denomination	As at 31 December 2009	2008
		RMB'000	RMB'000
Current assets			
Cash and cash equivalents	USD	3,123	61,523
Cash and cash equivalents	HKD	98,913	34,387

During the year ended 31 December 2009, the Group suffered exchange losses of approximately RMB1,953,000 (2008: RMB140,732,000) as a result of RMB appreciation. The losses were recorded as finance costs in the consolidated statement of comprehensive income for the year ended 31 December 2009.

At 31 December 2009, if USD/HKD had strengthened/weakened by 5% (2008: 5%) against RMB with all other variables held constant, the profit for the year would have been approximately RMB50,672,000 (2008: RMB72,004,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD/HKD denominated monetary assets and liabilities.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

The Group is exposed to price risk because of investments held by the Group, which are classified as available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investment made by the Group is either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management, including the executive directors, case by case.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices had been 5% (2008: 5%) higher/lower as 31 December 2009, the other comprehensive income would have been approximately RMB7,673,000 (2008: RMB4,309,000) higher/lower.

iii) Interest rate risk

The Group has interest-bearing assets including held-to-maturity investments, loan to a related party, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 14, 17, 18 and 19.

The Group needs no borrowing to finance its operation as the cash generated from operating activities and IPO proceeds can support the Group's development, and accordingly, the Group is not exposed to interest rate risk from liabilities and no policy is adopted by the Group to manage this risk. However, in 2009, the Group has a bank loan denominated in USD having a fixed interest rate (see Note 26 for details). Simultaneously with the loan, the Group entered into a forward foreign exchange contract on the known position that, despite of the interest expenses incurred, it would benefit from the net fixed exchange gains and the related interest income from the restricted cash.

Other financial assets and liabilities do not have material interest rate risk.

For 2009, if the average interest rate on held-to-maturity investments, term deposits with initial term of over three months and cash and cash equivalents had been higher/lower by 5% (2008: 5%) with all other variables held constant, the profit for the year would have been approximately RMB6,801,000 (2008: RMB5,261,000) higher/lower as a result of higher/lower interest income.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk (Cont'd)

The Company has interest-bearing assets (cash and cash equivalents) and has no interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) with banks and financial institutions, financial assets held for trading, held-to-maturity investments and other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and high quality international financial institutions outside the PRC. There was no recent history of default of cash and cash equivalents and term deposits with initial term of over three months in relation to these financial institutions.

For accounts receivable, as mentioned in Note 2.24(a), a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's mobile and telecommunications value-added services and Internet value-added services might be adversely affected in terms of recoverability of receivables.

To manage this risk, the Group maintains frequent communications with the telecommunications operators to ensure the relevant co-operation is running effectively and smoothly. In view of our history of co-operation with the telecommunications operators and the sound collection history of the receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 16 for details).

For accounts receivable from advertising customers, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments represented a certain percentage of the total service fees for each advertising service are required.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's financial department maintains flexibility in funding by maintaining adequate cash and cash equivalent.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At 31 December 2009					
Short-term bank borrowing	**202,322**	**–**	**–**	**–**	**202,322**
Long-term payables	**–**	**111,747**	**174,892**	**–**	**286,639**
Accounts payable, other payables and accruals (excluding prepayment received from customers)	**2,250,626**	**–**	**–**	**–**	**2,250,626**
Total	**2,452,948**	**111,747**	**174,892**	**–**	**2,739,587**
At 31 December 2008					
Long-term payables	–	51,260	560,800	–	612,060
Accounts payable, other payables and accruals (excluding prepayment received from customers)	1,214,505	–	–	–	1,214,505
Total	1,214,505	51,260	560,800	–	1,826,565

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Company					
At 31 December 2009					
Amounts due to subsidiaries	**1,107,184**	**–**	**–**	**–**	**1,107,184**
Other payables and accruals	**24,517**	**–**	**–**	**–**	**24,517**
Total	**1,131,701**	**–**	**–**	**–**	**1,131,701**
At 31 December 2008					
Amounts due to subsidiaries	374,114	–	–	–	374,114
Other payables and accruals	22,300	–	–	–	22,300
Total	396,414	–	–	–	396,414

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholder value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or redeem the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation statement of financial position, which is also equal to total assets less total liabilities.

The gearing ratio as at 31 December 2009 and 2008 were as follows:

	2009	2008
	RMB'000	RMB'000
Total liabilities	**5,207,112**	2,736,225
Total assets	**17,505,765**	9,855,557
Gearing ratio	**30%**	28%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2009.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	–	–	153,462	153,462
Total	–	–	153,462	153,462

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

All the fair value estimates are included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009

	Available-for-sale financial assets
	RMB'000
Opening balance	86,180
Additions	67,282
Closing balance	153,462

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Recognition of Internet value-added services and mobile and telecommunications value-added services

As mentioned in Note 2.24(a), for the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

As at 31 December 2009, the balance of accounts receivable not yet confirmed by China Mobile, China Unicom and China Telecom and their subsidiaries was estimated to be RMB379,698,000 (31 December 2008: RMB291,420,000).

Were the actual outcome to differ by 5% (2008: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB18,985,000 (2008: RMB14,571,000) if unfavorable; or
- increase the revenue and accounts receivable by RMB18,985,000 (2008: RMB14,571,000) if favorable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.22(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 22).

The fair value of options granted for the year ended 31 December 2009 determined using the BS Model was approximately HKD116,915,000 (2008: HKD253,848,000).

In addition, the Group has also granted awarded shares to its employees at the fair value of HKD849,595,000 during 2009 (2008: HKD83,837,000).

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares that will stay within the Group at the end of the vesting period ("expected retention rate of grantees") to determine the amount of share-based compensation expenses charged into the profit or loss. As at 31 December 2009, the expected retention rate of grantees is assessed to be 91% (31 December 2008: 87%).

If the expected retention rate of grantees had been increased/decreased by 5% (2008: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB20,595,000 (2008: RMB10,134,000).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(c) Estimates of financial liabilities in relation to the put options granted to minority interest owners of Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"), a non-wholly owned subsidiary of the Company

In 2008, Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan"), a subsidiary of the Company, which owned 60% equity interests of Shenzhen Domain at that time, granted put options relating to the remaining 40% equity interests in Shenzhen Domain held by minority shareholders (the "Option Equity Interest").

Under the put option agreement, before 31 December 2009, Shiji Kaixuan may be required to acquire certain of Option Equity Interest at a pre-determined price; and, if the shares of Shenzhen Domain are not listed on a recognised stock exchange by 31 December 2010, Shiji Kaixuan may be required to acquire all the Option Equity Interest over a period of three years at a valuation which is six times the adjusted net profit of Shenzhen Domain for the preceding fiscal year provided that the adjusted net profit of Shenzhen Domain for such year will not be less than 80% of the adjusted net profit of the preceding year. Details are as follows:

(i) Shiji Kaixuan may be required to acquire 33% of all the Option Equity Interest (representing 13.2% equity interest in Shenzhen Domain) in 2011 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2010 (the valuation is capped at RMB1.2 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2010 will not be less than 80% of the adjusted net profit for the year ending 31 December 2009;

(ii) Shiji Kaixuan may be required to acquire 33% of all the Option Equity Interest (representing 13.2% equity interest in Shenzhen Domain) in 2012 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2011 (the valuation is capped at RMB1.4 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2011 will not be less than 80% of the adjusted net profit for the year ending 31 December 2010; and

(iii) Shiji Kaixuan may be required to acquire the remaining 34% of all the Option Equity Interest (representing 13.6% equity interest in Shenzhen Domain) in 2013 at a valuation which is six times of the adjusted net profit of Shenzhen Domain for the year ending 31 December 2012 (the valuation is capped at RMB1.6 billion) provided that the adjusted net profit of Shenzhen Domain for the year ending 31 December 2012 will not be less than 80% of the adjusted net profit for the year ending 31 December 2011.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(c) Estimates of financial liabilities in relation to the put options granted to minority interest owners of Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"), a non-wholly owned subsidiary of the Company (Cont'd)

If any of the Option Equity Interest to be sold in 2011 and 2012 are not sold in such respective years, such Option Equity Interest may be sold in subsequent years provided that the adjusted net profit condition for such subsequent years is fulfilled and the valuation for such Option Equity Interest will be subject to the capped valuation of the relevant year. For the Option Equity Interest to be sold in 2013, the right to sell will cease if the adjusted net profit for 2012 is less than 80% of that of 2011.

As the Shiji Kaixuan does not have the unconditional right to avoid delivering cash under the put option agreement, the Group has to recognise the relevant financial liabilities at the present value of the estimated future cash outflows on the assumption that it is required to acquire the Option Equity Interest. The directors of the Company also considered that the risk and reward for these equity interests have not been transferred to the Group. Accordingly, the recognition of the liabilities has been reflected as a debit to the equity interest attributable to the Company's equity holders.

In 2008, the directors of the Company initially accrued the relevant financial liabilities of RMB515,000,000 in the long-term payables and the same amount has been debited to other reserves in the shareholder's equity.

During the year ended 31 December 2009, the Group acquired 0.183% equity interest in Shenzhen Domain as a result of exercise of the put option by some minority shareholders of Shenzhen Domain. As at 31 December 2009, certain equity interest was not yet vested to the minority shareholders and not entitled to the put option. Based on this and the updated profit forecast of Shenzhen Domain, the Company reversed the relevant financial liabilities of RMB264,200,000. As at 31 December 2009, the directors of the Company estimated and recognised the financial liabilities for the remaining Option Equity Interest of RMB248,444,000. Such liabilities continued to be treated as non-current liabilities as they are expected to be settled after 31 December 2010.

Were the adjusted net profit of Shenzhen Domain to increase/decrease by 5% (2008: 5%) from management's estimates, the Group would need to reduce the put option liabilities, and decrease/increase the net assets of the Group accordingly, by RMB12,422,000 (2008: RMB25,750,000).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) The estimates of the lifespan of virtual products/items provided in the Group's Internet platforms

As mentioned in Note 2.24(a), the end users purchase certain virtual products/items provided in the Group's Internet platforms and the relevant revenue is recognsied based on the lifespan of the virtual products/items. The Group uses the available information, including the historical player pattern and behavior, the valid period of the relevant virtual products/items etc, to estimate the lifespan of virtual products/items.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

4.2 Critical judgements in applying the Group's accounting policies

(a) Recognition of deferred tax assets

Certain intra-group software and technology sales have been transacted within the Group. The self-developed software and technology purchased by two subsidiaries, Tencent Computer and Shiji Kaixuan, from other group companies have been initially recorded at the purchase prices as costs and then amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements, while these transactions were eliminated at the group level.

The Amortisation has been treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan for tax reporting purposes while the costs of purchase of these assets were eliminated in preparation of the consolidated financial statements of the Group. As a result, deferred tax assets have been recognised, based on temporary differences arising from the accounting base (at the group level, which is zero) and the tax base of the software and technology involved in these intragroup transactions, at the respective enacted corporate income tax rates of Tencent Computer and Shiji Kaixuan.

As at 31 December 2009, the relevant deferred tax assets were approximately RMB301,016,000 (31 December 2008: RMB334,164,000) (Note 28), which are expected to be recovered by the tax profits to be generated by Tencent Computer and Shiji Kaixuan in future.

5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors. The chief operating decision-makers review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

The Group has the following reportable segments for the years ended 31 December 2009 and 2008:

- Internet value-added services;
- Mobile and telecommunications value-added services;
- Online advertising; and
- Others.

Other segments of the Group mainly comprise provision of online payments and trademark licensing.

The chief operating decision-makers assess the performance of the operating segments based on a measure of segment revenue and gross profit/(loss) of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments' profit that is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Income tax expense is also not allocated to individual operating segments.

There were no transactions between the business segments. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the consolidated statement of comprehensive income.

5 SEGMENT INFORMATION (Cont'd)

The segment information provided to the chief operating decision-makers for the reporting segments for the years ended 31 December 2009 and 2008 are as follows:

Year ended 31 December 2009	Internet value-added services	Mobile and telecommu-nications value-added services	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	9,530,711	1,905,599	962,171	41,479	12,439,960
Gross profit/(loss)	6,741,486	1,177,852	664,563	(33,409)	8,550,492
Depreciation	141,427	17,956	7,063	7,114	173,560
Amortisation	73,772	–	–	–	73,772
Share of profit of associates	15,957	6,249	–	–	22,206

5 SEGMENT INFORMATION (Cont'd)

Year ended 31 December 2008	Internet value-added services	Mobile and telecommunications value-added services	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	4,914,974	1,398,984	826,049	14,537	7,154,544
Gross profit/(loss)	3,521,096	884,315	614,160	(35,448)	4,984,123
Depreciation	81,306	15,745	4,913	4,000	105,964
Amortisation	38,890	–	–	–	38,890
Share of loss of associates	(301)	(46)	–	–	(347)

The reconciliation of operating profit to profit before tax is shown in the consolidated statement of comprehensive income.

The Company is domiciled in Cayman Islands while the Group mainly operates its businesses in the PRC (excluding Hong Kong). The revenues from the external customers in the PRC (excluding Hong Kong) is RMB12,434,311,000 (2008: RMB7,154,544,000), and the total revenues from the external customers in other areas is RMB5,649,000 (2008: RMB Nil).

5 SEGMENT INFORMATION (Cont'd)

The Group also held financial instruments as investments which were traded in other territories, and the geographical information for the assets is as follows:

	Total assets	
	2009	2008
	RMB'000	RMB'000
Operating assets		
– The PRC	**15,807,881**	8,189,340
– United States	**7,176**	8,295
Investments		
– The PRC (excluding Hong Kong)	**90,244**	2,055
– Hong Kong	**564,321**	819,670
– Other Asian countries	**644,784**	329,398
– United States	**49,949**	106,240
– Europe	**341,410**	400,559
Consolidated	**17,505,765**	9,855,557

Assets located outside the PRC are mainly investments in associates, held-to-maturity investments, financial assets held for trading, term deposits with initial term of over three months and cash and cash equivalents. As at 31 December 2009, the total of non-current assets other than financial instruments and deferred tax assets located in the PRC is RMB3,007,274,000 (2008: RMB2,511,848,000), and the total of these non-current assets located in other countries is RMB465,355,000 (2008: RMB303,150,000).

All the revenue derived from a single external customer was less than 10% of the Group's total revenues for the year ended 31 December 2009.

Turnover consists of revenues generated by the Group, which are RMB12,439,960,000 and RMB7,154,544,000 for the years ended 31 December 2009 and 2008, respectively.

6 FIXED ASSETS

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008						
Cost	170,410	862,070	33,178	6,431	110,572	1,182,661
Accumulated depreciation	(4,618)	(281,842)	(8,588)	(3,312)	(45,045)	(343,405)
Net book amount	165,792	580,228	24,590	3,119	65,527	839,256
Year ended 31 December 2008						
Opening net book amount	165,792	580,228	24,590	3,119	65,527	839,256
Business combinations	–	7	–	–	–	7
Additions	–	589,635	10,345	663	11,830	612,473
Disposals	–	(8,505)	(296)	(31)	(2,194)	(11,026)
Depreciation	(3,484)	(232,207)	(7,144)	(1,191)	(20,334)	(264,360)
Impairment charge	–	–	–	–	(11,302)	(11,302)
Closing net book amount	162,308	929,158	27,495	2,560	43,527	1,165,048
At 31 December 2008						
Cost	170,410	1,402,087	43,171	7,049	117,826	1,740,543
Accumulated depreciation and impairment	(8,102)	(472,929)	(15,676)	(4,489)	(74,299)	(575,495)
Net book amount	162,308	929,158	27,495	2,560	43,527	1,165,048
Year ended 31 December 2009						
Opening net book amount	**162,308**	**929,158**	**27,495**	**2,560**	**43,527**	**1,165,048**
Additions	**1,128,661**	**595,703**	**30,998**	**1,069**	**4,662**	**1,761,093**
Disposals	**–**	**(552)**	**(634)**	**–**	**(2,452)**	**(3,638)**
Depreciation	**(38,734)**	**(353,488)**	**(9,557)**	**(1,109)**	**(2,413)**	**(405,301)**
Closing net book amount	**1,252,235**	**1,170,821**	**48,302**	**2,520**	**43,324**	**2,517,202**
At 31 December 2009						
Cost	**1,299,071**	**1,955,282**	**68,837**	**8,118**	**90,368**	**3,421,676**
Accumulated depreciation and impairment	**(46,836)**	**(784,461)**	**(20,535)**	**(5,598)**	**(47,044)**	**(904,474)**
Net book amount	**1,252,235**	**1,170,821**	**48,302**	**2,520**	**43,324**	**2,517,202**

6 FIXED ASSETS (Cont'd)

Depreciation of RMB173,560,000 (2008: RMB105,964,000), RMB5,377,000 (2008: RMB3,900,000) and RMB226,364,000 (2008: RMB154,496,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

7 CONSTRUCTION IN PROGRESS

	Buildings	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008			
Opening net book amount	105,601	6,631	112,232
Additions	746,402	28,285	774,687
Transfer to fixed assets	–	(11,022)	(11,022)
Closing net book amount	852,003	23,894	875,897
Year ended 31 December 2009			
Opening net book amount	**852,003**	**23,894**	**875,897**
Additions	**304,910**	**18,763**	**323,673**
Transfer to fixed assets	**(1,053,389)**	**(40,410)**	**(1,093,799)**
Closing net book amount	**103,524**	**2,247**	**105,771**

As at 31 December 2009, the construction in progress mainly represented the construction costs and other direct development costs of a property under construction located in Tianjin.

8 INVESTMENT PROPERTIES

	2009 RMB'000	2008 RMB'000
Opening net book amount	64,981	66,414
Additions	68,183	–
Transfer to fixed assets	(64,564)	–
Depreciation	(575)	(1,433)
Closing net book amount	68,025	64,981

The following amounts have been recognised in the consolidated statement of comprehensive income:

	2009 RMB'000	2008 RMB'000
Rental income	3,060	6,082
Direct operating expenses arising from investment properties that generate rental income	(729)	(2,175)

The investment properties represent certain units in office buildings in Shanghai and Chengdu, the PRC.

The fair value of the investment properties is estimated at approximately RMB80,425,000 (31 December 2008: RMB70,000,000) as at 31 December 2009 by management based on the current price in an active market for similar buildings in the same district.

8 INVESTMENT PROPERTIES (Cont'd)

The period of leases whereby the Group leased out its investment properties under operating leases will be within 4 years.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2009	2008
	RMB'000	RMB'000
Not later than one year	4,500	2,656
Later than one year and no later than five years	10,400	–
	14,900	2,656

9 LEASEHOLD LAND AND LAND USE RIGHTS

	2009	2008
	RMB'000	RMB'000
Opening net book amount	36,046	36,796
Additions	–	–
Amortisation		
– Capitalised in construction in progress	(284)	(204)
– Charge to consolidated statement of comprehensive income	(466)	(546)
Closing net book amount	35,296	36,046

The leasehold land and land use rights represent land use rights in the PRC with a lease period of 50 years. RMB466,000 (2008: RMB546,000) of the amortised lease prepayments were charged to general and administrative expenses during 2009.

10 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Licences	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007					
Cost	62,234	206,016	148,947	110,897	528,094
Accumulated amortisation and impairment	–	(19,265)	(12,555)	(104,280)	(136,100)
Net book amount	62,234	186,751	136,392	6,617	391,994
Year ended 31 December 2008					
Opening net book amount	62,234	186,751	136,392	6,617	391,994
Business combinations	–	–	1,260	79	1,339
Additions	–	25,059	45,999	310	71,368
Amortisation	–	(39,152)	(53,372)	(1,863)	(94,387)
Closing net book amount	62,234	172,658	130,279	5,143	370,314
At 31 December 2008					
Cost	62,234	231,075	196,206	111,286	600,801
Accumulated amortisation and impairment	–	(58,417)	(65,927)	(106,143)	(230,487)
Net book amount	62,234	172,658	130,279	5,143	370,314

10 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Licences	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009					
Opening net book amount	62,234	172,658	130,279	5,143	370,314
Additions	–	30,172	600	1,178	31,950
Disposals	–	(1,654)	–	–	(1,654)
Amortisation	–	(51,109)	(79,213)	(1,575)	(131,897)
Closing net book amount	62,234	150,067	51,666	4,746	268,713
At 31 December 2009					
Cost	62,234	257,817	196,806	14,497	531,354
Accumulated amortisation and impairment	–	(107,750)	(145,140)	(9,751)	(262,641)
Net book amount	62,234	150,067	51,666	4,746	268,713

Amortisation of RMB58,125,000 (2008: RMB55,497,000) and RMB73,772,000 (2008: 38,890,000) were charged to general and administrative expenses and cost of revenues respectively for the year ended 31 December 2009.

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of Internet value-added services.

Based on the assessment made by management, no impairment on goodwill was required as at 31 December 2009.

11 INVESTMENT IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	2009 RMB'000	2008 RMB'000
Investments in subsidiaries:		
– investments in equity interests - at cost, unlisted	48	33
– investments arising from share-based compensation (Note i)	703,563	381,439
– amounts due from subsidiaries (Note iv)	1,278,125	28,272
	1,981,736	409,744

The following is a list of principal subsidiaries of the Company as at 31 December 2009:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company 2009 Direct	2009 Indirect	2008 Direct	2008 Indirect	Principal activities
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB20,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of Internet and mobile and telecommunications value-added services, and Internet advertisement services
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	–	100%	–	100%	Development of computer software and provision of information service
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of Internet advertisement services

11 INVESTMENT IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2009		2008		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited ("Tencent Asset Management")	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Shenzhen Tenpay Technology Limited ("Tenpay Technology")	Established on 25 August 2006 in the PRC, private limited liability company	RMB100,000,000	–	100% (Note iii)	–	100% (Note iii)	Provision of e-Commerce, electronic payment and settlement services
Nanjing Wang Dian Technology Company Limited("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note ii)	–	100% (Note ii)	Provision of mobile and telecommunications value-added services

11 INVESTMENT IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2009		2008		
			Direct	Indirect	Direct	Indirect	
Beijing Yonghang Technology Company Limited ("Beijing Yonghang")	Established on 21 January 2005 in the PRC, private limited liability company	RMB15,000,000	–	63.9% (Note iii)	–	63.9% (Note iii)	Development of online games
Shenzhen Domain	Established on 28 April 1997 in the PRC, private limited liability company	RMB10,000,000	–	60.183% (Note iii)	–	60% (Note iii)	Development and provision of online games
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Shenzhen Tencent Business Management Limited	Established on 24 December 2009 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note iii)	–	–	Provision of enterprise consultation management, lease of investment properties and consultation of property information

11 INVESTMENT IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Note:

(i) The amount represents share-based compensation expenses arising from grant of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries.

(ii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements enacted among the registered owners of these subsidiaries, the Company and its other subsidiaries, the Company controls these companies by way of controlling more than one half of the voting rights of them, governing their financial and operating 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 agreements also transfer the risks and rewards of these companies to the Company. As a result, they are presented as consolidating subsidiaries of the Company.

(iii) These equity interests are directly owned by Tencent Computer or Shiji Kaixuan, in which the Company has indirect beneficial interests through contractual agreements (see Note (ii) above).

(iv) The amounts due from subsidiaries mainly represent advances made for investments in Cyber Tianjin, Tencent Chengdu and investment in associates. All these balances are unsecured and interest free and their settlements are neither planned nor likely to occur in the foreseeable future. The directors consider that it is appropriate to treat the balances as quasi equities in these companies and record them as non-current assets of the Company.

11 INVESTMENT IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries represent current account balances within the Group and a non-current advance to Tencent Asset Management for the held-to-maturity investment, which will mature in 2013. All balances are unsecured and interest free and the current balances are expected to be repayable on demand.

As at 31 December 2009, the amounts due from subsidiaries are neither past due nor impaired.

Amounts due from subsidiaries mainly represent amounts due from Tencent Asset Management and other subsidiaries outside PRC, all these subsidiaries mainly held cash and cash equivalents and other monetary assets.

(c) Consolidation of a special purpose entity

In connection with the share award scheme mentioned in Note 22(b), the Company has set up a special purpose entity, and the particulars of it are as follows:

Special purpose entity	Principal activities
Tencent Share Award Scheme ("Share Scheme Trust")	Administering and holding the Company's shares acquired for a share award scheme for the benefit of eligible employees of the Group

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the employees who have been awarded with the shares through their continued employment with the Group, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust in accordance with the requirements of IFRS.

In 2009, the Company contributed approximately RMB103,669,000 (2008: RMB22,104,000) to the Share Scheme Trust for its acquisition of the Company's shares. RMB103,618,000 (2008: RMB21,809,000) has been paid as the consideration for the acquisition of 1,013,100 shares (2008: 465,560 shares) of the Company, which was treated as "Shares held for share award scheme" (see Note 22(b)).

12 INVESTMENT IN ASSOCIATES

	2009 RMB'000	2008 RMB'000
Beginning of the year	302,712	–
Additional investment in associates/acquisition of associates	152,704	303,059
Share of profit/(loss) of associates	22,206	(347)
End of the year	477,622	302,712

As at 31 December 2009, the Group's investment in associates mainly included 30.02% (2008: 20.02%) equity interest in an Asia (excluding the PRC) online game company, 25% (2008: 25%) equity interest in a venture capital fund in Asia (excluding the PRC), and several equity interests in mobile game developers in the PRC.

Investment in associates at 31 December 2009 included goodwill of RMB201,603,000 (2008: 201,603,000).

The Group's share of the results of its associates, all of which are unlisted, and its aggregated assets (including goodwill) and liabilities, are shown in aggregate as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/ (losses) RMB'000
2009				
An Asia (excluding the PRC) online game company	436,290	22,203	152,934	15,957
Other associates	65,933	2,398	18,353	6,249
	502,223	24,601	171,287	22,206
2008				
An Asia (excluding the PRC) online game company	291,483	9,777	48,778	(302)
Other associates	21,026	20	1,030	(45)
	312,509	9,797	49,808	(347)

13 FINANCIAL INSTRUMENTS BY CATEGORY

The Group

	Loans and receivables RMB'000	Financial assets at fair value through profit and loss RMB'000	Available-for-sale financial assets RMB'000	Held-to-maturity investments RMB'000	Total RMB'000
Assets					
At 31 December 2009					
Available-for-sale financial assets (Note 15)	–	–	**153,462**	–	**153,462**
Accounts receivable (Note 16)	**1,229,436**	–	–	–	**1,229,436**
Deposits and other receivables	**223,618**	–	–	–	**223,618**
Held-to-maturity investments (Note 14)	–	–	–	**341,410**	**341,410**
Term deposits with initial term of over three months (Note 18)	**5,310,168**	–	–	–	**5,310,168**
Restricted cash (Note 26)	**200,000**	–	–	–	**200,000**
Cash and cash equivalents (Note 19)	**6,043,696**	–	–	–	**6,043,696**
Total	**13,006,918**	–	**153,462**	**341,410**	**13,501,790**
At 31 December 2008					
Available-for-sale financial assets	–	–	86,180	–	86,180
Accounts receivable	983,459	–	–	–	983,459
Deposits and other receivables	243,113	–	–	–	243,113
Held-to-maturity investments	–	–	–	68,346	68,346
Financial assets held for trading	–	329,804	–	–	329,804
Term deposits with initial term of over three months	1,662,501	–	–	–	1,662,501
Cash and cash equivalents	3,067,928	–	–	–	3,067,928
Total	5,957,001	329,804	86,180	68,346	6,441,331

13 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The Group (Cont'd)

	Other financial liabilities
	RMB'000
Liabilities	
At 31 December 2009	
Accounts payable (Note 23)	**696,511**
Other payables and accruals (excluded prepayment received from customers)	**1,554,115**
Long-term payables (Note 25)	**274,050**
Short-term bank borrowing (Note 26)	**202,322**
Total	**2,726,998**
At 31 December 2008	
Accounts payable	244,647
Other payables and accruals (excluded prepayment received from customers)	969,858
Long-term payables	566,260
Total	1,780,765

13 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The Company

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Assets			
At 31 December 2009			
Available-for-sale financial assets	–	14,758	14,758
Amounts due from subsidiaries (Note 11(b))	1,402,232	–	1,402,232
Deposits and other receivables	7,522	–	7,522
Cash and cash equivalents (Note 19)	102,081	–	102,081
Total	1,511,835	14,758	1,526,593
At 31 December 2008			
Available-for-sale financial assets	–	9,840	9,840
Amounts due from subsidiaries	1,769,976	–	1,769,976
Deposits and other receivables	5,646	–	5,646
Cash and cash equivalents	95,957	–	95,957
Total	1,871,579	9,840	1,881,419

	Other financial liabilities RMB'000
Liabilities	
At 31 December 2009	
Amounts due to subsidiaries	1,107,184
Other payables and accruals	24,517
Total	1,131,701
At 31 December 2008	
Amounts due to subsidiaries	374,114
Other payables and accruals	22,300
Total	396,414

14 HELD-TO-MATURITY INVESTMENTS/FINANCIAL ASSETS HELD FOR TRADING

A USD Constant Maturity Treasury Linked Bond with a principal amount of USD10,000,000, which was classified as held-to-maturity investments, matured during the year ended 31 December 2009.

In addition, the term sheet of a USD Principal Protected Note, which was previously classified as financial assets held for trading, was restructured during the year ended 31 December 2009. After the restructure, the note will offer interest at a fixed annual rate and mature in 2013. Accordingly, the note has been extinguished as financial assets held for trading, and recognised as held-to-maturity investments as management intends to hold the note to maturity.

The USD Principal Protected Note was issued by Goldman Sachs Financial Products I Limited and guaranteed by The Goldman Sachs Group, Inc.

The directors consider that the carrying value of the held-to-maturity investments approximates its fair value as at 31 December 2009. No impairment provision was required for the held-to-maturity investments as at 31 December 2009.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 RMB'000	2008 RMB'000
Beginning of the year	86,180	63,605
Additions	67,282	41,248
Impairment charge	–	(18,673)
End of the year	153,462	86,180
Non-current portion	153,462	86,180
Included equity interests, which were not listed, in:		
14.56% (2008: 14.56%) equity interest in an online game company in the PRC	40,000	40,000
13.99% (2008: Nil) equity interest in an online game company in Korea	37,017	–
7.5% (2008: Nil) equity interest in an online game company in the USA	20,496	–
10.7% (2008: 10.7%) equity interest in a search service company in the PRC	20,477	20,477
Others	35,472	25,703
	153,462	86,180

16 ACCOUNTS RECEIVABLE

	2009	2008
	RMB'000	RMB'000
0 - 30 days	**690,858**	550,813
31 days - 60 days	**173,331**	172,461
61 days - 90 days	**112,752**	67,593
Over 90 days but less than a year	**252,495**	192,592
	1,229,436	983,459

All accounts receivable are denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	2009	2008
	RMB'000	RMB'000
Telecommunications operators	**796,802**	643,405
Advertising customers	**421,328**	319,939
Others	**11,306**	20,115
	1,229,436	983,459

The Group has no formal credit periods communicated to telecommunications operators. However, these customers usually settle the amounts due from them within a period of 30 to 120 days. Advertising customers usually have a credit period of 90 days after full execution of the contracted advertisement orders.

As at 31 December 2009, insignificant amounts of accounts receivable were past due, but were still within the normal settlement periods. No impairment has been made with respect to such amounts as their credit quality is assessed with reference to historical counterparty default rates.

The directors consider that the carrying value of the receivable balance approximates its fair value as at 31 December 2009.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	RMB'000	RMB'000
Included in non-current assets:		
Loan to a related party (Note (a))	54,700	73,094
Non-current portion of running royalty fees for online games	25,606	51,260
	80,306	124,354
Included in current assets:		
Current portion of running royalty fees for online games	35,460	143,305
Prepaid expenses	95,404	24,636
Advances to suppliers	73,860	40,380
Rental deposits and other deposits	14,448	22,345
Interest receivables	53,450	33,598
Refundable value-added tax ("VAT") (Note (b))	57,052	52,877
Others	43,968	61,199
	373,642	378,340
	453,948	502,694

Note:

(a) The amount represented the outstanding balance of a loan due by Shenzhen Shijiaqi Investment Company Limited ("Shijiaqi"), a minority interest owner of Shenzhen Domain and wholly owned by Mr. Zhang Yan, the director of Shenzhen Domain. The loan was originally made to Mr. Zhang Yan for his acquisition of 15.6% equity interest in Shenzhen Domain in 2008. During the year ended 31 December 2009, Mr. Zhang Yan transferred all his equity interests in Shenzhen Domain, together with the above loan, to Shijiaqi. The loan is repayable over a period of three years from 2008, bearing interest at 7.47% per annum, and is secured by the aforesaid 15.6% equity interest held by Shijiaqi. As at 31 December 2009, management considered that the fair value of this equity interest was not less than the carrying amount of the outstanding loan.

(b) According to a notice [Caishui 2000 No. 25] issued by the relevant government authority in the PRC, the portion of VAT paid in excess of 3% of the consideration of the software products developed and sold by an ordinary VAT payer would be immediately refunded by the tax bureau. The amounts as at 31 December 2009 represented the amounts yet to be refunded by the local tax authorities.

The carrying amounts of the prepayments, deposits and other receivables approximate their fair values.

Deposits and other receivables (excluding prepaid expenses, advances to suppliers and running royalty fees for online games) are neither past due nor impaired. Their recoverability is assessed by reference to debtor's credit status.

18 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2009 was 2.17% (2008: 3.81%).

The Group's term deposits denominated in USD and HKD with initial term of over three months as at 31 December 2009 are presented in Note 3.1(a).

The directors consider that the carrying value of the term deposits with initial term of over three months approximates their fair value as at 31 December 2009. Term deposits with initial term of over three months are neither past due nor impaired.

As at 31 December 2009, approximately 91% (2008: 90%) of term deposits with initial term of over three months were placed in the Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank and Industrial and Commercial Bank of China.

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,898,166**	1,958,719	**101,426**	92,540
Term deposits with initial term within three months	**4,145,530**	1,109,209	**655**	3,417
	6,043,696	3,067,928	**102,081**	95,957
Maximum exposure to credit risk	**6,043,069**	3,062,875	**101,842**	95,673

The effective interest rates of the term deposits of the Group and the Company with initial term within three months for the year ended 31 December 2009 were 1.48% (2008: 3.05%) and 1.45% (2008: 4.12%), respectively.

Details of the balances denominated in USD and HKD maintained by the Group and the Company as at 31 December 2009 are presented in Note 3.1(a). Approximately RMB5,482,886,000 (2008: RMB1,944,713,000) of the total balance of the Group was denominated in RMB and deposited with banks in the PRC. The Company had no material balance denominated in RMB.

As at 31 December 2009, cash at bank and term deposits with initial term within three months are neither past due nor impaired. In addition, approximately 92% (2008: approximately 90%) of cash and cash equivalents of the Group are placed in Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation, JP Morgan Private Bank, Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank and Industrial and Commercial Bank of China.

20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE

The total authorised number of ordinary shares is 10,000,000,000 shares (2008: 10,000,000,000 shares) with par value of HKD0.0001 per share (2008: HKD0.0001 per share). As at 31 December 2009, all issued shares were fully paid.

	Number of ordinary shares	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	1,788,574,647	194	1,455,854	–	220,230	1,676,278
Employee share option scheme:						
– value of employee services	–	–	–	–	150,217	150,217
– number of shares issued and proceeds received	16,146,156	2	86,940	–	–	86,942
Employee share award scheme:						
– value of employee services	–	–	–	–	10,992	10,992
– shares purchased for share award scheme	–	–	–	(21,809)	–	(21,809)
Repurchase and cancellation of shares	(9,223,800)	(1)	(387,585)	–	–	(387,586)
Issue of new shares pursuant to share award scheme	1,016,050	–	–	–	–	–
At 31 December 2008	1,796,513,053	195	1,155,209	(21,809)	381,439	1,515,034

20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

	Number of ordinary shares	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	1,796,513,053	195	1,155,209	(21,809)	381,439	1,515,034
Employee share option scheme:						
– value of employee services	–	–	–	–	167,178	167,178
– number of shares issued and proceeds received (Note (i))	16,249,906	2	165,446	–	–	165,448
Employee share award scheme:						
– value of employee services	–	–	–	–	154,946	154,946
– shares purchased for share award scheme (Note (ii))	–	–	–	(103,618)	–	(103,618)
– issue of new shares pursuant to share award scheme (Note (iv))	8,181,180	–	–	–	–	–
– cancel of shares pursuant to share award scheme (Note (v))	(132,080)	–	–	–	–	–
– vesting of awarded shares	–	–	(1,660)	1,660	–	–
Repurchase and cancellation of shares	(1,922,000)	–	(74,570)	–	–	(74,570)
At 31 December 2009	1,818,890,059	197	1,244,425	(123,767)	703,563	1,824,418

20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

As at 31 December 2009, the total number of issued ordinary shares of the Company was 1,818,890,059 shares (2008: 1,796,513,053 shares) which included 10,411,434 shares (2008: 1,481,610 shares) held under the share award scheme (Note 22(b)).

Note:

(i) During the year ended 31 December 2009, a total of 14,245,011 Post-IPO options were exercised at exercise prices ranging from HKD3.6650 to HKD60.5900. In addition, a total of 2,004,895 Pre-IPO options were exercised at exercise prices ranging from USD0.0497 to USD0.4396.

(ii) During the year ended 31 December 2009, the Share Scheme Trust acquired 1,013,100 shares of the Company in the open market for the purpose of the share award scheme (Note 22(b)). The total amount paid was HKD117,591,000 (equivalent to approximately RMB103,618,000) and has been deducted from shareholder's equity.

(iii) During the year ended 31 December 2009, the Share Scheme Trust transferred 132,376 shares (for the year ended 31 December 2008: Nil) to the awardees upon vesting of awarded shares.

(iv) During the year ended 31 December 2009, the Company allotted 8,181,180 shares of the Company by way of allotment of new shares to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.

(v) During the year ended 31 December 2009, the grant of 132,080 awarded shares was not completed and these shares were subsequently cancelled.

(vi) As at 31 December 2009, included in "Shares held for share award scheme", 10 shares (2008: 132,160 shares) held by the Share Scheme Trust have not yet been granted to employees (Note 22(b)). They represented the "treasury shares" of the Group as at that date.

21 OTHER RESERVES

	Capital reserve (Note i) RMB'000	Revaluation reserve RMB'000	Other reserves RMB'000	PRC statutory reserves: Statutory surplus reserve fund (Note ii) RMB'000	PRC statutory reserves: Reserve fund (Note ii) RMB'000	Total RMB'000
Balance at 1 January 2008	20,000	(6,174)	–	54,064	12,405	80,295
Recognition of the financial liabilities in respect of the put option granted to minority shareholders	–	–	(515,000)	–	–	(515,000)
Profit appropriations to statutory reserves	–	–	–	1,667	–	1,667
Balance at 31 December 2008	20,000	(6,174)	(515,000)	55,731	12,405	(433,038)
Balance at 1 January 2009	**20,000**	**(6,174)**	**(515,000)**	**55,731**	**12,405**	**(433,038)**
Exercise of put option granted to minority shareholders (Note 4.1(c))	**–**	**–**	**281**	**–**	**–**	**281**
Reversal of the liabilities in respect of the put options granted to minority shareholders (Note 4.1(c))	**–**	**–**	**264,200**	**–**	**–**	**264,200**
Profit appropriations to statutory reserves	**–**	**–**	**–**	**2,193**	**–**	**2,193**
Balance at 31 December 2009	**20,000**	**(6,174)**	**(250,519)**	**57,924**	**12,405**	**(166,364)**

Note:

(i) The capital reserve arises on elimination of the share capital of Tencent Computer upon formation of the Group.

(ii) In accordance with the Companies Laws of the PRC and the provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

21 OTHER RESERVES (Cont'd)

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

22 SHARE OPTIONS AND SHARE AWARD SCHEMES

(a) Share option schemes

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

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

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

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

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I in which 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 in the Company at a price determined by it pursuant to the terms of the scheme. The Post-IPO Option Scheme I will remain in force for a period of ten years, commencing on the adoption date.

The Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Share Option Scheme II (the "Post-IPO Option Scheme II") as mentioned below.

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Post-IPO Option Scheme II

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

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall not exceed 88,903,654 shares, 5% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme II (the "Scheme Mandate Limit A"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme II shall not be counted for the purpose of calculating the 5% limit. The Company may refresh the Scheme Mandate Limit A by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit A so refreshed shall not exceed 5% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit A. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II).

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(iv) Post-IPO Share Option Scheme III (the "Post-IPO Option Scheme III")

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. The Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption.

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall not exceed 36,018,666 shares, 2% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme III (the "Scheme Mandate Limit B"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme III shall not be counted for the purpose of calculating the 2% limit. The Company may refresh the Scheme Mandate Limit B by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit B so refreshed shall not exceed 2% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit B. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme III will expire no later than the last day of the ten-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme III).

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

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

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD53.4775	13,559,367	13,559,367
Exercised	USD0.1106	(4,624,739)	HKD7.6504	(11,327,458)	HKD31.9561	(193,959)	(16,146,156)
Lapsed	USD0.1967	(40)	HKD9.4576	(1,253,088)	HKD48.4173	(2,085,578)	(3,338,706)
At 31 December 2008	USD0.0964	4,124,083	HKD10.4762	37,615,536	HKD41.2330	28,715,506	70,455,125
Currently exercisable as at 31 December 2008	USD0.0964	4,124,083	HKD9.2835	15,281,499	HKD32.8184	632,668	20,038,250
At 1 January 2009	**USD0.0964**	**4,124,083**	**HKD10.4762**	**37,615,536**	**HKD41.2330**	**28,715,506**	**70,455,125**
Granted	**–**	**–**	**–**	**–**	**HKD89.8122**	**2,952,150**	**2,952,150**
Exercised	**USD0.1164**	**(2,004,895)**	**HKD8.4108**	**(12,249,167)**	**HKD54.2627**	**(1,995,844)**	**(16,249,906)**
Lapsed	**USD0.0498**	**(254,120)**	**HKD9.6262**	**(424,451)**	**HKD45.7985**	**(680,393)**	**(1,358,964)**
At 31 December 2009	**USD0.0812**	**1,865,068**	**HKD11.5050**	**24,941,918**	**HKD45.1756**	**28,991,419**	**55,798,405**
Currently exercisable as at 31 December 2009	**USD0.0812**	**1,865,068**	**HKD9.6579**	**18,037,478**	**HKD41.5573**	**3,057,144**	**22,959,690**

No share options had been granted under the Post-IPO Option Scheme III since its adoption to 31 December 2009.

As a result of options exercised during the year ended 31 December 2009, 16,249,906 (2008: 16,146,156) ordinary shares were issued (Note 20). The weighted average price of the shares at the time these options were exercised was HKD90.56 (equivalent to approximately RMB79.80) per share (2008: HKD53.86 per share).

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2009 and 2008 are as follows:

		Number of options	
Expiry Date	**Range of exercise price**	**2009**	2008
31 December 2011	USD0.0497	**1,660,300**	3,392,100
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	**204,768**	731,983
		1,865,068	4,124,083
10 years commencing from the adoption date of 24 March 2004	HKD3.6650-HKD8.3500	**13,237,120**	22,343,843
(Post-IPO Option Scheme I)	HKD11.5500-HKD25.2600	**11,704,798**	15,271,693
		24,941,918	37,615,536
7 years commencing from	HKD31.7500-HKD43.5000	**15,589,627**	16,918,113
date of grant of options	HKD45.5000-HKD90.3000	**13,137,092**	11,797,393
(Post-IPO Option Scheme II)	HKD128.4000-HKD146.5800	**264,700**	–
		28,991,419	28,715,506
		55,798,405	70,455,125

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair values of options

The fair values of the options granted to employees, determined using the BS Model, during the period from 1 January 2008 to 31 December 2009 are as follows:

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
29/1/2008	HKD102,796,000	5,880,117	HKD46.50	HKD46.50	2.38%	1.03%	50.0%	Based on grant date: 4,243,350 options (Note (iv)), 330,167 options (Note (v)) and 1,306,600 options (Note (vii))
18/2/2008	HKD3,372,000	182,070	HKD49.95	HKD49.95	2.39%	1.03%	50.0%	Based on grant date (Note (iv))
25/3/2008	HKD6,565,000	416,990	HKD42.65	HKD42.65	2.24%	1.03%	50.0%	Based on grant date (Note (iv))
11/4/2008	HKD1,664,000	92,600	HKD47.72	HKD46.50	2.30%	1.03%	50.0%	Based on grant date: 51,820 options (Note (iv)), 20,390 options (Note (v)) and 20,390 options (Note (vi))
3/7/2008	HKD131,071,000	5,767,680	HKD60.59	HKD59.50	3.50%	1.03%	50.0%	Based on grant date: 5,278,440 options (Note (iv)), 431,310 options (Note (v)) and 57,930 options (Note (vi))
10/10/2008	HKD5,302,000	323,390	HKD48.92	HKD45.10	2.42%	1.03%	51.0%	Based on grant date: 243,390 options (Note (iv)) and 80,000 options (Note (v))
1/12/2008	HKD3,078,000	179,320	HKD43.50	HKD43.50	1.75%	1.03%	54.0%	Based on grant date (Note (iv))

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair values of options (Cont'd)

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
17/2/2009	HKD6,613,000	380,000	HKD48.01	HKD45.75	1.45%	0.71%	54.0%	Based on grant date (Note (iv))
10/7/2009	HKD92,727,000	2,307,450	HKD90.30	HKD90.30	2.14%	0.71%	53.4%	Based on grant date: 393,950 options (Note (iv)), 1,162,250 options (Note (v)) and 751,250 options (Note (vi))
24/9/2009	HKD748,000	14,700	HKD128.40	HKD128.40	2.21%	0.71%	53.0%	Based on grant date (Note (iv))
24/11/2009	HKD16,827,000	250,000	HKD146.58	HKD145.10	1.92%	0.71%	52.7%	Based on grant date (Note (vi))

Note:

(i) The risk free rate was determined based on the yield to maturity of Hong Kong Government Bonds with maturity in June 2015, December 2015, June 2016 or December 2016 as at the date of valuation.

(ii) Dividend yield is estimated based on the Company's historical dividend yield.

(iii) Volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

(iv) The first 20% of the option can be exercised one year after the grant date, and then each 20% of the total options will become exercisable in each subsequent year.

(v) The first 20% of the option can be exercised two years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year.

(vi) The first 20% of the option can be exercised three years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

(vii) The first 20% of the option can become exercisable from 17 May 2009, and then each 20% of the total options will become exercisable in each subsequent year.

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme

On 13 December 2007, the Company adopted a share award scheme (the "Share Scheme"). The Share Scheme was subsequently amended on 31 January 2008 and 13 May 2009, respectively. The Board may, at its absolute discretion, select any eligible persons (the "Awarded Persons") to participate in the Share Scheme.

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

Unless it is early terminated by the Board, the Share Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date according to the amendment on 13 May 2009 (31 December 2008: ten years).

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

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares

Movements in the number of shares held for the Share Scheme and awarded shares for the years ended 31 December 2009 and 2008 are as follows:

	Shares held for the Share Scheme	Awarded shares
At 1 January 2008	–	–
Purchased	465,560	–
Allotted	1,016,050	–
Granted	(1,349,450)	1,349,450
At 31 December 2008	132,160	1,349,450
Currently exercisable as at 31 December 2008		–
At 1 January 2009	**132,160**	**1,349,450**
Purchased (Note (i))	**1,013,100**	**–**
Allotted	**8,181,180**	**–**
Granted	**(9,194,350)**	**9,194,350**
Cancelled (Note (ii))	**(132,080)**	**–**
Vested	**–**	**(132,376)**
At 31 December 2009	**10**	**10,411,424**
Currently exercisable as at 31 December 2009		**339,056**

Note:

(i) During the year ended 31 December 2009, the Group acquired 1,013,100 shares through the Trustee with a consideration of approximately HKD117,591,000 (equivalent to approximately RMB103,618,000).

(ii) The grant of 132,080 awarded shares was not completed and these shares were subsequently cancelled.

The fair values of the awarded shares were calculated based on the market prices of the Company's shares at the grant dates. The expected dividends during the vesting period have been taken into account when calculating the fair values of the awarded shares.

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Cont'd)

The fair value of the awarded shares and their exercisable dates are as follows:

Date of grant	Total value of shares at grant date	No. of shares granted	Market price at grant date	Exercisable date (Note(i))
1/4/2008	HKD3,047,000	67,710	HKD45.00	Based on grant date (Note (ii))
10/6/2008	HKD8,215,000	128,050	HKD64.15	Based on grant date: 42,570 shares (Note (ii)), 20,000 shares (Note (iii)) and 65,480 shares (Note (iv))
29/8/2008	HKD59,226,000	883,970	HKD67.00	Based on grant date: 417,730 shares (Note (ii)), 36,000 shares (Note (iii)), 13,330 shares (Note (iv)), 278,310 shares (Note (v)) and 138,600 shares (Note (vii))
6/10/2008	HKD2,709,000	56,310	HKD48.10	Based on grant date: 29,310 shares (Note (ii)), 15,000 shares (Note (iii)) and 12,000 shares (Note (v))
17/11/2008	HKD10,275,000	205,910	HKD49.90	Based on grant date: 85,510 shares (Note (ii)) and 120,400 shares (Note (vi))
9/12/2008	HKD365,000	7,500	HKD48.70	Based on grant date (Note (ii))
23/1/2009	HKD5,341,000	120,700	HKD44.25	Based on grant date: 60,700 shares (Note (ii)), 35,000 shares (Note (iv)) and 25,000 shares (Note (v))
17/2/2009	HKD1,144,000	25,000	HKD45.75	Based on grant date (Note (ii))

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Cont'd)

Date of grant	Total value of shares at grant date	No. of shares granted	Market price at grant date	Exercisable date (Note(i))
10/7/2009	HKD772,599,000	8,555,910	HKD90.30	Based on grant date: 4,746,045 shares (Note (ii)), 3,456,575 shares (Note (iii)), 41,600 shares (Note (iv)), 196,690 shares (Note (viii)), 15,000 shares (Note (ix)), 35,000 shares (Note (x)), 35,000 shares (Note (xi)) and 30,000 shares (Note (xii))
22/9/2009	HKD23,916,000	186,840	HKD128.00	Based on grant date: 146,020 shares (Note (ii)) and 40,820 shares (Note (iii))
24/11/2009	HKD24,725,000	170,400	HKD145.10	Based on grant date: 38,650 shares (Note (ii)), 23,750 shares (Note (iii)), 8,000 shares (Note (v)) and 100,000 shares (Note (viii))
15/12/2009	HKD21,870,000	135,500	HKD161.40	Based on grant date: 116,500 shares (Note (ii)), 16,500 shares (Note (iii)) and 2,500 shares (Note (viii))

Note:

(i) Notwithstanding the exercisable dates, the awarded shares shall only be vested upon the Awarded Person serving a written notice to the Company requesting for transfer of such awarded shares.

(ii) The first 20% of these awarded shares will be exercisable one year after the grant date, and then each 20% of the total awarded shares will be exercisable in each subsequent year.

(iii) The first 20% of these awarded shares will be exercisable two years after the grant date, and then each 20% of the total awarded shares will be exercisable in each subsequent year.

(iv) The first one-third of these awarded shares will be exercisable one year after the grant date, and then each one-third of the total awarded shares will be exercisable in each subsequent year.

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(b) Share award scheme (Cont'd)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Cont'd)

Note: (Cont'd)

(v) The first 50% of these awarded shares will be exercisable one year after the grant date, and then the remaining 50% of the total awarded shares will be exercisable in the subsequent year.

(vi) The first one-sixth of these awarded shares will be exercisable one year after the grant date, and then each one-sixth of the total awarded shares will be exercisable in each subsequent year.

(vii) The first 50% of these awarded shares will be exercisable two years after the grant date, and then the remaining 50% of the total awarded shares will be exercisable in the subsequent year.

(viii) The first 20% of these awarded shares will be exercisable three years after the grant date, and then each 20% of the total awarded shares will be exercisable in each subsequent year.

(ix) The first 25% of these awarded shares will be exercisable one year after the grant date, and then each 25% of the total awarded shares will be exercisable in each subsequent year.

(x) The first 50% of these awarded shares can become exercisable from 31 December 2009, and then the remaining 50% of the total awarded shares will become exercisable in the subsequent year.

(2) Outstanding awarded shares

Details of the fair value and the respective numbers of awarded shares which remained outstanding as at 31 December 2009 and 2008 are as follows:

Market price at grant date	**Number of shares**	
	2009	2008
HKD44.25 – HKD90.30	**9,918,684**	1,349,450
HKD128.00 – HKD161.40	**492,740**	–
	10,411,424	1,349,450

22 SHARE OPTIONS AND SHARE AWARD SCHEMES (Cont'd)

(c) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the option and awarded share vesting period ("expected retention rate of grantees") in order to determine the amount of share-based compensation expenses charged to the profit or loss. As at 31 December 2009, the expected retention rate of grantees was assessed to be 91% (31 December 2008: 87%).

23 ACCOUNTS PAYABLE

Accounts payable and their aging analysis are as follows:

	2009 RMB'000	2008 RMB'000
0 - 30 days	493,013	202,237
31 days - 60 days	72,554	25,225
61 days - 90 days	82,525	1,269
Over 90 days but less than a year	48,419	15,916
	696,511	244,647

24 OTHER PAYABLES AND ACCRUALS

	2009 RMB'000	2008 RMB'000
Staff costs and welfare accruals	846,349	457,710
Marketing and administrative expense accruals	267,417	170,378
Payables for running royalty fee	50,657	98,231
Prepayments received from customers	71,936	43,684
Deposits from customer-to-customer business	265,136	126,395
Professional fees accruals	18,111	13,655
Others	106,445	103,489
	1,626,051	1,013,542

25 LONG-TERM PAYABLES

	2009 RMB'000	2008 RMB'000
Non-current portion of the present value of running royalty fee	25,606	51,260
Present value of liabilities for the put options granted to minority shareholders (Note 4.1(c))	248,444	515,000
	274,050	566,260

26 SHORT-TERM BANK BORROWING

	2009 RMB'000	2008 RMB'000
Short-term bank borrowing	202,322	–

The principal amount of the bank borrowing was USD29,775,000 and the interest rate was 1.06% per annum. The borrowing will be repaid in full in USD in July 2010. A foreign exchange forward contract arranged with the borrowing bank at the borrowing date to enable the Group to purchase the required amount of USD with RMB to settle the borrowing and interest at the due date. The bank borrowing and the foreign exchange forward contract are deemed as linked transactions and accordingly, the bank borrowing was treated as a bank borrowing denominated in RMB (Note 3.1 (a) (iii)).

The bank borrowing is secured by a pledge of restricted cash of RMB200,000,000.

The fair value of the short-term bank borrowing approximated to the carrying amount as at 31 December 2009.

27 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain Internet value-added services of which the related services have not been rendered as at 31 December 2009.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated on temporary differences under the balance sheet liability method using the tax rates, which are enacted or substantively enacted and expected to apply at the time of reversal of the temporary differences.

There were no offsettings of deferred income tax assets and liabilities in 2009 and 2008.

	2009 RMB'000	2008 RMB'000
Deferred income tax assets:		
- to be recovered after more than 12 months	244,829	274,598
- to be recovered within 12 months	56,187	59,566
	301,016	334,164
Deferred income tax liabilities:		
- to be recovered after more than 12 months	(13,245)	(20,169)
- to be recovered within 12 months	(356,738)	(58,199)
	(369,983)	(78,368)

The gross movements of the deferred income tax account were as follows:

	2009 RMB'000	2008 RMB'000
At beginning of year	255,796	246,882
Business combinations	–	(315)
(Debit)/credit to profit or loss relating to origination and reversal of temporary differences (Note 37)	(324,763)	37,602
Effect of change in tax rates recognised in profit or loss	–	(28,373)
At end of year	(68,967)	255,796

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets, which are arising from intra-group software and technology sales, were as follows:

	2009 RMB'000	2008 RMB'000
At beginning of year	**334,164**	287,652
Credit to profit or loss relating to origination of temporary differences	**27,020**	147,525
Charge to profit or loss relating to reversal of temporary differences	**(60,168)**	(72,640)
Effect of change on tax rates recognised in profit or loss	**–**	(28,373)
At end of year	**301,016**	334,164

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology sales transactions (Note 4.2(a)). The credit to profit or loss represents tax impacts of originating temporary differences arising from these software and technology sales, while the charge to profit or loss represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these softwares and technologies.

As at 31 December 2009, the Group did not recognise deferred income tax assets of RMB33,902,000 (2008: RMB5,525,000) in respect of accumulated losses amounting to RMB135,607,000 (2008: RMB22,101,000). These tax losses will expire at various dates up to and including 2011, 2012, 2013 and 2014.

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

Deferred tax liabilities:	Transfer of surplus cash RMB'000	Intangible assets acquired in business combination at fair values RMB'000	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'000 (Note)	Total RMB'000
At 1 January 2008	(7,631)	(33,139)	-	(40,770)
Business combinations	-	(315)	-	(315)
Credit/(charge) to profit or loss relating to origination of temporary differences	7,631	5,086	(50,000)	(37,283)
At 31 December 2008	-	(28,368)	(50,000)	(78,368)
At 1 January 2009	**–**	**(28,368)**	**(50,000)**	**(78,368)**
Credit/(charge) to profit or loss relating to origination of temporary differences	**–**	**8,385**	**(300,000)**	**(291,615)**
At 31 December 2009	**–**	**(19,983)**	**(350,000)**	**(369,983)**

Note: Pursuant to Detailed Implementation Regulations ("DIR") for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding tax will be levied on the dividends declared by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the companies after 1 January 2008 shall be subject to this withholding tax.

As at 31 December 2009, the Group recognised the relevant deferred tax liabilities of RMB350,000,000 (2008: RMB50,000,000) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB4,300,000,000 (2008: RMB1,500,000,000) expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future based on management's estimated requirement for funding outside the PRC.

29 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (mentioned in Note 2.24(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred in deriving the revenues.

30 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current deposit, term deposits with initial term of three months or less and term deposits with initial term of over three months and investment income from held-to-maturity investments.

31 OTHER (LOSSES)/GAINS, NET

	2009	2008
	RMB'000	RMB'000
Government subsidies	**28,339**	64,823
Gains on financial assets held for trading	**11,929**	169
Impairment charge for fixed assets	**–**	(11,302)
Impairment charge for available-for-sale financial assets	**–**	(18,673)
Donation to a charity fund established by the Group	**(85,000)**	(30,000)
Loss on disposals of fixed assets	**(3,043)**	(8,583)
Loss on disposals of intangible assets	**(1,654)**	–
Others	**(8,784)**	10,555
	(58,213)	6,989

32 EXPENSES BY NATURE

	2009	2008
	RMB'000	RMB'000
Employee benefits expenses (Note) (Note 33)	**2,133,135**	1,361,038
Mobile and telecommunications charges and bandwidth and server custody fees	**1,584,025**	1,126,409
Content costs and agency fees	**1,430,526**	495,299
Promotion and advertising expenses	**306,309**	278,943
Depreciation of fixed assets (Note) (Note 6)	**405,301**	264,360
Amortisation of intangible assets (Note 10)	**131,897**	94,387
Amortisation of leasehold land and land use rights (Note 9)	**466**	546
Travelling and entertainment expenses	**108,404**	85,596
Operating lease rentals in respect of office buildings	**89,381**	88,630
Auditors' remuneration	**5,950**	5,200
Other expenses	**301,889**	220,367
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**6,497,283**	4,020,775

Note: Research and development expenses for the year ended 31 December 2009 were RMB1,191,637,000 (2008: RMB710,460,000) which included employee benefit expenses of RMB948,309,000 (2008: RMB547,339,000) and depreciation of fixed assets of RMB215,674,000 (2008: RMB147,809,000).

The Group did not capitalise any research and development expenses for the year ended 31 December 2009 (2008: Nil).

33 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2009	2008
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,548,049**	1,015,535
Welfare, medical and other expenses	**129,603**	94,099
Share-based compensation expenses	**321,422**	160,507
Contributions to pension plans (Note)	**117,774**	77,816
Training expenses	**16,287**	13,081
	2,133,135	1,361,038

Note: All local employees of the subsidiaries in the PRC participate in employee social security plans enacted in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below.

	Percentage
Pension insurance	8 – 22%
Medical insurance	0.5 – 12%
Unemployment insurance	0 – 2.5%
Housing fund	0 – 10%

34 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid/payable to directors of the Company for the year ended 31 December 2009 and 2008 are as follows:

	2009 RMB'000	2008 RMB'000
Fees - independent non-executive directors	1,854	1,612
Salaries, bonuses, allowances and benefits in kind	33,851	30,514
Contributions to pension plans	40	40
Share-based compensation expenses charged to profit or loss	18,710	20,945
	54,455	53,111
Number of directors		
- with emoluments	6	6
- without emoluments	2	2
Number of directors	8	8

During the year ended 31 December 2009, no options/awarded shares were granted to any executive, non-executive or independent non-executive director of the Company (2008: Nil).

The remuneration of every director for the year ended 31 December 2009 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng	–	15,616	20	–	15,636
Zhang Zhidong	–	11,375	20	–	11,395
Lau Chi Ping Martin	820	6,860	–	18,245	25,925
Iain Ferguson Bruce	418	–	–	155	573
Ian Charles Stone	308	–	–	155	463
Li Dong Sheng	308	–	–	155	463
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	1,854	33,851	40	18,710	54,455

34 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2008 is set out below.

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ma Huateng	–	14,216	20	–	14,236
Zhang Zhidong	–	10,467	20	–	10,487
Lau Chi Ping Martin	820	5,831	–	20,195	26,846
Iain Ferguson Bruce	264	–	–	250	514
Ian Charles Stone	264	–	–	250	514
Li Dong Sheng	264	–	–	250	514
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	1,612	30,514	40	20,945	53,111

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the year ended 31 December 2009 (2008: Nil).

35 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included three (2008: three) directors whose details have been reflected in the analysis presented above (Note 34). The emoluments paid/payable to the remaining two (2008: two) individuals during the year were as follows:

	2009	2008
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	18,252	15,684
Share-based compensation expenses charged to profit or loss	6,338	7,451
Contributions to pension plans	39	20
	24,629	23,155

35 FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

The emoluments of the above two individuals (2008: two) fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
HKD12,000,001 – HKD12,500,000 (equivalent to RMB10,576,321 – RMB11,017,000)	**–**	1
HKD12,500,001 – HKD13,000,000 (equivalent to RMB11,017,001 – RMB11,457,680)	**1**	–
HKD13,500,001 – HKD14,000,000 (equivalent to RMB11,898,361 – RMB12,339,040)	**–**	1
HKD14,500,001 – HKD15,000,000 (equivalent to RMB12,779,721 – RMB13,220,400)	**1**	–

36 FINANCE COSTS

	2009	2008
	RMB'000	RMB'000
Exchange losses	**1,953**	140,732
	1,953	140,732

37 TAX EXPENSE

(a) Income tax

(i) Cayman Islands and British Virgin Islands Profits Tax

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2009 (2008: Nil).

(ii) Hong Kong Profits Tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the year ended 31 December 2009 (2008: Nil).

(iii) PRC Corporate Income Tax ("CIT")

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

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

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

In 2008, six subsidiaries namely Tencent Computer, Tencent Technology, Shenzhen Domain, Cyber Shenzhen, Tencent Beijing and Cyber Tianjin, applied for and were subsequently approved as High/New Technology Enterprises, and accordingly, they were subject to a lower CIT rate of 15% according to the New CIT Law and the above transitional income tax rates for the period from 2008 to 2010 were no longer applicable to them.

37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Corporate Income Tax ("CIT") (Cont'd)

For Tencent Technology, it was further approved as a national key software enterprise for 2009, and accordingly, its CIT rate in 2009 was further reduced to 10%.

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from CIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, the provision for CIT was provided at a rate of 7.5% for 2009 (2008: 7.5%).

As approved by the relevant tax authority, Cyber Tianjin is exempt from CIT for two years commencing from the first year of profitable operation after offsetting prior years' tax loss, followed by a 50% reduction for the next three years. 2008 was the first profit-making year of Cyber Tianjin, and no provision for CIT was provided for 2009 (2008: Nil).

In addition, Beijing Yonghang was recognised as a newly set-up software production enterprise in 2009. According to the tax incentives granted by the tax authority, it is exempt from CIT in 2009, and will enjoy 50% reduction from 2010 to 2012. As a result, no provision for CIT was provided for 2009.

The income tax charge of the Group for the year ended 31 December 2009 and 2008 are analysed as follows:

	2009 RMB'000	2008 RMB'000
Current tax	494,357	298,474
Deferred income taxes relating to the origination and reversal of temporary differences (Note 28)	324,763	(37,602)
Deferred income taxes resulting from change in the tax rates (Note 28)	–	28,373
	819,120	289,245

37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 20% for the year ended 31 December 2009 (2008: 18%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

	2009 RMB'000	2008 RMB'000
Profit before income tax	6,040,731	3,104,895
Add: Share of (profit)/loss of associates	(22,206)	347
	6,018,525	3,105,242
Tax calculated at a tax rate of 20% (2008: 18%)	1,203,705	558,944
Income not subject to tax	–	(3,097)
Effect of different tax rates available to different companies of the Group	(363,940)	(106,749)
Effect of change in tax rate	–	28,373
Effect of tax holiday on assessable profits of subsidiaries	(429,638)	(282,194)
Expenses not deductible for tax purposes	75,691	40,450
Adjustments in respect of prior year	(13,528)	–
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 28)	300,000	50,000
Unrecognised deferred tax assets	46,830	3,518
Tax charge	819,120	289,245

(b) VAT, 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
VAT	(i) 17%	Sales value of goods sold, offsetting by VAT on purchases
	(ii) 3%	Sales value of goods sold
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

38 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2009 is dealt with in the financial statements of the Company to the extent of RMB728,237,000 (2008: RMB4,622,000).

39 EARNINGS PER SHARE

(a) Basic

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

	2009	2008
Profit attributable to equity holders of the Company for the year (RMB'000)	**5,155,646**	2,784,577
Weighted average number of ordinary shares in issue (thousand shares)	**1,801,646**	1,793,777
Basic EPS (RMB per share)	**2.862**	1.552

39 EARNINGS PER SHARE (Cont'd)

(b) Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

	2009	2008
Profit attributable to equity holders of the Company for the year (RMB'000)	**5,155,646**	2,784,577
Weighted average number of ordinary shares in issue (thousand shares)	**1,801,646**	1,793,777
Adjustments for share options (thousand shares)	**43,566**	44,515
Adjustments for awarded shares (thousand shares)	**2,073**	505
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	**1,847,285**	1,838,797
Diluted EPS (RMB per share)	**2.791**	1.514

40 DIVIDENDS

The dividends paid in 2009 were RMB554,604,000 (2008: RMB257,803,000), which excluded the dividend related to the shares held by Share Scheme Trust of RMB462,000 (2008: Nil).

A final dividend in respect of the year ended 31 December 2009 of HKD0.40 per share (2008: final dividend of HKD0.25 per share and special dividend of HKD0.10 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2010 and subject to the approval of the shareholders in the annual general meeting to be held on 12 May 2010. These consolidated financial statements do not reflect this dividend payable.

41 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2009 RMB'000	2008 RMB'000
Profit for the year	**5,221,611**	2,815,650
Adjustments for:		
Income tax expense	**819,120**	289,245
Depreciation of fixed assets and investment properties	**405,876**	265,793
Amortisation of intangible assets	**131,897**	94,387
Amortisation of leasehold land and land use rights	**466**	546
Gains on financial assets held for trading	**–**	(169)
Loss on disposals of fixed assets	**3,043**	8,583
Loss on disposals of intangible assets	**1,654**	–
Interest income	**(136,014)**	(105,216)
Share-based compensation expenses	**321,422**	160,507
Impairment charge for available-for-sale financial assets	**–**	18,673
Impairment charge for fixed assets	**–**	11,302
Share of (profit)/loss of associates	**(22,206)**	347
Exchange losses	**1,953**	140,732
Changes in working capital:		
Inventories	**5,483**	(3,782)
Accounts receivable	**(245,977)**	(447,913)
Prepayments, deposits and other receivables	**36,892**	(45,267)
Financial assets held for trading	**329,804**	(63,140)
Derivative financial instruments	**–**	17,699
Long-term payables	**(43,331)**	51,260
Accounts payable	**247,454**	86,361
Other payables and accruals	**608,788**	290,212
Other tax liabilities	**113,045**	(30,813)
Deferred revenue	**1,053,833**	346,930
Cash generated from operations	**8,854,813**	3,901,927

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to net cash inflow from operating activities: (Cont'd)

In the consolidated cash flow statement, proceeds from disposals of fixed assets comprise:

	2009 RMB'000	2008 RMB'000
Net book amount	**3,638**	11,026
Loss on disposals of fixed assets	**(3,043)**	(8,583)
Proceeds from disposals of fixed assets	**595**	2,443

(b) Analysis of changes in financing during the years are as follows:

	Dividends payable RMB'000	Share capital including premium RMB'000	Shares held for share award scheme RMB'000	Short-term bank borrowing RMB'000	Total RMB'000
1 January 2008	–	1,456,048	–	292,184	1,748,232
Proceeds from issue of shares and share options	–	86,942	–	–	86,942
Payments for repurchase of issued shares/purchase of shares for share award scheme	–	(387,586)	(21,809)	–	(409,395)
Proposed dividends	257,803	–	–	–	257,803
Payment of dividends	(257,803)	–	–	–	(257,803)
Repayments for short-term bank borrowing	–	–	–	(292,184)	(292,184)
At 31 December 2008	–	1,155,404	(21,809)	–	1,133,595

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Analysis of changes in financing during the years are as follows: (Cont'd)

	Dividends payable	Share capital including premium	Shares held for share award scheme	Short-term bank borrowing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	–	1,155,404	(21,809)	–	1,133,595
Proceeds from issue of shares and share options	–	165,448	–	–	165,448
Payments for repurchase of issued shares/purchase of shares for share award scheme	–	(74,570)	(103,618)	–	(178,188)
Vesting of awarded shares	–	(1,660)	1,660	–	–
Proposed dividends	554,604	–	–	–	554,604
Payment of dividends	(554,604)	–	–	–	(554,604)
Proceeds from short-term bank borrowing	–	–	–	202,322	202,322
At 31 December 2009	–	1,244,622	(123,767)	202,322	1,323,177

(c) Major non-cash transactions

There were no other material non-cash transactions for the year ended 31 December 2009.

42 CONTINGENCIES

The Group has no material contingent liabilities outstanding as at 31 December 2009.

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2009 and 2008 are analysed as follows:

	2009	2008
	RMB'000	RMB'000
Contracted:		
Construction of buildings	36,215	159,458
Purchase of other fixed assets	55,606	161,269
Capital investment in an investee	14,335	40,050
	106,156	360,777
Authorised but not contracted:		
Construction of buildings	247,001	478,773
Capital investment in an investee	19,802	–
	266,803	478,773
	372,959	839,550

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	2009	2008
	RMB'000	RMB'000
Contracted:		
Not later than one year	67,893	66,931
Later than one year and not later than five years	86,730	95,130
Later than five years	3,242	5,208
	157,865	167,269

43 COMMITMENTS (Cont'd)

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and game licensing agreements are as follows:

	2009	2008
	RMB'000	RMB'000
Contracted:		
Not later than one year	357,632	234,969
Later than one year and not later than five years	171,230	111,499
	528,862	346,468

44 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 4.1(c), Note 22 (Share options and share award scheme) and Note 34 (Directors' emoluments) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2009, and no other related parties' balances as at 31 December 2009. The key management compensation has already been disclosed in Note 34 (Directors' emoluments).

45 COMPARATIVES

Certain comparative figures have been reclassified to conform to the presentation of the current year and such reclassification has no impact on the Group's net profit for the year 2008. In particular, for the purpose of better representation of the Group's activities, the interest income of approximately RMB105,216,000, which had previously been captured under "Other gains, net" in the financial statements for 2008, was reclassified to "Interest income".

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