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Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2011

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2011. These interim results have been reviewed by the Auditor in accordance with the International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

		Unaudited	Audited
		30 June	31 December
		2011	2010
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		4,665,626	3,292,828
Construction in progress		127,795	386,943
Investment properties		22,100	37,229
Land use rights		227,532	229,890
Intangible assets		3,480,998	572,981
Investment in associates		2,783,735	1,070,633
Investment in jointly controlled entities		10,556	74,542
Deferred income tax assets		197,573	219,019
Available-for-sale financial assets	3	4,655,567	4,126,878
Prepayments, deposits and other assets		<u>1,988,322</u>	<u>445,430</u>
		<u>18,159,804</u>	<u>10,456,373</u>
Current assets			
Accounts receivable	4	2,255,439	1,715,412
Prepayments, deposits and other assets		1,605,071	487,872
Term deposits with initial term of over three months		13,189,618	11,725,743
Restricted cash		3,877,183	1,036,457
Cash and cash equivalents		<u>7,963,090</u>	<u>10,408,257</u>
		<u>28,890,401</u>	<u>25,373,741</u>
Total assets		<u>47,050,205</u>	<u>35,830,114</u>

		Unaudited	Audited
		30 June	31 December
		2011	2010
	Note	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		198	198
Share premium		1,053,831	1,100,302
Shares held for share award scheme		(476,340)	(258,137)
Share-based compensation reserve		1,535,242	1,199,663
Other reserves		840,687	1,919,695
Retained earnings		<u>22,166,555</u>	<u>17,795,225</u>
		25,120,173	21,756,946
Non-controlling interests		<u>222,333</u>	<u>83,912</u>
Total equity		<u>25,342,506</u>	<u>21,840,858</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		945,833	967,211
Long-term payables		<u>2,258,839</u>	<u>—</u>
		<u>3,204,672</u>	<u>967,211</u>
Current liabilities			
Accounts payable	6	2,028,941	1,380,464
Other payables and accruals		3,637,803	2,997,808
Derivative financial instruments	7	33,900	17,964
Short-term borrowings	7	8,150,065	5,298,947
Current income tax liabilities		506,474	341,103
Other tax liabilities		245,962	225,188
Deferred revenue		<u>3,899,882</u>	<u>2,760,571</u>
		<u>18,503,027</u>	<u>13,022,045</u>
Total liabilities		<u>21,707,699</u>	<u>13,989,256</u>
Total equity and liabilities		<u>47,050,205</u>	<u>35,830,114</u>
Net current assets		<u>10,387,374</u>	<u>12,351,696</u>
Total assets less current liabilities		<u>28,547,178</u>	<u>22,808,069</u>

		Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2011	2010	2011	2010
Note		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:					
	Equity holders of the Company	2,349,246	1,916,502	5,219,620	3,699,696
	Non-controlling interests	<u>(5,974)</u>	<u>14,691</u>	<u>7,860</u>	<u>33,915</u>
		<u>2,343,272</u>	<u>1,931,193</u>	<u>5,227,480</u>	<u>3,733,611</u>
Earnings per share for profit					
attributable to equity holders of					
the Company during the period					
(expressed in RMB per share)					
	- basic	11	<u>1.289</u>	<u>1.054</u>	<u>2.863</u>
	- diluted	11	<u>1.260</u>	<u>1.031</u>	<u>2.800</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2011**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>2,343,272</u>	<u>1,931,193</u>	<u>5,227,480</u>	<u>3,733,611</u>
Other comprehensive income:				
Net gains/(losses) from changes in fair value of available-for-sale financial assets	264,280	—	(418,156)	—
Currency translation differences	<u>(74)</u>	<u>—</u>	<u>133</u>	<u>—</u>
Other comprehensive income for the period, net of tax	<u>264,206</u>	<u>—</u>	<u>(418,023)</u>	<u>—</u>
Total comprehensive income for the period	<u>2,607,478</u>	<u>1,931,193</u>	<u>4,809,457</u>	<u>3,733,611</u>
Attributable to:				
Equity holders of the Company	2,613,452	1,916,502	4,801,597	3,699,696
Non-controlling interests	<u>(5,974)</u>	<u>14,691</u>	<u>7,860</u>	<u>33,915</u>
Total comprehensive income for the period	<u>2,607,478</u>	<u>1,931,193</u>	<u>4,809,457</u>	<u>3,733,611</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011

Unaudited									
Attributable to equity holders of the Company									
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858
Comprehensive income									
Profit for the period	-	-	-	-	-	5,219,620	5,219,620	7,860	5,227,480
Other comprehensive income:									
- net losses from changes in fair value of available-for-sale financial assets	-	-	-	-	(418,156)	-	(418,156)	-	(418,156)
- currency translation differences	-	-	-	-	133	-	133	-	133
Total comprehensive income for the period	-	-	-	-	(418,023)	5,219,620	4,801,597	7,860	4,809,457
Transactions with owners									
Employee share option schemes:									
- value of employee services	-	-	-	93,102	-	-	93,102	-	93,102
- proceeds from shares issued	-	80,689	-	-	-	-	80,689	-	80,689
Employee share award scheme:									
- value of employee services	-	-	-	242,477	-	-	242,477	-	242,477
- shares purchased for share award scheme	-	-	(247,777)	-	-	-	(247,777)	-	(247,777)
- vesting of awarded shares	-	(29,574)	29,574	-	-	-	-	-	-
Repurchase and cancellation of shares	-	(97,586)	-	-	-	-	(97,586)	-	(97,586)
Dividends	-	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	-	-	-	-	10,000	(10,000)	-	-	-
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	187,092	187,092
Recognition of financial liabilities in respect of the put option granted to non-controlling interests owners	-	-	-	-	(670,985)	-	(670,985)	-	(670,985)
Total transactions with owners for the period	-	(46,471)	(218,203)	335,579	(660,985)	(848,290)	(1,438,370)	130,561	(1,307,809)
Balance at 30 June 2011	<u>198</u>	<u>1,053,831</u>	<u>(476,340)</u>	<u>1,535,242</u>	<u>840,687</u>	<u>22,166,555</u>	<u>25,120,173</u>	<u>222,333</u>	<u>25,342,506</u>

Unaudited

	Attributable to equity holders of the Company								
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares held for share award scheme <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2010	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653
Profit/Total comprehensive income for the period	—	—	—	—	—	3,699,696	3,699,696	33,915	3,733,611
Transactions with owners									
Employee share option schemes:									
- value of employee services	—	—	—	62,689	—	—	62,689	—	62,689
- proceeds from shares issued	1	110,721	—	—	—	—	110,722	—	110,722
Employee share award scheme:									
- value of employee services	—	—	—	158,057	—	—	158,057	—	158,057
- shares purchased for share award scheme	—	—	(115,379)	—	—	—	(115,379)	—	(115,379)
- vesting of awarded shares	—	(3,032)	3,032	—	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	—	6,083	(6,083)	—	—	—
Dividends	—	—	—	—	—	(639,264)	(639,264)	(62,792)	(702,056)
Reversal of financial liabilities in respect of the put options granted to non-controlling interests owners	—	—	—	—	94,246	—	94,246	—	94,246
Acquisition of additional interests in a subsidiary	—	—	—	—	156,273	(125,178)	31,095	(31,095)	—
Total transactions with owners for the period	1	107,689	(112,347)	220,746	256,602	(770,525)	(297,834)	(93,887)	(391,721)
Balance at 30 June 2010	198	1,352,114	(236,114)	924,309	90,238	13,449,624	15,580,369	60,174	15,640,543

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	Unaudited	
	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	5,434,115	5,027,992
Net cash flows used in investing activities	(9,547,558)	(6,427,813)
Net cash flows generated from financing activities	<u>1,741,476</u>	<u>1,846,080</u>
Net (decrease)/increase in cash and cash equivalents	(2,371,967)	446,259
Cash and cash equivalents at beginning of period	10,408,257	6,043,696
Exchange losses on cash and cash equivalents	<u>(73,200)</u>	<u>(3,643)</u>
Cash and cash equivalents at end of period	<u>7,963,090</u>	<u>6,486,312</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	6,381,618	3,255,633
Term deposits and highly liquid investments with initial term within three months	<u>1,581,472</u>	<u>3,230,679</u>
	<u>7,963,090</u>	<u>6,486,312</u>

Notes:

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

The Company was incorporated in the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange since 16 June 2004.

The Company is an investment holding company. The Group is principally engaged in the provision of IVAS, MVAS and online advertising services to users in the PRC.

The consolidated statement of financial position as at 30 June 2011, the related consolidated income statement and the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”) of the Group have been approved by the Board on 10 August 2011.

The Interim Financial Information is prepared in accordance with IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2010 (the “2010 Financial Statements”) as set out in the 2010 annual report of the Company dated 16 March 2011.

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2010 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual earnings.

Amendment to IAS 34 ‘Interim Financial Reporting’ is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The amendment to IAS 34 only results in additional disclosures. The Group has applied this amendment from 1 January 2011.

2 Segment information

The Group has the following reportable segments for the three and six months ended 30 June 2011 and 2010:

- IVAS;
- MVAS;
- Online advertising; and
- Others.

Other segments of the Group are mainly comprised of the provision of trademark licensing, software development services and software sales.

There were no inter-segment sales during the three and six months ended 30 June 2011 and 2010. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2011 and 2010 is as follows:

	Unaudited				
	Three months ended 30 June 2011				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising	Others	Total
	services	services	advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	<u>5,386,578</u>	<u>793,839</u>	<u>512,312</u>	<u>46,315</u>	<u>6,739,044</u>
Gross profit/(losses)	<u>3,598,338</u>	<u>471,385</u>	<u>343,688</u>	<u>(6,004)</u>	<u>4,407,407</u>
Depreciation	166,973	14,134	13,487	7,559	202,153
Amortisation	10,585	—	—	—	10,585
Share of profit/(losses) of associates	25,158	(1,704)	—	—	23,454
Share of losses of jointly controlled entities	<u>(60,689)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(60,689)</u>

	Unaudited				
	Three months ended 30 June 2010				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added	services	services	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>3,581,976</u>	<u>674,120</u>	<u>397,520</u>	<u>15,564</u>	<u>4,669,180</u>
Gross profit/(losses)	<u>2,481,944</u>	<u>432,026</u>	<u>280,092</u>	<u>(7,821)</u>	<u>3,186,241</u>
Depreciation	86,361	8,737	4,718	3,346	103,162
Amortisation	13,385	—	—	—	13,385
Share of profit of associates	<u>10,655</u>	<u>679</u>	<u>—</u>	<u>—</u>	<u>11,334</u>

	Unaudited				
	Six months ended 30 June 2011				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added	services	services	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>10,637,860</u>	<u>1,571,631</u>	<u>793,206</u>	<u>74,767</u>	<u>13,077,464</u>
Gross profit/(losses)	<u>7,107,472</u>	<u>951,677</u>	<u>506,478</u>	<u>(13,529)</u>	<u>8,552,098</u>
Depreciation	300,905	25,312	24,106	12,008	362,331
Amortisation	13,597	—	—	—	13,597
Share of profit/(losses) of associates	62,300	(992)	—	—	61,308
Share of losses of jointly controlled entities	<u>(64,986)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(64,986)</u>

	Unaudited				
	Six months ended 30 June 2010				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>6,969,353</u>	<u>1,292,358</u>	<u>601,854</u>	<u>31,675</u>	<u>8,895,240</u>
Gross profit/(losses)	<u>4,856,393</u>	<u>828,918</u>	<u>413,483</u>	<u>(14,848)</u>	<u>6,083,946</u>
Depreciation	153,935	15,224	8,266	6,000	183,425
Amortisation	30,677	—	—	—	30,677
Share of profit of associates	<u>20,361</u>	<u>3,886</u>	<u>—</u>	<u>—</u>	<u>24,247</u>

3 Available-for-sale financial assets

	Unaudited	
	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of period	4,126,878	153,462
Additions	953,535	2,158,241
Net losses recognised in other comprehensive income	(424,846)	—
Transfer to investment in associates	<u>—</u>	<u>(26,809)</u>
At end of period	<u>4,655,567</u>	<u>2,284,894</u>
Market value of listed securities (Note (a) & Note (b))	<u>3,889,122</u>	<u>—</u>

Notes:

- (a) As at 30 June 2011, the Group held 16,228,000 ordinary shares in Mail.ru, a company listed on the London Stock Exchange, representing approximately 7.78% economic interest in the company on a fully diluted basis.
- (b) As at 30 June 2011, the Group held 27,800,000 ordinary shares in Huayi, a company listed on the Shenzhen Stock Exchange, representing approximately 4.60% equity interest in the company.

As at 30 June 2011, there were certain call options embedded in some of these available-for-sale financial assets. The directors of the Company have considered that the fair value of such call options was insignificant and accordingly, the Group did not separately recognise these call options in the Interim Financial Information.

4 **Accounts receivable**

	Unaudited	Audited
	30 June	31 December
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	1,071,185	931,438
31 - 60 days	256,202	331,922
61 - 90 days	253,281	143,785
Over 90 days but less than one year	<u>674,771</u>	<u>308,267</u>
	<u>2,255,439</u>	<u>1,715,412</u>

Receivable balances as at 30 June 2011 mainly represented amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

While there are no contractual requirements for the telecommunication operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

5 **Share option and share award schemes**

(a) **Share option schemes**

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

(i) **Pre-IPO Option Scheme**

On 27 July 2001, the Company adopted the Pre-IPO Option Scheme. 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 Option Scheme I**

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I. This was terminated upon the adoption of the Post-IPO Option Scheme II as mentioned below.

(iii) **Post-IPO Option Scheme II**

On 16 May 2007, the Company adopted the Post-IPO Option Scheme II. Pursuant to 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.

(iv) **Post-IPO Option Scheme III**

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. Pursuant to 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.

Movements in the number of share 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		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	–	–	55,798,405
Granted	–	–	–	–	HKD158.5000	750,000	HKD158.5000	1,000,000	1,750,000
Exercised	USD0.0732	(1,068,900)	HKD9.5604	(8,964,204)	HKD40.9064	(968,471)	–	–	(11,001,575)
Lapsed	–	–	HKD17.9514	(210,202)	HKD55.1520	(148,226)	–	–	(358,428)
At 30 June 2010	USD0.0920	<u>796,168</u>	HKD12.5246	<u>15,767,512</u>	HKD48.2376	<u>28,624,722</u>	HKD158.5000	<u>1,000,000</u>	<u>46,188,402</u>
Currently exercisable as at 30 June 2010	USD0.0920	<u>796,168</u>	HKD10.5815	<u>12,450,172</u>	HKD39.1929	<u>5,215,620</u>	–	–	<u>18,461,960</u>
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted (Note)	–	–	–	–	HKD194.4000	312,550	–	–	312,550
Exercised	USD0.0709	(464,420)	HKD12.7643	(1,866,215)	HKD43.6137	(1,650,078)	–	–	(3,980,713)
Lapsed	–	–	HKD4.4850	(33)	HKD58.0532	(96,556)	–	–	(96,589)
At 30 June 2011	USD0.1998	<u>98,773</u>	HKD12.8739	<u>10,939,515</u>	HKD57.2042	<u>27,361,084</u>	HKD158.5000	<u>1,000,000</u>	<u>39,399,372</u>
Currently exercisable as at 30 June 2011	USD0.1998	<u>98,773</u>	HKD11.6643	<u>9,671,095</u>	HKD41.1057	<u>7,512,924</u>	–	–	<u>17,282,792</u>

Note:

During the six months ended 30 June 2011, no share options (during the six months ended 30 June 2010: 1,000,000 options) were granted to executive directors of the Company.

(b) **Share award scheme**

The Company has adopted a share award scheme (the “Share Scheme”), which is managed by the Trustee appointed by the Group. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Scheme and awarded shares for the six months ended 30 June 2011 and 2010 are as follows:

	Shares held for the Share Scheme	Awarded shares
At 1 January 2010	10	10,411,424
Purchased	814,283	–
Granted	(802,293)	802,293
Vested	<u>–</u>	<u>(88,910)</u>
At 30 June 2010	<u>12,000</u>	<u>11,124,807</u>
Currently exercisable as at 30 June 2010		<u>206,959</u>
At 1 January 2011	80	13,562,734
Purchased (Note (i))	1,437,320	–
Share to be allotted to the Share Scheme (Note (ii))	535,170	–
Granted (Note (iii))	(1,972,570)	1,972,570
Vested	<u>–</u>	<u>(238,616)</u>
At 30 June 2011	<u>–</u>	<u>15,296,688</u>
Currently exercisable as at 30 June 2011		<u>72,117</u>

Notes:

- (i) During the six months ended 30 June 2011, the Trustee acquired 1,437,320 ordinary shares of the Company in the open market, and then the Group granted such shares to eligible persons. The total amount paid for the acquisition of the ordinary shares was HKD294,767,000 (equivalent to approximately RMB247,777,000) and had been deducted from shareholder’s equity.

(ii) The procedures associated with the share allotment had not been completed as at 30 June 2011.

(iii) During the six months ended 30 June 2011, 35,000 awarded shares (during the six months ended 30 June 2010: Nil) were granted to independent non-executive directors of the Company.

6 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
0 - 30 days	1,433,272	975,869
31 - 60 days	335,324	242,547
61 - 90 days	18,008	68,632
Over 90 days but less than one year	<u>242,337</u>	<u>93,416</u>
	<u>2,028,941</u>	<u>1,380,464</u>

7 Short-term borrowings

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Bank borrowings accounted for as RMB borrowings (Note (a))		
- Secured (Note (b))	2,638,345	990,887
- Unsecured	<u>334,440</u>	<u>334,440</u>
	2,972,785	1,325,327
USD bank borrowings		
- Unsecured (Note (c))	4,530,120	3,973,620
Bonds		
- Unsecured (Note (d))	<u>647,160</u>	—
	<u>8,150,065</u>	<u>5,298,947</u>

Movement in the short-term borrowings is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
At beginning of period	5,298,947	202,322
Additions of bank borrowings	4,778,230	2,560,936
Issuance of bonds	657,520	—
Repayments of borrowings	(2,493,119)	—
Exchange impact	<u>(91,513)</u>	<u>(8,142)</u>
At end of period	<u>8,150,065</u>	<u>2,755,116</u>

Notes:

- (a) These bank borrowings were denominated in USD according to the loan agreements executed with the lending banks. The aggregate principal amount was USD460,000,000 and the interest rates were fixed at 2.78% to 3.36% per annum. These borrowings will be repaid in full in USD and the term for each of these borrowings is one year. Concurrently, foreign exchange forward contracts were arranged with the same banks as at the respective initial borrowing dates in order to enable the Group to purchase the required amount of USD with RMB for settling the principal amount of the borrowings plus related interest upon the respective loan due dates. The bank borrowings and the foreign exchange forward contracts are deemed as linked transactions and accordingly, the bank borrowings have effectively been accounted for as borrowings denominated in RMB.

These bank borrowings and the forward contracts were transacted on the belief that, despite the associated interest expenses to be incurred, the Group would benefit from the interest income from the restricted cash (Note (b)) and the cash increase as a result of the unsecured bank borrowings, as well as the fixed exchange gains arising from the bank borrowings (which are calculated as the difference between the forward rate stated in the contracts and the respective spot rates at the borrowing dates).

- (b) Bank borrowings of carrying amounts of RMB2,638,345,000 were secured by a pledge of bank deposits of RMB2,747,274,000.
- (c) Unsecured bank borrowings of carrying amount of RMB4,530,120,000 as at 30 June 2011 were also denominated in USD. The aggregate principal amount was USD700,000,000 and the interest rates were fixed at 1.20% to 2.32% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the borrowings plus related interest upon the respective loan due dates. However, the Group arranged the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and relevant foreign exchange forward contracts were accounted for separately.

The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains/(losses), net” in the consolidated income statement.

- (d) During the six months ended 30 June 2011, the Group issued USD denominated unsecured bonds at par value of USD100,000,000 (equivalent to approximately RMB647,160,000). The bonds bear a floating rate of LIBOR plus 0.25% per annum and will mature in March 2012.

The fair value of the short-term borrowings approximated to their carrying amounts as at 30 June 2011.

8 **Other gains/(losses), net**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Gains on deemed disposal of an associate	—	—	459,037	—
(Losses)/Gains from derivative financial instruments	(23,495)	17,578	(44,869)	17,578
Government subsidies	9,699	12,871	14,988	13,534
Donation to a charity fund established by the Group	—	—	(100,000)	(40,000)
Others	16,605	<u>(3,034)</u>	12,722	<u>1,028</u>
	<u>2,809</u>	<u>27,415</u>	<u>341,878</u>	<u>(7,860)</u>

9 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (Note)	1,249,702	750,851	2,209,952	1,395,899
Content costs and agency fees	1,103,048	634,080	2,236,777	1,191,954
Mobile and telecom charges and bandwidth and server custody fees	620,745	515,081	1,212,068	990,204
Depreciation of fixed assets (Note)	273,999	159,761	494,544	294,592
Promotion and advertising expenses	240,817	132,767	447,004	237,324
Amortisation of intangible assets	222,651	30,184	275,861	63,095
Operating lease rentals in respect of office buildings	80,339	21,497	139,350	40,549
Travelling and entertainment expenses	48,380	30,728	77,549	52,864
Other expenses	224,819	104,291	363,043	212,297
	<u>4,064,500</u>	<u>2,379,240</u>	<u>7,456,148</u>	<u>4,478,778</u>

Note:

Research and development expenses were RMB671,791,000 and RMB1,184,978,000 for the three and six months ended 30 June 2011, respectively (for the three and six months ended 30 June 2010: RMB407,154,000 and RMB758,430,000, respectively) which included employee benefit expenses of RMB582,534,000 and depreciation of fixed assets of RMB63,088,000 for the three months ended 30 June 2011 (for the three months ended 30 June 2010: RMB340,684,000 and RMB48,840,000, respectively) and employee benefit expenses of RMB1,022,103,000 and depreciation of fixed assets of RMB116,291,000 for the six months ended 30 June 2011 (for the six months ended 30 June 2010: RMB626,250,000 and RMB97,509,000, respectively).

The Group did not capitalise any research and development expenses for the three and six months ended 30 June 2011 (for the three and six months ended 30 June 2010: Nil).

10 Income tax expense

Income tax expense is recognised based on management's best knowledge of the income tax rates expected for the financial year.

(a) Cayman Islands and British Virgin Islands corporate tax

The Group was not subject to any taxation in these jurisdictions for the three and six months ended 30 June 2011 and 2010.

(b) **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 three and six months ended 30 June 2011 and 2010.

(c) **PRC 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 (the "CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the 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 of 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 rates shall be based on the above transitional income tax rates for the respective years.

In 2008, certain subsidiaries of the Company in the PRC were approved as High/New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2008 to 2010 according to the applicable CIT Law. As at 30 June 2011, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The directors of the Company expect that they will continue to be approved as High/New Technology Enterprise. As such, CIT rate of 15% was adopted by these subsidiaries in accruing their CIT for the three and six months ended 30 June 2011.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Company are exempt from CIT for either two or three years, in either case followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses from prior years.

(d) **United States corporate tax**

No United States corporate tax has been provided as the Group had no taxable income arising in the United States for the three and six months ended 30 June 2011 and 2010.

(e) **PRC withholding tax on retained profits**

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%.

The income tax expenses of the Group for the three and six months ended 30 June 2011 and 2010 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
PRC current tax	432,561	356,083	860,235	666,058
Deferred tax	<u>(27,398)</u>	<u>92,442</u>	<u>76,911</u>	<u>139,842</u>
	<u>405,163</u>	<u>448,525</u>	<u>937,146</u>	<u>805,900</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 24% for the three and six months ended 30 June 2011 (for the three and six months ended 30 June 2010: 22%), the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	2,748,435	2,379,718	6,164,626	4,539,511
Less: Share of profit of associates	(23,454)	(11,334)	(61,308)	(24,247)
Add: Share of losses of jointly controlled entities	<u>60,689</u>	<u>—</u>	<u>64,986</u>	<u>—</u>
	<u>2,785,670</u>	<u>2,368,384</u>	<u>6,168,304</u>	<u>4,515,264</u>
Tax calculated at a tax rate of 24% (for the three and six months ended 30 June 2010: 22%)	668,561	521,044	1,480,393	993,358

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Effects of different tax rates applicable to different subsidiaries of the Group	(227,458)	(61,617)	(533,220)	(165,428)
Effects of tax holiday on assessable profit of subsidiaries	(125,882)	(110,978)	(249,576)	(204,515)
Income not subject to tax	(1,900)	(5,258)	(11,663)	(5,258)
Expenses not deductible for tax purposes	79,318	31,692	113,879	49,916
Withholding tax on earnings expected to be remitted by PRC subsidiaries	50,000	80,000	141,500	115,000
Unrecognised deferred income tax assets/(Utilisation of previously unrecognised deferred income tax assets)	22,019	(6,358)	55,328	22,827
Adjustments in respect of prior year	<u>(59,495)</u>	<u>—</u>	<u>(59,495)</u>	<u>—</u>
Income tax expense	<u>405,163</u>	<u>448,525</u>	<u>937,146</u>	<u>805,900</u>

11 EPS

(a) Basic

Basic 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 period.

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,349,246</u>	<u>1,916,502</u>	<u>5,219,620</u>	<u>3,699,696</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,823,051</u>	<u>1,817,677</u>	<u>1,822,866</u>	<u>1,814,795</u>
Basic EPS (RMB per share)	<u>1.289</u>	<u>1.054</u>	<u>2.863</u>	<u>2.039</u>

(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 diluted EPS). No adjustment is made to earnings (numerator).

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2011	2010	2011	2010
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,349,246</u>	<u>1,916,502</u>	<u>5,219,620</u>	<u>3,699,696</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,823,051	1,817,677	1,822,866	1,814,795
Adjustments for share options (thousand shares)	30,626	34,494	31,160	37,619
Adjustments for awarded shares (thousand shares)	<u>10,160</u>	<u>6,522</u>	<u>10,061</u>	<u>6,632</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,863,837</u>	<u>1,858,693</u>	<u>1,864,087</u>	<u>1,859,046</u>
Diluted EPS (RMB per share)	<u>1.260</u>	<u>1.031</u>	<u>2.800</u>	<u>1.990</u>

12 Dividend

A final dividend in respect of the year ended 31 December 2010 of HKD0.55 per share (2009: HKD0.40 per share) was proposed pursuant to a resolution passed by the Board on 16 March 2011 and approved by shareholders at the 2011 AGM. Such dividend, totalling HKD1,010,294,000 (equivalent to approximately RMB838,290,000) (total dividend for 2009: HKD727,180,000 (equivalent to approximately RMB639,264,000)), had been paid as at 30 June 2011.

The Board does not propose any interim dividend for the six months ended 30 June 2011.

13 Business Combination

The Riot Games Acquisition

(i) Step-up business combination

On 18 February 2011 (the “Closing Date”), the Group acquired a majority equity interest in Riot Games, a US-based independent developer and publisher of premium online games, from its existing stakeholders including the founders of Riot Games, for a cash consideration of USD231,465,000 (equivalent to approximately RMB1,524,632,000), together with other cash and non-cash consideration and related put options as mentioned below. Immediately before the Riot Games Acquisition, the Group held certain equity interest (the “Previously Held Interest”) in Riot Games and it was reported as an investment in associate. After the Riot Games Acquisition, Riot Games continues to operate independently under the leadership of its founders and local management team.

A goodwill of RMB1,932,376,000 was recognised as a result of the Riot Games Acquisition. It is mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations of the Group and Riot Games. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interest in Riot Games (the “Non-controlling Interest”) at fair value on the Closing Date. The following table summarises the consideration paid for the acquisition and the amounts of assets acquired and liabilities assumed or recognised as at the Closing Date.

	<i>RMB'000</i>
Considerations:	
Cash consideration paid/payable for additional equity interest in Riot Games	1,524,632
Deemed consideration arising from the grant of put options on Riot Games’ existing share options	<u>154,732</u>
Total considerations	1,679,364
Fair value of the Previously Held Interest	576,539
Fair value of the Non-controlling Interest	<u>187,092</u>
	<u>2,442,995</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	101,135
Fixed assets	14,690
Existing game licenses and other acquired intangible assets	671,803
Deferred revenue	(2,627)
Other payables and accruals	(4,589)
Deferred income tax liabilities	<u>(269,793)</u>
Total identifiable net assets	510,619
Goodwill	<u>1,932,376</u>
	<u>2,442,995</u>
Acquisition-related costs (Note)	<u>54,400</u>

Note:

The acquisition-related costs are included in general and administrative expenses in the consolidated income statement for the six months ended 30 June 2011.

The Riot Games Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB459,037,000, being the difference between the fair value of the Previously Held Interest as at the Closing Date and its then carrying value of RMB117,502,000, was recorded as “Other gains/(losses), net” in the consolidated income statement for the six months ended 30 June 2011 (Note 8).

For the period from the Closing Date to 30 June 2011, Riot Games contributed to revenues of RMB63,511,000 and a net loss of RMB385,202,000 which included expenses arising from the Riot Games Acquisition, including amortisation of intangible assets acquired, related deferred tax impact and stock-based compensation related to the arrangements mentioned below. The revenue and net loss contributed by Riot Games to the Group would not be materially different from the aforesaid reported figures if the Riot Games Acquisition had occurred on 1 January 2011.

(ii) **Other arrangements associated with the Riot Games Acquisition**

Riot Games operates a stock plan established before the Closing Date, pursuant to which, Riot Games may grant stock options or special restricted stock units (“RSU”) to its eligible employees (the “Eligible Person”). In connection with the Riot Games Acquisition, the Group offered, among others, share options and RSU of Riot Games to certain Eligible Persons on or before the Closing Date. They were also granted by the Group cash bonus and put options so that certain Eligible Persons are entitled to sell their respective retained equity interests in Riot Games, and all the Eligible Persons are entitled to sell to the Group their shares acquired after the exercise of the vested share options and RSU granted on or before the Closing Date by Riot Games. These put options will be exercisable for a period up to 10 years following the Closing Date, subject to certain conditions.

14 **Subsequent event**

In July 2011, the Group acquired 178,407,183 shares of Kingsoft for a cash consideration of HKD892,036,000 (equivalent to approximately RMB741,817,000). Upon the completion of the acquisition, the Company held approximately 15.68% equity interest in Kingsoft.

OPERATING INFORMATION

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

	As at 30 June 2011	As at 31 March 2011	Percentage change
	<i>(in millions)</i>		
Active IM user accounts	701.9	674.3	4.1%
Peak simultaneous online IM user accounts (for the quarter)	136.7	137.2	-0.4%
Average daily IM user hours (for the last 15/16 days of the quarter)	2,226.0	2,035.7	9.3%
Active Qzone user accounts	530.7	504.8	5.1%
Peak simultaneous online QQ Game user accounts (for the quarter)	7.5	7.7	-2.6%
Fee-based IVAS registered subscriptions	76.5	72.3	5.8%
Fee-based MVAS registered subscriptions	29.8	27.2	9.6%

In the second quarter of 2011, the number of active user accounts of our core IM platform registered a solid growth. However, its growth rate slowed down compared to the same period last year, reflecting the increased scale and reduced growth of the Internet user base in China. Peak simultaneous online IM user accounts decreased slightly mainly due to the maturity of QQ Farm and QQ Ranch which caused certain accounts created solely for the purpose of playing such games to become inactive. The growth of average daily IM user hours was higher than that of active IM user accounts, mainly driven by the commencement of summer holiday for students towards the end of the quarter as well as increased usage of our IM service on mobile devices. Active Qzone user accounts increased with organic growth and improved functionalities. Peak simultaneous online user accounts of QQ Game declined primarily due to weaker seasonality. Registered subscriptions to our IVAS increased mainly driven by the growth in QQ Membership, QQ Music and Qzone on the back of enhanced privileges and promotional activities. For our MVAS, registered subscriptions also increased, thanks to the growth in our bundled SMS packages as well as our subscription services related to mobile books and mobile games.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Half of 2011

The following table sets forth the comparative figures for the first half of 2011 and the first half of 2010:

	Unaudited	
	Six months ended	
	30 June 2011	30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	13,077,464	8,895,240
Cost of revenues	<u>(4,525,366)</u>	<u>(2,811,294)</u>
Gross profit	8,552,098	6,083,946
Interest income	207,208	111,196
Other gains/(losses), net	341,878	(7,860)
Selling and marketing expenses	<u>(669,944)</u>	<u>(415,757)</u>
General and administrative expenses	<u>(2,260,838)</u>	<u>(1,251,727)</u>
Operating profit	6,170,402	4,519,798
Finance costs, net	<u>(2,098)</u>	<u>(4,534)</u>
Share of profit of associates	61,308	24,247
Share of loss of jointly controlled entities	<u>(64,986)</u>	<u>—</u>
Profit before income tax	6,164,626	4,539,511
Income tax expense	<u>(937,146)</u>	<u>(805,900)</u>
Profit for the period	<u>5,227,480</u>	<u>3,733,611</u>
Attributable to:		
Equity holders of the Company	5,219,620	3,699,696
Non-controlling interests	<u>7,860</u>	<u>33,915</u>
	<u>5,227,480</u>	<u>3,733,611</u>
Non-GAAP profit attributable to equity holders of the Company	<u>5,271,477</u>	<u>3,933,694</u>

Revenues. Revenues increased by 47.0% to RMB13,077.5 million for the first half of 2011 from RMB8,895.2 million for the first half of 2010.

	Unaudited			
	Six months ended			
	30 June 2011		30 June 2010	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	10,637,860	81.3%	6,969,353	78.3%
MVAS	1,571,631	12.0%	1,292,358	14.5%
Online advertising	793,206	6.1%	601,854	6.8%
Others	74,767	0.6%	31,675	0.4%
Total revenues	<u>13,077,464</u>	<u>100.0%</u>	<u>8,895,240</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 61.0% to RMB4,525.4 million for the first half of 2011 from RMB2,811.3 million for the first half of 2010.

	Unaudited			
	Six months ended			
	30 June 2011		30 June 2010	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	3,530,388	33.2%	2,112,960	30.3%
MVAS	619,954	39.4%	463,440	35.9%
Online advertising	286,728	36.1%	188,371	31.3%
Others	88,296	118.1%	46,523	146.9%
Total cost of revenues	<u>4,525,366</u>		<u>2,811,294</u>	

Second Quarter of 2011

Unaudited consolidated revenues for the second quarter of 2011 were RMB6,739.0 million, an increase of 44.3% over the same period in 2010 and an increase of 6.3% from the first quarter of 2011.

Revenues from our IVAS for the second quarter of 2011 were RMB5,386.6 million, an increase of 50.4% over the same period in 2010 and an increase of 2.6% from the first quarter of 2011.

Revenues from our MVAS for the second quarter of 2011 were RMB793.8 million, an increase of 17.8% over the same period in 2010 and an increase of 2.1% from the first quarter of 2011.

Revenues from our online advertising business for the second quarter of 2011 were RMB512.3 million, an increase of 28.9% over the same period in 2010 and an increase of 82.4% from the first quarter of 2011.

Cost of revenues for the second quarter of 2011 was RMB2,331.6 million, an increase of 57.2% over the same period in 2010 and an increase of 6.3% from the first quarter of 2011.

Selling and marketing expenses for the second quarter of 2011 were RMB369.5 million, an increase of 60.4% over the same period in 2010 and an increase of 23.0% from the first quarter of 2011.

General and administrative expenses for the second quarter of 2011 were RMB1,363.4 million, an increase of 104.7% over the same period in 2010 and an increase of 51.9% from the first quarter of 2011. The increase mainly reflected the impact of expenses related to the Riot Games Acquisition in the second quarter of 2011, including amortisation of intangible assets acquired amounting to RMB190.7 million and one-time transaction costs amounting to RMB54.3 million.

Operating profit for the second quarter of 2011 was RMB2,783.9 million, representing an increase of 17.4% over the same period in 2010 and a decrease of 17.8% from the first quarter of 2011. As a percentage of revenues, operating profit represented 41.3% for the second quarter of 2011, compared to 50.8% for the same period of 2010 and 53.4% for the first quarter of 2011.

Non-GAAP operating profit for the second quarter of 2011 was RMB3,197.9 million, representing an increase of 27.9% over the same period in 2010 and an increase of 2.5% from the first quarter of 2011. As a percentage of revenues, non-GAAP operating profit represented 47.5% for the second quarter of 2011, compared to 53.6% for the same period of 2010 and 49.2% for the first quarter of 2011. For details on the Group's non-GAAP financial measures, please see "Non-GAAP Financial Measures" section below.

Profit for the second quarter of 2011 was RMB2,343.3 million, representing an increase of 21.3% over the same period in 2010 and a decrease of 18.8% from the first quarter of 2011. As a percentage of revenues, profit for the period represented 34.8% for the second quarter of 2011, compared to 41.4% for the same period of 2010 and 45.5% for the first quarter of 2011.

Non-GAAP profit for the second quarter of 2011 was RMB2,694.5 million, representing an increase of 30.9% over the same period in 2010 and an increase of 3.6% from the first quarter of 2011. As a percentage of revenues, non-GAAP profit for the period represented 40.0% for the second quarter of 2011, compared to 44.1% for the same period of 2010 and 41.0% for the first quarter of 2011.

Profit attributable to equity holders of the Company for the second quarter of 2011 was RMB2,349.2 million, an increase of 22.6% over the same period in 2010 and a decrease of 18.2% from the first quarter of 2011.

Non-GAAP profit attributable to equity holders of the Company for the second quarter of 2011 was RMB2,686.8 million, an increase of 31.5% over the same period in 2010 and an increase of 3.9% from the first quarter of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2011 Compared to First Quarter of 2011

The following table sets forth the comparative figures for the second quarter of 2011 and the first quarter of 2011:

	Unaudited	
	Three months ended	
	30 June 2011	31 March 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	6,739,044	6,338,420
Cost of revenues	<u>(2,331,637)</u>	<u>(2,193,729)</u>
Gross profit	4,407,407	4,144,691
Interest income	106,546	100,662
Other gains, net	2,809	339,069
Selling and marketing expenses	(369,491)	(300,453)
General and administrative expenses	<u>(1,363,372)</u>	<u>(897,466)</u>
Operating profit	2,783,899	3,386,503
Finance income/(costs), net	1,771	(3,869)
Share of profit of associates	23,454	37,854
Share of loss of jointly controlled entities	<u>(60,689)</u>	<u>(4,297)</u>
Profit before income tax	2,748,435	3,416,191
Income tax expense	<u>(405,163)</u>	<u>(531,983)</u>
Profit for the period	<u>2,343,272</u>	<u>2,884,208</u>
Attributable to:		
Equity holders of the Company	2,349,246	2,870,374
Non-controlling interests	<u>(5,974)</u>	<u>13,834</u>
	<u>2,343,272</u>	<u>2,884,208</u>
Non-GAAP profit attributable to equity holders of the Company	<u>2,686,757</u>	<u>2,584,720</u>

Revenues. Revenues increased by 6.3% to RMB6,739.0 million for the second quarter of 2011 from RMB6,338.4 million for the first quarter of 2011. The following table sets forth our revenues by line of business for the second quarter of 2011 and the first quarter of 2011:

	Unaudited			
	Three months ended			
	30 June 2011		31 March 2011	
	Amount	% of total revenues	Amount	% of total revenues
<i>(RMB in thousands, except percentages)</i>				
IVAS	5,386,578	79.9%	5,251,282	82.8%
MVAS	793,839	11.8%	777,792	12.3%
Online advertising	512,312	7.6%	280,894	4.4%
Others	46,315	0.7%	28,452	0.5%
Total revenues	<u>6,739,044</u>	<u>100.0%</u>	<u>6,338,420</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 2.6% to RMB5,386.6 million for the second quarter of 2011 from RMB5,251.3 million for the first quarter of 2011. Despite weaker seasonality, online gaming revenues increased by 1.9% to RMB3,641.0 million. This was primarily driven by DNF which benefited from the launch of expansion packs during the quarter and, to a lesser extent, promotional activities. The increased monetization of QQ Game and QQ Speed also contributed to the growth in online gaming revenues. Revenues from our community value-added services increased by 4.0% to RMB1,745.6 million. Qzone benefited from the growth in item-based revenues mainly driven by an increased number of third-party social applications offered on the platform. QQ Membership also experienced revenue growth with increased subscriptions mainly as a result of promotional activities and privileges related to our online games.
- Revenues from our MVAS increased by 2.1% to RMB793.8 million for the second quarter of 2011 from RMB777.8 million for the first quarter of 2011. This was mainly attributable to growth in mobile SNS and mobile games. Revenues from our bundled SMS packages were broadly stable. The growth of our MVAS revenues was lower than that of registered subscription as the new service cancellation policy introduced by China Mobile in early 2011 resulted in significantly lower realisation rates.

- Revenues from our online advertising business increased by 82.4% to RMB512.3 million for the second quarter of 2011 from RMB280.9 million for the first quarter of 2011. This mainly reflected favourable seasonality in the second quarter.

Cost of revenues. Cost of revenues increased by 6.3% to RMB2,331.6 million for the second quarter of 2011 from RMB2,193.7 million for the first quarter of 2011. This primarily reflected an increase in staff costs, equipment depreciation, as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues remained stable at 34.6% for the second quarter of 2011, as compared to the first quarter of 2011. The following table sets forth our cost of revenues by line of business for the second quarter of 2011 and the first quarter of 2011:

	Unaudited			
	Three months ended			
	30 June 2011		31 March 2011	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	1,788,240	33.2%	1,742,148	33.2%
MVAS	322,454	40.6%	297,500	38.2%
Online advertising	168,624	32.9%	118,104	42.0%
Others	<u>52,319</u>	113.0%	<u>35,977</u>	126.4%
Total cost of revenues	<u>2,331,637</u>		<u>2,193,729</u>	

- Cost of revenues for our IVAS increased by 2.6% to RMB1,788.2 million for the second quarter of 2011 from RMB1,742.1 million for the first quarter of 2011. This mainly reflected increased staff costs, equipment depreciation, as well as bandwidth and server custody fees as our business scale grew.
- Cost of revenues for our MVAS increased by 8.4% to RMB322.5 million for the second quarter of 2011 from RMB297.5 million for the first quarter of 2011. This primarily reflected an increase in staff costs for the long-term growth of the business.
- Cost of revenues for our online advertising business increased by 42.8% to RMB168.6 million for the second quarter of 2011 from RMB118.1 million for the first quarter of 2011. This mainly reflected growth in commissions paid to advertising agencies and higher staff costs as a result of increased revenues. Sharing costs for our search business also increased due to the growth in traffic generated from our search distribution partners.

Other gains, net. Other gains, net of RMB2.8 million were recorded for the second quarter of 2011, compared to RMB339.1 million for the first quarter of 2011. In the first quarter of 2011, a deemed disposal gain of RMB459.0 million as a result of the Riot Games Acquisition was recognised and a donation of RMB100.0 million was made to the Tencent Charity Fund. These items were not repeated in the second quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses increased by 23.0% to RMB369.5 million for the second quarter of 2011 from RMB300.5 million for the first quarter of 2011. This primarily reflected an increase in advertising and promotional expenses related to microblog and other products. Staff costs also increased mainly due to the growth of our business. As a percentage of revenues, selling and marketing expenses increased to 5.5% for the second quarter of 2011 from 4.7% for the first quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 51.9% to RMB1,363.4 million for the second quarter of 2011 from RMB897.5 million for the first quarter of 2011. This was mainly driven by the impact of expenses related to the Riot Games Acquisition, including amortisation of intangible assets acquired amounting to RMB190.7 million and one-time transaction costs amounting to RMB54.3 million. Research and development expenses also increased for supporting the continued expansion of our business. As a percentage of revenues, general and administrative expenses increased to 20.2% for the second quarter of 2011 from 14.2% for the first quarter of 2011. Excluding the impact of Riot Games, general and administrative expenses increased by 24.1% compared to the previous quarter.

Income tax expense. Income tax expense decreased by 23.8% to RMB405.2 million for the second quarter of 2011 from RMB532.0 million for the first quarter of 2011. This primarily reflected the full quarter impact of reversal of deferred tax liabilities arising from the Riot Games Acquisition and a reversal of income tax expenses as a result of the finalisation of our enterprise income tax assessment for 2010. It also reflected a decrease in deferred tax liabilities recognised associated with withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the period. Profit for the period decreased by 18.8% to RMB2,343.3 million for the second quarter of 2011 from RMB2,884.2 million for the first quarter of 2011. Net margin was 34.8% for the second quarter of 2011 compared to 45.5% for the first quarter of 2011. Non-GAAP profit for the period increased by 3.6% to RMB2,694.5 million for the second quarter of 2011 from RMB2,601.6 million for the first quarter of 2011. Non-GAAP net margin was 40.0% for the second quarter of 2011 compared to 41.0% for the first quarter of 2011.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 18.2% to RMB2,349.2 million for the second quarter of 2011 from RMB2,870.4 million for the first quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 3.9% to RMB2,686.8 million for the second quarter of 2011 from RMB2,584.7 million for the first quarter of 2011.

Second Quarter of 2011 Compared to Second Quarter of 2010

The following table sets forth the comparative figures for the second quarter of 2011 and the second quarter of 2010:

	Unaudited	
	Three months ended	
	30 June 2011	30 June 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	6,739,044	4,669,180
Cost of revenues	<u>(2,331,637)</u>	<u>(1,482,939)</u>
Gross profit	4,407,407	3,186,241
Interest income	106,546	54,005
Other gains, net	2,809	27,415
Selling and marketing expenses	(369,491)	(230,340)
General and administrative expenses	<u>(1,363,372)</u>	<u>(665,961)</u>
Operating profit	2,783,899	2,371,360
Finance income/(costs), net	1,771	(2,976)
Share of profit of associates	23,454	11,334
Share of loss of jointly controlled entities	<u>(60,689)</u>	<u>—</u>
Profit before income tax	2,748,435	2,379,718
Income tax expense	<u>(405,163)</u>	<u>(448,525)</u>
Profit for the period	<u>2,343,272</u>	<u>1,931,193</u>
Attributable to:		
Equity holders of the Company	2,349,246	1,916,502
Non-controlling interests	<u>(5,974)</u>	<u>14,691</u>
	<u>2,343,272</u>	<u>1,931,193</u>
Non-GAAP profit attributable to equity holders of the Company	<u>2,686,757</u>	<u>2,043,809</u>

Revenues. Revenues increased by 44.3% to RMB6,739.0 million for the second quarter of 2011 from RMB4,669.2 million for the second quarter of 2010. The following table sets forth our revenues by line of business for the second quarter of 2011 and the second quarter of 2010:

	Unaudited			
	Three months ended			
	30 June 2011		30 June 2010	
	% of total		% of total	
	Amount	revenues	Amount	Revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	5,386,578	79.9%	3,581,976	76.7%
MVAS	793,839	11.8%	674,120	14.4%
Online advertising	512,312	7.6%	397,520	8.5%
Others	<u>46,315</u>	<u>0.7%</u>	<u>15,564</u>	<u>0.4%</u>
Total revenues	<u>6,739,044</u>	<u>100.0%</u>	<u>4,669,180</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 50.4% to RMB5,386.6 million for the second quarter of 2011 from RMB3,582.0 million for the second quarter of 2010. Online gaming revenues grew by 69.9% to RMB3,641.0 million. The increase mainly reflected the increased popularity of Cross Fire and DNF, as well as revenue contribution from Qi Xiong Zheng Ba which was launched in the third quarter of 2010. Growth in QQ Game also contributed to the increase in online gaming revenues. Revenues from our community value-added services increased by 21.3% to RMB1,745.6 million, primarily driven by Qzone and QQ Membership. Revenues from Qzone increased on the back of growth in item-based sales driven by an increased number of third-party social applications offered on the platform. QQ Membership registered growth in revenues as its subscriber base continued to expand with enhancements in privileges as well as value-added functions.
- Revenues from our MVAS increased by 17.8% to RMB793.8 million for the second quarter of 2011 from RMB674.1 million for the second quarter of 2010. This was primarily driven by growth in revenues from mobile SNS, bundled SMS packages and mobile games, partly offset by the negative impact of the new service cancellation policy introduced by China Mobile in early 2011.
- Revenues from our online advertising business increased by 28.9% to RMB512.3 million for the second quarter of 2011 from RMB397.5 million for the second quarter of 2010. This mainly reflected growth in advertising revenues from our

IM client and portal on the back of a growing client base, partly offset by the non-recurrence of the advertising opportunities generated from the World Cup and the World Expo held in 2010. Our search-based advertising revenues also increased.

Cost of revenues. Cost of revenues increased by 57.2% to RMB2,331.6 million for the second quarter of 2011 from RMB1,482.9 million for the second quarter of 2010. This primarily reflected an increase in sharing costs, staff costs, equipment depreciation as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 34.6% for the second quarter of 2011 from 31.8% for the second quarter of 2010. The following table sets forth our cost of revenues by line of business for the second quarter of 2011 and the second quarter of 2010:

	Unaudited			
	Three months ended			
	30 June 2011		30 June 2010	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	1,788,240	33.2%	1,100,032	30.7%
MVAS	322,454	40.6%	242,094	35.9%
Online advertising	168,624	32.9%	117,428	29.5%
Others	<u>52,319</u>	113.0%	<u>23,385</u>	150.3%
 Total cost of revenues	 <u>2,331,637</u>		 <u>1,482,939</u>	

- Cost of revenues for our IVAS increased by 62.6% to RMB1,788.2 million for the second quarter of 2011 from RMB1,100.0 million for the second quarter of 2010. This mainly reflected the growth in sharing costs as a result of increased revenues from our licensed games. Other costs also increased as our business scale grew.
- Cost of revenues for our MVAS increased by 33.2% to RMB322.5 million for the second quarter of 2011 from RMB242.1 million for the second quarter of 2010. This primarily reflected increased staff costs for the long-term growth of the business.

- Cost of revenues for our online advertising business increased by 43.6% to RMB168.6 million for the second quarter of 2011 from RMB117.4 million for the second quarter of 2010. This was mainly driven by sharing costs for our search business as traffic generated from our search distribution partners recorded a significant growth. This was also driven by increase in staff costs and sales commissions paid to advertising agencies.

Other gains, net. We recorded other gains, net of RMB2.8 million for the second quarter of 2011, compared to RMB27.4 million for the second quarter of 2010. The decrease mainly reflected the recognition of a loss on foreign exchange forward contracts, which we entered into for the purpose of managing our foreign currency exposure related to our USD-denominated borrowings, in the second quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses increased by 60.4% to RMB369.5 million for the second quarter of 2011 from RMB230.3 million for second quarter of 2010. This primarily reflected an increase in advertising and promotional spending on products, including microblog and online games. Our brand investments reduced as we launched significant advertising campaigns for the World Cup and the World Expo in the same period last year. As a percentage of revenues, selling and marketing expenses increased to 5.5% for the second quarter of 2011 from 4.9% for the second quarter of 2010.

General and administrative expenses. General and administrative expenses increased by 104.7% to RMB1,363.4 million for the second quarter of 2011 from RMB666.0 million for the second quarter of 2010. This mainly reflected the recognition of expenses related to the Riot Games Acquisition, including amortisation of intangible assets acquired amounting to RMB190.7 million and one-time transaction costs amounting to RMB54.3 million, as well as an increase in research and development expenses driven by the expansion of our research and development team. It also reflected higher administrative expenses and staff costs for supporting our business growth. As a percentage of revenues, general and administrative expenses increased to 20.2% for the second quarter of 2011 from 14.3% for the second quarter of 2010. Excluding the impact of Riot Games, general and administrative expenses increased by 54.2% compared to the same period last year.

Income tax expense. We recorded income tax expense of RMB405.2 million for the second quarter of 2011 compared to RMB448.5 million for the second quarter of 2010. This primarily reflected a reversal of deferred tax liabilities arising from the Riot Games Acquisition, a reversal of income tax expenses as a result of the finalisation of our enterprise income tax assessment for 2010 and a decrease in

deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. This was partly offset by the increase in profit before tax.

Profit for the period. Profit for the period increased by 21.3% to RMB2,343.3 million for the second quarter of 2011 from RMB1,931.2 million for the second quarter of 2010. Net margin was 34.8% for the second quarter of 2011 compared to 41.4% for the second quarter of 2010. Non-GAAP profit for the period increased by 30.9% to RMB2,694.5 million for the second quarter of 2011 from RMB2,058.6 million for the second quarter of 2010. Non-GAAP net margin was 40.0% for the second quarter of 2011 compared to 44.1% for the second quarter of 2010.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 22.6% to RMB2,349.2 million for the second quarter of 2011 from RMB1,916.5 million for the second quarter of 2010. Non-GAAP profit attributable to equity holders of the Company increased by 31.5% to RMB2,686.8 million for the second quarter of 2011 from RMB2,043.8 million for the second quarter of 2010.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin and non-GAAP profit attributable to equity holders of the Company, have been presented in this announcement. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first half of 2011 and 2010, the second quarter of 2011 and 2010, and the first quarter of 2011 to the nearest measures prepared in accordance with IFRS:

Unaudited six months ended 30 June 2011						
Adjustments						
As reported	Share-based compensation	Gain on disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	Non-GAAP	
<i>(RMB in thousands, except percentages)</i>						
Operating profit	6,170,402	334,452	(459,037)	238,445	33,537	6,317,799
Profit for the period	5,227,480	334,452	(459,037)	159,669	33,537	5,296,101
Profit attributable to equity holders of the Company	5,219,620	330,373	(459,037)	149,468	31,053	5,271,477
Operating margin	47.2%					48.3%
Net margin	40.0%					40.5%

Unaudited three months ended 31 March 2011

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
	<i>(RMB in thousands, except percentages)</i>					
Operating profit	3,386,503	144,123	(459,037)	39,230	9,091	3,119,910
Profit for the period	2,884,208	144,123	(459,037)	23,229	9,091	2,601,614
Profit attributable to equity holders of the Company	2,870,374	143,121	(459,037)	21,827	8,435	2,584,720
Operating margin	53.4%					49.2%
Net margin	45.5%					41.0%

Unaudited three months ended 30 June 2010

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
	<i>(RMB in thousands, except percentages)</i>					
Operating profit	2,371,360	119,599	—	9,499	—	2,500,458
Profit for the period	1,931,193	119,599	—	7,787	—	2,058,579
Profit attributable to equity holders of the Company	1,916,502	119,599	—	7,708	—	2,043,809
Operating margin	50.8%					53.6%
Net margin	41.4%					44.1%

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011 and 31 March 2011, we had the following major financial resources in the form of cash and investments:

	Unaudited	
	30 June	31 March
	2011	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	7,963,090	10,882,954
Term deposits with initial term of over three months	<u>13,189,618</u>	<u>12,170,143</u>
Total financial resources	21,152,708	23,053,097
Unsecured short-term borrowings	<u>(5,511,720)</u>	<u>(4,923,920)</u>
Net financial resources	<u>15,640,988</u>	<u>18,129,177</u>

Note:

The above table excludes short-term bank borrowing arrangements with an aggregate principle amount of USD410.0 million as at 30 June 2011 (31 March 2011: USD340.8 million) and restricted cash deposits of RMB2,747.3 million as at 30 June 2011 (31 March 2011: RMB2,309.3 million) pledged as part of these arrangements, as such deposits are scheduled to offset the borrowed amount at the maturity of the loans.

As at 30 June 2011, RMB2,983.7 million of our financial resources (31 March 2011: RMB3,629.4 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, 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.

BUSINESS REVIEW AND OUTLOOK

In the second quarter of 2011, our platforms and revenues registered continued growth. The growth rates reduced alongside with the overall Internet market in China, which experienced a lower user base growth rate as its scale expanded.

According to the CNNIC, China had 485.0 million Internet users at the end of June 2011. This represented a year-on-year growth of 15.5%, lower than the year-on-year growth rate of 24.3% for the same period of the previous year. The wireless Internet market showed a similar trend. At the end of June 2011, total wireless Internet users in China increased by 14.8% on a year-on-year basis to 317.7 million, a significant slowdown in growth rate compared to 78.0% in the same period of the previous year. Despite the slowdown in user growth rate, Internet usage among existing users continued to increase, and the ways through which Internet touches upon users' daily lives continued to proliferate.

Our IVAS business expanded in the second quarter of 2011. Despite weaker seasonality as a result of school examinations and fewer school holidays, our online gaming business grew on the back of the increased monetisation and user growth of DNF driven by the launch of major expansion packs during the quarter. Our community VAS achieved revenue increase as well, riding on the growth of Qzone and QQ Membership. For our MVAS, revenue growth was dampened by the new service cancellation policy introduced by China Mobile in early 2011. Our online advertising business registered significant sequential growth with positive seasonality in the second quarter. Looking ahead, our online games are expected to benefit from summer school holidays in the third quarter of 2011 during which users' propensity to spend is expected to increase. Our community VAS would be subject to an open-platform related transition with a growing proportion of revenues from third-party applications available on our SNS platforms as opposed to the traditional self-generated subscription revenue. The outlook of our MVAS business remains uncertain as further regulatory changes are possible.

We believe the pace of innovation in the Internet industry will continue to accelerate. To position ourselves for the emerging opportunities and threats in the Internet market, we have entered a new investment phase in which we put a strong focus on implementing our open platform strategy and new product development. Through a series of key initiatives including infrastructure enhancements, alliances and strategic investments, we are striving to build a healthy ecosystem which benefits users, applications developers, our platforms and the Internet industry as a whole. In addition, we will continue to make significant investments in existing products, and new strategic products including microblog, e-commerce, search, online security, online video and international expansion. The new investment phase will result in a significant cost increase in areas such as revenue sharing with partners, content acquisitions, research and development as well as marketing. As these investments

will take time to generate return, our margins will inevitably be affected over the short to medium term. Nevertheless, we believe it is crucial for us to invest significantly for the future in the dynamic and competitive Internet market, and the investments will bear fruit in the long run.

IM Platform

At the end of the second quarter of 2011, active user accounts of our IM platform amounted to 701.9 million, representing a quarter-on-quarter increase of 4.1%. While its growth rate slowed down due to increased scale and reduced growth rate in the Internet market in China, our mobile IM user base continued to expand at a fast pace. PCU of our IM platform decreased modestly to 136.7 million as compared to the previous quarter, primarily reflecting the maturity of QQ Farm and QQ Ranch which caused certain accounts created solely for the purpose of playing such games to become inactive.

QQ.com

QQ.com registered healthy traffic growth in the second quarter of 2011, reflecting our consistent focus on content enhancement, operational improvements and cross-platform integration. The operation of QQ.com was increasingly integrated with our microblog platform to leverage the social media to increase the reach and interactivity of its content. A new property channel was launched in June 2011 to further enrich our offerings with targeted, one-stop property-related services.

IVAS

Our community VAS achieved a solid growth in the second quarter of 2011. For Qzone, active user accounts increased by 5.1% on a quarter-on-quarter basis to 530.7 million, on the back of organic growth and improved functionalities. Its revenue growth was driven by increased item sales resulting from a higher number of third-party applications available on the platform. In the first half of 2011, Qzone underwent a change in revenue mix with increasing contribution from item sales. We expect this trend to continue as we are working with more and more third-party developers in pursuing our open SNS platform strategy. Consequently, Qzone revenue would be subject to a higher level of fluctuation going forward. For Pengyou, active user accounts amounted to 129.3 million at the end of the second quarter of 2011, representing a sequential growth of 27.5%. Its market share increased as a result of enriched functionalities and enhanced user experience. Meanwhile, we continued to make good progress in building our microblog platform. Its registered user accounts increased by 59.4% quarter-on-quarter to 233.0 million at the end of

the second quarter of 2011, with improvements in user activeness and interaction. This was a result of the enhancements in content and user experience, as well as increased marketing activities. For QQ Membership, the second quarter of 2011 saw a continued growth in subscription mainly driven by improved functionalities and privileges, as well as cross-platform promotions. On the other hand, QQ Show reached a plateau and we are focusing on expanding its user base through special promotions and free items.

Although the second quarter was a weak season, our online gaming business registered revenue growth with the increased monetisation and user base expansion of DNF. QQ Speed and QQ Game also contributed to the growth. During the quarter, DNF benefited significantly from the launch of new expansion packs, including a significant release launched in June 2011 which offers new content, more experience levels and enhanced gaming experience. Its PCU achieved a historical high level of 2.6 million as a result. QQ Speed and QQ Dancer also reached a record-high PCU during the quarter, mainly driven by new play modes and in-game promotions. For QQ Game, the second quarter of 2011 saw a continued growth in revenue due to increase in subscription. Its PCU decreased modestly to 7.5 million due to weaker seasonality. As for web games, Qi Xiong Zheng Ba achieved 0.8 million in PCU and registered solid revenue growth as it benefited from promotional activities. The user growth of Roco Kingdom continued, with PCU reaching 0.5 million during the quarter. In July 2011, we further enriched our game portfolio by launching QQ Xian Xia Zhuan, a self-developed MMOG, and League of Legends, one of the most popular online games in the western world developed by Riot Games.

MVAS

Our MVAS business increased slightly in the second quarter of 2011, reflecting the growth in mobile SNS and mobile games. Our bundled SMS packages were broadly stable in terms of revenues. The new service cancellation policy introduced by China Mobile in early 2011 has resulted in lower realisation rates and dampened the growth of our revenues. While we have already implemented mitigating measures, we expect the negative effect of this policy to linger in the foreseeable future. Despite the uncertainty in MVAS revenue, we are significantly increasing our investments in mobile Internet, including extending our existing Internet platforms to mobile

devices, as well as developing new applications specifically for mobile users. Although these mobile platforms generally do not generate revenue at the moment, they are highly popular among users, and we believe business models will emerge in the future.

Online advertising

With stronger seasonality, our online advertising business registered significant sequential growth in the second quarter of 2011. However, the year-on-year growth rate of the business reduced compared to that of the same period last year, mainly due to the non-recurrence of the positive impact of the World Cup and the World Expo held in 2010. During the quarter, we benefited from the significant growth in the spending of advertisers in the food and beverages and online services industries. Meanwhile, the trend of shifting an increasing proportion of advertising budget to online videos continued, particularly for advertisers in the fast-moving consumer goods sector. To position ourselves for this opportunity, we have been making significant investments in our video service, including content acquisition, bandwidth and servers. For search advertising, the second quarter of 2011 saw a significant revenue growth, albeit from a relatively low base, on the back of our enhanced advertising platform. Going forward, we will continue to increase our competitiveness by improving our search engine and advertising technologies.

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2011, the Group had 12,904 employees (30 June 2010: 8,687), most of whom are based in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and the employees 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 six months ended 30 June 2011 was RMB2,214.1 million (for the six months ended 30 June 2010: RMB1,397.0 million).

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

During the six months ended 30 June 2011, the Company repurchased 611,300 shares on the Stock Exchange for an aggregate consideration of approximately HKD115.5 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in the six months ended 30 June 2011	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid HKD
		Highest price paid HKD	Lowest price paid HKD	
March	400,000	189.70	187.50	75,351,200
April	<u>211,300</u>	190.00	189.60	<u>40,128,554</u>
Total	<u>611,300</u>			<u>115,479,754</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2011.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2011.

Compliance with the Code on Corporate Governance Practices

Code provision A.4.2 of the Code provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation, provided that the chairman of the Board shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. In compliance with the provisions in the Articles of Association, at the 2011 AGM, two directors retired and were re-elected and the

re-election of Mr Li Dong Sheng, who was re-elected in 2008, was not considered at the 2011 AGM and his re-election will be considered at subsequent annual general meeting. Code provision A.4.2 regarding the retirement by rotation at least once every three years was deviated.

The Board considered that the continuing compliance with the existing provision of retirement and re-election in the Articles of Association, which have been in operation for several years, shall not have a material impact on the operation of the Company as a whole. Notwithstanding the above, the Board will review the current provisions in the Articles of Association from time to time and shall make necessary amendments at the appropriate time.

Save as disclosed above and those disclosed in the 2010 annual report of the Company, which was the position as at 31 December 2010, 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 six months ended 30 June 2011, complied with the code provisions of the Code.

As to the deviation from code provisions A.2.1 and A.4.2 of the Code, 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.

APPRECIATION

I would like to extend the Board's sincere gratitude to our employees for their hard work and commitment, which has been, and will continue to be, essential for the Group's success and competitive edge in a market full of challenges and uncertainties. We also thank our shareholders and other stakeholders for their continuous support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 10 August 2011

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:

Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

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

Definitions

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

Term	Definition
“2011 AGM”	the annual general meeting of the Company held on 11 May 2011
“Articles of Association”	the articles of association of the Company
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“China Mobile”	China Mobile Limited
“China Telecom”	China Telecom Corporation Limited
“China Unicom”	China United Telecommunications Corporation
“CIT”	Corporate income tax
“Code”	the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DNF”	Dungeon and Fighter
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region
“Huayi”	Huayi Brothers Media Corporation

“IAS”	International Accounting Standard
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“Kingsoft”	Kingsoft Corporation Limited
“LIBOR”	the London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mail.ru”	Mail.ru Group Limited
“MMOG(s)”	massively multiplayer online game(s)
“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme I
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme
“Riot Games”	Riot Games, Inc.
“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games
“RMB”	the lawful currency of the PRC
“SMS”	short message service

“SNS”	social networking service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the share award scheme of the Company
“US” or “United States”	the United States of America
“USD”	the lawful currency of the United States of America
“VAS”	value-added services