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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2011. The results have been audited by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2011 was RMB10,203.1 million, an increase of 26.7% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2011 were RMB5.609 and RMB5.490 respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.75 per share (2010: HKD0.55 per share) for the year ended 31 December 2011, subject to the approval of the shareholders at the AGM. Such proposed dividend will be payable on 30 May 2012 to the shareholders whose names appear on the register of members of the Company on 23 May 2012.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	As at 31 December	
	2011	2010
Note	RMB'000	RMB'000
ASSETS		
Non-current assets		
Fixed assets	5,884,952	3,292,828
Construction in progress	158,656	386,943
Investment properties	21,871	37,229
Land use rights	230,915	229,890
Intangible assets	3,779,976	572,981
Investment in associates	3 4,338,075	1,070,633
Investment in jointly controlled entities	61,903	74,542
Deferred income tax assets	198,058	219,019
Available-for-sale financial assets	4 4,343,602	4,126,878
Prepayments, deposits and other assets	2,282,869	<u>445,430</u>
	<u>21,300,877</u>	<u>10,456,373</u>
Current assets		
Accounts receivable	5 2,020,796	1,715,412
Prepayments, deposits and other assets	2,211,917	487,872
Term deposits with initial term of over three months	13,716,040	11,725,743
Restricted cash	4,942,595	1,036,457
Cash and cash equivalents	12,612,140	<u>10,408,257</u>
	<u>35,503,488</u>	<u>25,373,741</u>
Total assets	<u>56,804,365</u>	<u>35,830,114</u>

	As at 31 December	
	2011	2010
Note	RMB'000	RMB'000
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	198	198
Share premium	123,021	1,100,302
Shares held for share award scheme	(606,874)	(258,137)
Share-based compensation reserve	1,935,030	1,199,663
Other reserves	302,091	1,919,695
Retained earnings	<u>26,710,368</u>	<u>17,795,225</u>
	28,463,834	21,756,946
Non-controlling interests	<u>624,510</u>	<u>83,912</u>
Total equity	<u>29,088,344</u>	<u>21,840,858</u>
LIABILITIES		
Non-current liabilities		
Long-term notes payable	7 3,733,331	—
Deferred income tax liabilities	939,534	967,211
Long-term payables	<u>1,859,808</u>	<u>—</u>
	<u>6,532,673</u>	<u>967,211</u>
Current liabilities		
Accounts payable	8 2,244,114	1,380,464
Other payables and accruals	5,014,281	2,997,808
Derivative financial instruments	20,993	17,964
Short-term borrowings	9 7,999,440	5,298,947
Current income tax liabilities	708,725	341,103
Other tax liabilities	179,499	225,188
Deferred revenue	<u>5,016,296</u>	<u>2,760,571</u>
	<u>21,183,348</u>	<u>13,022,045</u>
Total liabilities	<u>27,716,021</u>	<u>13,989,256</u>
Total equity and liabilities	<u>56,804,365</u>	<u>35,830,114</u>
Net current assets	<u>14,320,140</u>	<u>12,351,696</u>
Total assets less current liabilities	<u>35,621,017</u>	<u>22,808,069</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

		Year ended 31 December	
		2011	2010
	Note	<i>RMB'000</i>	<i>RMB'000</i>
Revenues			
Internet value-added services		23,042,758	15,482,301
Mobile and telecommunications value-added services		3,270,841	2,715,931
Online advertising		1,992,216	1,372,522
Others		<u>190,257</u>	<u>75,277</u>
		28,496,072	19,646,031
Cost of revenues	11	<u>(9,928,308)</u>	<u>(6,320,200)</u>
Gross profit		18,567,764	13,325,831
Interest income		468,990	255,922
Other gains, net	10	420,803	38,056
Selling and marketing expenses	11	<u>(1,920,853)</u>	<u>(945,370)</u>
General and administrative expenses	11	<u>(5,283,154)</u>	<u>(2,836,226)</u>
Operating profit		12,253,550	9,838,213
Finance income/(costs), net		35,505	(838)
Share of (losses)/profit of associates		(24,255)	72,359
Share of (losses)/profit of jointly controlled entities		<u>(165,731)</u>	<u>3,399</u>
Profit before income tax		12,099,069	9,913,133
Income tax expense	12	<u>(1,874,238)</u>	<u>(1,797,924)</u>
Profit for the year		<u>10,224,831</u>	<u>8,115,209</u>
Attributable to:			
Equity holders of the Company		10,203,083	8,053,625
Non-controlling interests		<u>21,748</u>	<u>61,584</u>
		<u>10,224,831</u>	<u>8,115,209</u>

		Year ended 31 December	
		2011	2010
	Note	<i>RMB'000</i>	<i>RMB'000</i>
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
- basic	13	<u>5.609</u>	<u>4.432</u>
- diluted	13	<u>5.490</u>	<u>4.328</u>
Dividend per share			
Final dividend proposed	14	<u>HKD0.75</u>	<u>HKD0.55</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	<u>10,224,831</u>	<u>8,115,209</u>
Other comprehensive income, net of tax:		
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(1,233,873)	1,821,129
Currency translation differences	<u>(34,256)</u>	<u>—</u>
	<u>(1,268,129)</u>	<u>1,821,129</u>
Total comprehensive income for the year	<u>8,956,702</u>	<u>9,936,338</u>
Attributable to:		
Equity holders of the Company	8,937,627	9,874,754
Non-controlling interests	<u>19,075</u>	<u>61,584</u>
	<u>8,956,702</u>	<u>9,936,338</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	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 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 year	-	-	-	-	-	10,203,083	10,203,083	21,748	10,224,831
Other comprehensive income:									
- net losses from changes in fair value of available-for-sale financial assets	-	-	-	-	(1,233,873)	-	(1,233,873)	-	(1,233,873)
- currency translation differences	-	-	-	-	(31,583)	-	(31,583)	(2,673)	(34,256)
Total comprehensive income for the year	-	-	-	-	(1,265,456)	10,203,083	8,937,627	19,075	8,956,702
Total contributions by and distributions to owners of the company recognised directly in equity									
Capital injection	-	-	-	-	-	-	-	9,800	9,800
Employee share option schemes:									
- value of employee services	-	-	-	159,233	-	-	159,233	-	159,233
- proceeds from shares issued	-	159,729	-	-	-	-	159,729	-	159,729
Employee share award scheme:									
- value of employee services	-	-	-	576,134	-	-	576,134	-	576,134
- shares purchased for share award scheme	-	-	(438,714)	-	-	-	(438,714)	-	(438,714)
- vesting of awarded shares	-	(89,977)	89,977	-	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	-	439,650	(439,650)	-	-	-
Repurchase and cancellation of shares	-	(1,047,033)	-	-	-	-	(1,047,033)	-	(1,047,033)
Dividend	-	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer	-	-	-	-	10,000	(10,000)	-	-	-
Total contributions by and distributions to owners of the company for the year	-	(977,281)	(348,737)	735,367	449,650	(1,287,940)	(1,428,941)	(46,731)	(1,475,672)
Non-controlling interests and deemed consideration arising from business combinations	-	-	-	-	(154,732)	-	(154,732)	581,725	426,993
Changes in equity interests in a subsidiary without change of control	-	-	-	-	23,919	-	23,919	(13,471)	10,448
Recognition of financial liabilities in respect of the put options granted to non-controlling interests owners	-	-	-	-	(670,985)	-	(670,985)	-	(670,985)
Total transactions with owners for the year	-	(977,281)	(348,737)	735,367	(352,148)	(1,287,940)	(2,230,739)	521,523	(1,709,216)
Balance at 31 December 2011	<u>198</u>	<u>123,021</u>	<u>(606,874)</u>	<u>1,935,030</u>	<u>302,091</u>	<u>26,710,368</u>	<u>28,463,834</u>	<u>624,510</u>	<u>29,088,344</u>

	Attributable to equity holders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	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		
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
Comprehensive income									
Profit for the year	—	—	—	—	—	8,053,625	8,053,625	61,584	8,115,209
Other comprehensive income:									
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	—	1,821,129	—	1,821,129	—	1,821,129
Total comprehensive income for the year	—	—	—	—	1,821,129	8,053,625	9,874,754	61,584	9,936,338
Total contributions by and distributions to owners of the company recognised directly in equity									
Employee share option schemes:									
- value of employee services	—	—	—	139,621	—	—	139,621	—	139,621
- proceeds from shares issued	1	199,248	—	—	—	—	199,249	—	199,249
Employee share award scheme:									
- value of employee services	—	—	—	356,479	—	—	356,479	—	356,479
- shares purchased for share award scheme	—	—	(167,519)	—	—	—	(167,519)	—	(167,519)
- vesting of awarded shares	—	(33,149)	33,149	—	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	—	8,237	(8,237)	—	—	—
Dividend	—	—	—	—	—	(639,264)	(639,264)	(66,723)	(705,987)
Repurchase and cancellation of shares	—	(310,222)	—	—	—	—	(310,222)	—	(310,222)
Total contributions by and distributions to owners of the company	1	(144,123)	(134,370)	496,100	8,237	(647,501)	(421,656)	(66,723)	(488,379)
Reversal of the liabilities in respect of put options granted to non-controlling interests owners	—	—	—	—	94,246	—	94,246	—	94,246
Acquisition of additional interests in a subsidiary	—	—	—	—	154,198	(123,103)	31,095	(31,095)	—
Transfer	—	—	—	—	8,249	(8,249)	—	—	—
Total transactions with owners for the year	1	(144,123)	(134,370)	496,100	264,930	(778,853)	(296,315)	(97,818)	(394,133)
Balance at 31 December 2010	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	13,358,107	12,319,293
Net cash flows used in investing activities	(15,354,758)	(12,014,997)
Net cash flows generated from financing activities	<u>4,373,024</u>	<u>4,112,146</u>
Net increase in cash and cash equivalents	2,376,373	4,416,442
Cash and cash equivalents at beginning of the year	10,408,257	6,043,696
Exchange losses on cash and cash equivalents	<u>(172,490)</u>	<u>(51,881)</u>
Cash and cash equivalents at end of the year	<u>12,612,140</u>	<u>10,408,257</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	7,833,767	5,688,087
Term deposits and highly liquid investments with initial term within three months	<u>4,778,373</u>	<u>4,720,170</u>
	<u>12,612,140</u>	<u>10,408,257</u>

Note:

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 financial statements of the Group have been approved for issue by the Board on 14 March 2012.

The consolidated financial statements of the Group have been prepared in accordance with 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 derivative financial instruments.

The third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by the IASB, certain of which were effective in 2011. Management has considered that these amendments have no material impact on the Group's financial statements for the year ended 31 December 2011.

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2011, and have not been early adopted by the Group.

IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurement

2 Segment information

The Group has the following reportable segments for the years ended 31 December 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 material inter-segment sales during the years ended 31 December 2011 and 2010. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2011 and 2010 is as follows:

	Year ended 31 December 2011				
	IVAS	MVAS	Online	Others	Total
	RMB'000	RMB'000	advertising RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	<u>23,042,758</u>	<u>3,270,841</u>	<u>1,992,216</u>	<u>190,257</u>	<u>28,496,072</u>
Gross profit/(losses)	<u>15,409,134</u>	<u>2,011,085</u>	<u>1,197,260</u>	<u>(49,715)</u>	<u>18,567,764</u>
Depreciation	724,418	66,249	58,605	34,666	883,938
Amortisation	67,056	—	—	—	67,056
Share of losses of associates	(23,513)	(742)	—	—	(24,255)
Share of losses of jointly controlled entities	<u>(165,731)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(165,731)</u>
	Year ended 31 December 2010				
	IVAS	MVAS	Online	Others	Total
	RMB'000	RMB'000	advertising RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	<u>15,482,301</u>	<u>2,715,931</u>	<u>1,372,522</u>	<u>75,277</u>	<u>19,646,031</u>
Gross profit/(losses)	<u>10,719,866</u>	<u>1,705,073</u>	<u>931,220</u>	<u>(30,328)</u>	<u>13,325,831</u>
Depreciation	374,991	35,264	21,884	13,923	446,062
Amortisation	37,033	—	—	—	37,033
Share of profit of associates	67,563	4,796	—	—	72,359
Share of profit of jointly controlled entities	<u>3,399</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,399</u>

3 Investment in associates

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
At beginning of the year	1,070,633	477,622
Acquisitions (Note (a), (b), (c) and (d))	3,634,922	412,094
Additional investments in existing associates	99,537	97,087
Transfer from available-for-sale financial assets	—	26,809
Transfer out as a result of step-up business combinations (Note 15)	(257,585)	—
Share of (losses)/profit of associates	(24,255)	72,359
Dividends received from associates	(20,000)	(15,338)
Impairment provision	<u>(165,177)</u>	<u>—</u>
At end of the year	<u>4,338,075</u>	<u>1,070,633</u>

Note:

- (a) During the year ended 31 December 2011, the Group acquired 16.15% equity interest in eLong Incorporated (“eLong”), a company listed on NASDAQ, which is mainly engaged in the provision of online travel services, for a consideration of USD84,389,000 (equivalent to approximately RMB548,447,000). The Group accounts for eLong as an associate although the Group holds less than 20% equity interest. This is because the Group has the ability to exercise significant influence over this investee with a representative on its board of directors.
- (b) During the year ended 31 December 2011, the Group acquired 15.28% equity interest in Kingsoft Corporation Limited (“Kingsoft”), a company listed on the Stock Exchange for a consideration of approximately HKD892,036,000 (equivalent to approximately RMB741,817,000), and 10% equity interest in Beijing Kingsoft Internet Security Software Corporation Limited (“Kingsoft Security”), a subsidiary of Kingsoft, for a consideration of USD20,000,000 (equivalent to approximately RMB129,432,000). Kingsoft is principally engaged in the provision of games research, development, operation and distribution whilst Kingsoft Security is subsidiary of Kingsoft specialising in the development and distribution of Internet securities software. The Group accounts for these two companies as associates although the Group holds less than 20% equity interest in them because the Group has the ability to exercise significant influence over these investees with a representative on their board of directors respectively.
- (c) During the year ended 31 December 2011, the Group acquired 20.20% equity interest in a securities investment analysis software company, which provides securities investment solutions to investors through its Internet platform, for a consideration of RMB380,000,000. In addition, the Group also acquired 21.70% and 33.37% equity interests in two e-commerce companies for a consideration of USD46,000,000 (equivalent to approximately RMB302,459,000) and RMB314,437,000 respectively.

- (d) In addition to the above, the Group acquired some other associates for an aggregate consideration of RMB1,218,330,000 during the year ended 31 December 2011. They are principally engaged in e-commerce and other Internet related business.

4 Available-for-sale financial assets

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	4,126,878	153,462
Additions (Note (a), (b), (c) and (d))	1,487,645	2,179,096
Transfer to investment in associates	—	(26,809)
Net (losses)/gains recognised in other comprehensive income	(1,234,921)	1,821,129
Impairment provision	<u>(36,000)</u>	<u>—</u>
At end of the year, all non-current	<u>4,343,602</u>	<u>4,126,878</u>

Note:

- (a) During the year ended 31 December 2011, the Group acquired 4.60% equity interest in Huayi Brothers Media Corporation, a film producer listed on the Shenzhen Stock Exchange in the PRC, which is mainly engaged in the provision of movie and TV series production and entertainment brokerage, for a consideration of RMB444,933,000.
- (b) During the year ended 31 December 2011, the Group acquired 5.01% equity interest in Media Asia Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, which is mainly engaged in movie production, for a consideration of approximately HKD132,090,000 (equivalent to approximately RMB108,208,000).
- (c) During the year ended 31 December 2011, the Group acquired 5.00% equity interest in an investment fund for a consideration of approximately USD49,875,000 (equivalent to approximately RMB321,709,000).
- (d) In addition to the above, the Group acquired some other available-for-sale financial assets for an aggregated consideration of RMB612,795,000 during the year ended 31 December 2011. They are principally engaged in software development, investment and content production.

5 Accounts receivable

	As at 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	1,103,261	931,438
31 - 60 days	443,555	331,922
61 - 90 days	246,501	143,785
Over 90 days	<u>227,479</u>	<u>308,267</u>
	<u>2,020,796</u>	<u>1,715,412</u>

Receivable balances as at 31 December 2011 mainly represented amounts due from telecommunication operators, including China Mobile, China United Network Communications Corporation Limited, China Telecommunications Corporation 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 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.

6 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

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

It was terminated upon the adoption of the Post-IPO Option Scheme II as mentioned below.

(iii) 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**

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 No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
	At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	-	
Granted	-	-	-	-	HKD138.3689	2,708,350	HKD158.5000	1,000,000	3,708,350
Exercised	USD0.0759	(1,301,875)	HKD9.9387	(11,925,949)	HKD32.3254	(2,573,377)	-	-	(15,801,201)
Lapsed	-	-	HKD17.9512	(210,206)	HKD58.2388	(331,224)	-	-	(541,430)
At 31 December 2010	USD0.0935	<u>563,193</u>	HKD12.8579	<u>12,805,763</u>	HKD54.9391	<u>28,795,168</u>	HKD158.5000	<u>1,000,000</u>	<u>43,164,124</u>
Exercisable as at 31 December 2010	USD0.0935	<u>563,193</u>	HKD11.2750	<u>11,069,343</u>	HKD41.4494	<u>6,210,804</u>	-	-	<u>17,843,340</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	-	-	-	-	HKD191.1886	771,175	-	-	771,175
Exercised	USD0.0935	(563,180)	HKD13.8888	(4,038,282)	HKD44.9126	(3,022,651)	-	-	(7,624,113)
Lapsed	USD0.1967	(13)	HKD6.0210	(5,544)	HKD64.9539	(387,604)	-	-	(393,161)
At 31 December 2011	-	<u>-</u>	HKD12.3871	<u>8,761,937</u>	HKD59.9665	<u>26,156,088</u>	HKD158.5000	<u>1,000,000</u>	<u>35,918,025</u>
Exercisable as at 31 December 2011	-	<u>-</u>	HKD11.4611	<u>8,173,937</u>	HKD42.9814	<u>8,996,582</u>	-	-	<u>17,170,519</u>

Note:

During the year ended 31 December 2011, no share option (2010: 1,000,000 options) was granted to any directors of the Company.

(b) Share award scheme

The Company has adopted the Share Award Scheme, which is managed by the Trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the years ended 31 December 2011 and 2010 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2010	10	10,411,424
Purchased	1,184,883	—
Allotted	3,662,975	—
Granted	(4,847,788)	4,847,788
Vested	<u>—</u>	<u>(1,696,478)</u>
At 31 December 2010	<u>80</u>	<u>13,562,734</u>
Exercisable as at 31 December 2010		<u>101,337</u>
At 1 January 2011	80	13,562,734
Purchased and withheld (Note (i))	2,773,810	—
Allotted	4,045,360	—
Granted (Note (ii))	(5,995,410)	5,995,410
Lapsed	1,147,000	(1,147,000)
Vested	<u>—</u>	<u>(2,572,145)</u>
At 31 December 2011	<u>1,970,840</u>	<u>15,838,999</u>
Exercisable as at 31 December 2011		<u>14,406</u>

Note:

- (i) During the year ended 31 December 2011, the Trustee purchased and withheld 2,773,810 ordinary shares of the Company for a total consideration of HKD524,805,000 (equivalent to approximately RMB438,714,000), which had been deducted from shareholder's equity.
- (ii) During the year ended 31 December 2011, 35,000 awarded shares (2010: Nil) were granted to independent non-executive directors of the Company.

7 Long-term notes payable

On 12 December 2011, the Company completed the issue of long-term notes (the “Notes”) with an initial aggregate principal amount of USD600,000,000. The Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The Notes will mature on 12 December 2016.

The issue price of the Notes is 99.74% of the initial aggregate principal amount. The net proceeds from the issue of the Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issue of the Notes, amounted to approximately USD592,440,000 (equivalent to approximately RMB3,760,928,000).

The Notes are senior unsecured obligations of the Company. The Notes: (1) rank senior in right of payment to all of the Company’s existing and future indebtedness expressly subordinated in right of payment to the Notes; (2) rank at least equally in right of payment with all of the Company’s existing and future unsecured unsubordinated indebtedness (subject to any priority rights pursuant to applicable law); (3) are effectively subordinated to all of the Company’s existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (4) are structurally subordinated to all existing and future indebtedness and other liabilities of the Group.

The Notes are listed on the Singapore Exchange Securities Trading Limited. The Notes have been rated “Baa1” by Moody’s Investors Services, Inc. and “BBB+” by Standard & Poor’s Ratings Services, a division of McGraw-Hill Companies, Inc..

8 Accounts payable

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2011	2010
	<i>RMB’000</i>	<i>RMB’000</i>
0 - 30 days	1,514,155	975,869
31 - 60 days	351,587	242,547
61 - 90 days	108,337	68,632
Over 90 days	<u>270,035</u>	<u>93,416</u>
	<u>2,244,114</u>	<u>1,380,464</u>

9 Short-term borrowings

	As at 31 December	
	2011	2010
	<i>RMB'000</i>	RMB'000
RMB borrowings		
- Secured (Note (a))	2,958,720	990,887
- Unsecured	<u>—</u>	<u>334,440</u>
	2,958,720	1,325,327
USD borrowings		
- Unsecured (Note (b))	4,410,630	3,973,620
Bonds		
- Unsecured (Note (c))	<u>630,090</u>	<u>—</u>
	<u>7,999,440</u>	<u>5,298,947</u>

Note:

- (a) Bank borrowings of carrying amounts of RMB2,958,720,000 were secured by a pledge of bank deposits of RMB3,071,621,000.
- (b) Unsecured bank borrowings of carrying amount of RMB4,410,630,000 as at 31 December 2011 were denominated in USD. The aggregate principal amount was USD700,000,000 and the interest rates were fixed at 1.43% to 2.09% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling some of the bank loans with an aggregate principal amount of USD375,000,000 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 the 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, net” in the consolidated income statement.
- (c) During the year ended 31 December 2011, the Group issued USD denominated unsecured bonds at par value of USD100,000,000 (equivalent to approximately RMB630,090,000). The bonds bear a floating rate of LIBOR plus 0.25% per annum and will mature in March 2012. The Group also entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the bonds upon their due dates. The accounting treatments for the bonds and related foreign exchange forward contracts are the same as those mentioned in (b) above.

The fair value of the short-term borrowings approximated to their carrying amounts as at 31 December 2011.

10 Other gains, net

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Gains on deemed disposal of associates (Note 15)	708,486	—
Government subsidies	101,406	96,537
Losses from derivative financial instruments	(96,790)	(17,964)
Donation to Tencent Charity Fund	(100,000)	(70,000)
(Losses)/gains on disposal of fixed assets	(1,694)	883
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	(243,000)	—
Others	<u>52,395</u>	<u>28,600</u>
	<u>420,803</u>	<u>38,056</u>

11 Expenses by nature

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Employee benefits expenses (Note)	4,865,744	3,143,967
Mobile and telecommunications charges and bandwidth and server custody fees	2,627,106	2,089,273
Content costs and agency fees	4,843,784	2,797,872
Promotion and advertising expenses	1,403,699	557,601
Depreciation of fixed assets (Note)	1,207,732	668,580
Amortisation of intangible assets	726,221	109,411
Amortisation of land use rights	4,925	3,724
Travelling and entertainment expenses	224,748	124,320
Operating lease rentals in respect of office buildings	342,957	116,378
Auditors' remuneration		
- Audit service	10,760	8,000
- Non-audit service	7,575	3,564
Other expenses	<u>867,064</u>	<u>479,106</u>
	<u>17,132,315</u>	<u>10,101,796</u>

Note:

Research and development expenses for the year ended 31 December 2011 were RMB2,684,821,000 (2010: RMB1,685,525,000) which included employee benefit expenses of RMB2,243,793,000 (2010: RMB1,407,948,000) and depreciation of fixed assets of RMB287,968,000 (2010: RMB194,090,000).

12 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 year ended 31 December 2011 (2010: Nil).

(b) Hong Kong profits tax

No Hong Kong profits tax was provided for the year ended 31 December 2011 (2010: Nil).

(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 rate 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 CIT 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 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

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 generated in prior years.

(d) **United States corporate income tax**

No United States corporate income tax was provided for the year ended 31 December 2011 (2010: Nil).

(e) **PRC withholding tax**

According to 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 generally 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 from 10% to 5%.

The income tax expense of the Group for the years ended 31 December 2011 and 2010 are analysed as follows:

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	1,863,939	1,127,390
Deferred income tax	<u>10,299</u>	<u>670,534</u>
	<u>1,874,238</u>	<u>1,797,924</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 year ended 31 December 2011 (2010: 22%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit before income tax	12,099,069	9,913,133
Add: Share of losses/(profit) of associates and jointly controlled entities	<u>189,986</u>	<u>(75,758)</u>
	<u>12,289,055</u>	<u>9,837,375</u>
Tax calculated at a tax rate of 24% (2010: 22%)	2,949,373	2,164,223
Effects of different tax rates available to different subsidiaries of the Group	(1,087,518)	(575,213)
Effect of tax holiday on assessable profits of subsidiaries	(464,371)	(556,561)
Effect of changes in tax rates	—	54,895
Income not subject to tax	(13,752)	(29,217)
Expenses not deductible for tax purposes	186,196	110,391
Adjustments in respect of prior year	(62,244)	5,869
Withholding tax on earnings expected to be remitted by PRC subsidiaries	222,500	595,162
Unrecognised deferred income tax assets	<u>144,054</u>	<u>28,375</u>
Income tax expense	<u>1,874,238</u>	<u>1,797,924</u>

13 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 year.

	2011	2010
Profit attributable to equity holders of the Company for the year (RMB'000)	<u>10,203,083</u>	<u>8,053,625</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,818,966</u>	<u>1,816,954</u>
Basic EPS (RMB per share)	<u>5.609</u>	<u>4.432</u>

(b) **Diluted**

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. 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).

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the year ended 31 December 2011, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2011	2010
Profit attributable to equity holders of the Company for the year (RMB'000)	<u>10,203,083</u>	<u>8,053,625</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,818,966	1,816,954
Adjustments for share options (thousand shares)	28,897	35,252
Adjustments for awarded shares (thousand shares)	<u>10,683</u>	<u>8,777</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,858,546</u>	<u>1,860,983</u>
Diluted EPS (RMB per share)	<u><u>5.490</u></u>	<u><u>4.328</u></u>

14 Dividend

The dividend paid in 2011 was RMB838,290,000 (2010: RMB639,264,000), which excluded the dividend of RMB6,720,000 (2010: RMB3,717,000) related to the shares held by the Trustee for the purpose of the Share Award Scheme.

A final dividend in respect of the year ended 31 December 2011 of HKD0.75 per share (2010: HKD0.55 per share) was proposed pursuant to a resolution passed by the Board on 14 March 2012 and subject to the approval of the shareholders at the AGM. The consolidated financial statements do not reflect this dividend payable.

15 Business Combinations

(a) 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 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 related to the put options mentioned below. Immediately before the Riot Games Acquisition, the Group held 22.34% equity interest (the “Previously Held Interest”) in Riot Games and it was reported as an investment in associate. Immediately after the Riot Games Acquisition, the Group held 8,209,473 shares, representing 92.78% equity interest in Riot Games. Riot Games operates a stock plan established before the Closing Date, pursuant to which, Riot Games may grant share options or special restricted share units (“RSUs”) to its eligible employees (the “Eligible Persons”). As at the Closing Date, all share options and RSUs held by the Eligible Persons, both vested and unvested, amounted to a total of 2,040,456 shares in addition to the issued shares. In addition, according to the stock plan, 2,009,000 share options or RSUs may be further granted to the Eligible Persons as appropriate. After the Riot Games Acquisition, Riot Games was accounted for as a subsidiary of the Company. 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 was 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 Interests”) at fair value on the Closing Date, which was estimated by making reference to the above purchase price paid for the Riot Games Acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the 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 Interests	<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 were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 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, net” in the consolidated income statement for the year ended 31 December 2011.

For the period from the Closing Date to 31 December 2011, Riot Games contributed revenues of RMB413,010,000 and a net loss of RMB821,375,000 to the Group, which included expenses arising from the Riot Games Acquisition, including amortisation of intangible assets acquired, related deferred tax impact and share-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**

In connection with the Riot Games Acquisition, the Group offered, among others, certain share options and RSUs of Riot Games to the Eligible Persons before the Closing Date. Certain Eligible Persons were also granted by the Group cash bonus and put options so that they are entitled to sell to the Group 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 RSUs granted on or before the Closing Date by Riot Games. These put options will be exercisable for a period of up to 10 years following the Closing Date, subject to certain conditions.

The grant of the put options on the share options owned by the Eligible Persons before the acquisition (the “Existing Share Options”) was accounted for as a modification of the options as at the Riot Games Acquisition. The portion of fair value of the Existing Share Options, assessed at the Closing Date, attributable to the service period before the acquisition (amounting to RMB154,732,000) was treated as part of the purchase consideration of the acquisition. The remaining portion of the fair value will be recorded as employee costs throughout the future vesting period.

In addition, the grant of share options and RSUs of Riot Games, together with the put feature mentioned above, as at the Closing Date have been accounted for as a grant of a compound instrument granted to the Eligible Persons. They are accounted for as employee costs throughout the vesting period.

The aforesaid cash bonus and share-based compensation expense recorded as employee costs in the consolidated income statement for the year ended 31 December 2011 were not material.

The grant of the put options for the retained interest of the Eligible Persons was accounted for as a transaction undertaken with the non-controlling shareholders. The Group recognised, as at the Closing Date, the relevant financial liabilities based on the present value of estimated future cash out flow that the Group is required to honour the put option obligations, together with a debit to other reserve within equity of the Group.

(b) The Gamegoo Acquisition

On 4 November 2011 (the “Gamegoo Closing Date”), the Group acquired ordinary shares representing an additional 15% equity interest in Gamegoo from its existing shareholders for a cash consideration of RMB134,878,000 (the “Gamegoo Acquisition”). Gamegoo is a China-based online game developer. Before the Gamegoo Acquisition, the Group held 37% preference shares and 13% ordinary shares in Gamegoo’s issued share capital and it was accounted for as an associate of the Group. After the Gamegoo Acquisition, the Group held 62.5% equity interest on a fully diluted basis in Gamegoo and Gamegoo started to be accounted for as a subsidiary of the Company.

A goodwill of RMB401,678,000 was recognised as a result of the Gamegoo Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining operations of the Group and Gamegoo. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interests in Gamegoo at fair value on the Gamegoo Closing Date, which was estimated by making reference to the purchase price paid for the Gamegoo Acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the Gamegoo Closing Date.

RMB'000

Consideration:

Cash consideration paid for additional equity interest	134,878
Fair value of the interest previously held by the Group	389,532
Fair value of the non-controlling interests	<u>239,901</u>
	<u>764,311</u>

**Recognised amounts of identifiable assets acquired
and liabilities assumed:**

Current assets	136,293
Fixed assets	3,700
Existing game licences and other acquired intangible assets	283,910
Other payables and accruals	(18,745)
Deferred income tax liabilities	<u>(42,525)</u>

Total identifiable net assets 362,633

Goodwill 401,678

764,311

Acquisition-related costs (Note) 324

Note:

The acquisition-related costs were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

The Gamegoo Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB249,449,000, being the difference between the fair value of the interest previously held by the Group as at the Gamegoo Closing Date and its then carrying value of RMB140,083,000, was recorded as “Other gains, net” in the consolidated income statement for the year ended 31 December 2011.

For the period from the Gamegoo Closing Date to 31 December 2011, Gamegoo contributed revenues of RMB42,587,000 and a net profit of RMB22,581,000 to the Group, which included expenses arising from the Gamegoo Acquisition, including amortisation of intangible assets acquired and the related deferred tax impact. The revenue and net profit contributed by Gamegoo to the Group would be RMB228,019,000 and RMB129,269,000, respectively, if the Gamegoo Acquisition had occurred on 1 January 2011.

16 Subsequent events

- (a) On 19 January 2012, the Group entered into a sales and purchase agreement (the “Level Up SPA”) with a related party, pursuant to which, the Group agreed to purchase 320,722 shares of Level Up, representing 49% of its issued share capital at the date of the Level Up SPA, with a cash consideration of USD26,950,000 (equivalent to approximately RMB169,567,000) (the “Level Up Acquisition”). On the same date, the Group entered into a call option agreement, pursuant to which, the Group was granted an option to acquire such number of shares in Level Up that, together with the shares acquired pursuant to the Level Up SPA, will represent 67% of the issued share capital of Level Up as of the date of the exercise of the option. Closing of the Level Up Acquisition is subject to certain conditions and they have not been fulfilled at the date of this announcement. Level Up, through its operating subsidiaries and affiliates in Brazil and the Philippines and through its joint-venture in the United States, is principally engaged in online game and game magazine publishing. Upon the completion of the acquisition, Level Up will be accounted for as a subsidiary of the Company.

- (b) On 31 January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8% of its total outstanding shares on a fully diluted basis, for a cash consideration of HKD247,760,000 (equivalent to approximately RMB201,578,000). ChinaVision is principally engaged in production and licensing of film and television programmes, and printed media and television advertising business.

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 31 December 2011	As at 30 September 2011	Quarter- on-quarter percentage change	Year- on-year percentage change
	<i>(in millions)</i>			
Active IM user accounts	721.0	711.7	1.3%	11.3%
Peak simultaneous online IM user accounts (for the quarter)	152.7	145.4	5.0%	19.8%
Average daily IM user hours (for the last 16/15 days of the quarter)	2,363.9	2,279.3	3.7%	25.3%
Active Qzone user accounts	552.1	548.1	0.7%	8.3%
Peak simultaneous online QQ Game user accounts (for the quarter)	8.4	8.0	5.0%	23.5%
Fee-based IVAS registered subscriptions	77.2	77.5	-0.4%	17.5%
Fee-based MVAS registered subscriptions	31.4	31.2	0.6%	27.6%

Note:

Since the fourth quarter of 2011, definition of active Qzone user accounts has been revised to denote the total number of user accounts that logged in Qzone at least twice during the last calendar month prior to the relevant date. Historical figures have been restated for fair comparison. Under the previous definition, active Qzone user accounts denote the total number of user accounts that either updated content or accessed social applications at least once during the last calendar month prior to the relevant date. We believe this definition is more in line with and yet more conservative than industry practice which normally count users who logged in once as active users. Definition of active Pengyou user accounts has also been revised in the same manner.

- *QQ*. In the fourth quarter of 2011, the user base of our IM platform expanded further, with greater usage of our services on mobile devices. Given the decelerating growth rate of Internet penetration in China and the already-high usage of our IM platform among Internet users, we are increasingly focused on boosting engagement per user, while sustaining stable growth in total users.

- *Qzone*. Active user accounts grew on a year-on-year basis and increased slightly sequentially. While the impact of the maturity of QQ Farm and QQ Ranch lingered, our third party applications registered solid growth in active user accounts during the fourth quarter of 2011.
- *QQ Game*. Peak simultaneous online user accounts increased due to organic growth and operating initiatives.
- *IVAS subscriptions*. Registered subscriptions to our IVAS increased year-on-year and decreased marginally sequentially, mainly due to a revenue mix shift in Qzone from subscriptions toward transactional payments.
- *MVAS subscriptions*. Registered subscriptions to our MVAS increased year-on-year, mainly driven by the user expansion of our bundled SMS packages. The sequential increase was stimulated by the growth in mobile book service and mobile game service.

FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2011

Consolidated revenues for the year ended 31 December 2011 were RMB28,496.1 million, an increase of 45.0% from the year ended 31 December 2010.

Revenues from our IVAS for the year ended 31 December 2011 were RMB23,042.8 million, an increase of 48.8% from the year ended 31 December 2010.

Revenues from our MVAS for the year ended 31 December 2011 were RMB3,270.8 million, an increase of 20.4% from the year ended 31 December 2010.

Revenues from our online advertising business for the year ended 31 December 2011 were RMB1,992.2 million, an increase of 45.2% from the year ended 31 December 2010.

Cost of revenues for the year ended 31 December 2011 were RMB9,928.3 million, an increase of 57.1% from the year ended 31 December 2010.

Selling and marketing expenses for the year ended 31 December 2011 were RMB1,920.9 million, an increase of 103.2% from the year ended 31 December 2010.

General and administrative expenses for the year ended 31 December 2011 were RMB5,283.2 million, an increase of 86.3% from the year ended 31 December 2010.

Operating profit for the year ended 31 December 2011 was RMB12,253.6 million, representing an increase of 24.6% over the year ended 31 December 2010. As a percentage of revenues, operating profit represented 43.0% for the year ended 31 December 2011, compared to 50.1% for the year ended 31 December 2010.

Non-GAAP operating profit for the year ended 31 December 2011 was RMB13,210.7 million, representing an increase of 27.3% over the year ended 31 December 2010. As a percentage of revenues, non-GAAP operating profit represented 46.4% for the year ended 31 December 2011, compared to 52.8% for the year ended 31 December 2010.

Profit attributable to equity holders of the Company for the year ended 31 December 2011 was RMB10,203.1 million, representing an increase of 26.7% from the year ended 31 December 2010.

Non-GAAP profit attributable to equity holders of the Company for the year ended 31 December 2011 was RMB10,940.2 million, representing an increase of 27.5% from the year ended 31 December 2010.

Fourth Quarter of 2011

Consolidated revenues for the fourth quarter of 2011 were RMB7,922.5 million, an increase of 43.4% over the same period in 2010 and an increase of 5.7% from the third quarter of 2011.

Revenues from our IVAS for the fourth quarter of 2011 were RMB6,401.8 million, an increase of 46.0% over the same period in 2010 and an increase of 6.6% from the third quarter of 2011.

Revenues from our MVAS for the fourth quarter of 2011 were RMB854.3 million, an increase of 17.3% over the same period in 2010 and an increase of 1.1% from the third quarter of 2011.

Revenues from our online advertising business for the fourth quarter of 2011 were RMB598.4 million, an increase of 54.2% over the same period in 2010 and a decrease of 0.4% from the third quarter of 2011.

Cost of revenues for the fourth quarter of 2011 was RMB2,741.5 million, an increase of 49.6% over the same period in 2010 and an increase of 3.0% from the third quarter of 2011.

Selling and marketing expenses for the fourth quarter of 2011 were RMB743.7 million, an increase of 146.4% over the same period in 2010 and an increase of 46.6% from the third quarter of 2011.

General and administrative expenses for the fourth quarter of 2011 were RMB1,553.0 million, an increase of 84.8% over the same period in 2010 and an increase of 5.7% from the third quarter of 2011.

Operating profit for the fourth quarter of 2011 was RMB3,091.6 million, representing an increase of 16.6% over the same period in 2010 and an increase of 3.3% from the third quarter of 2011. As a percentage of revenues, operating profit represented 39.0% for the fourth quarter of 2011, compared to 48.0% for the same period in 2010 and 39.9% for the third quarter of 2011.

Non-GAAP operating profit for the fourth quarter of 2011 was RMB3,514.7 million, representing an increase of 25.1% over the same period in 2010 and an increase of 4.0% from the third quarter of 2011. As a percentage of revenues, non-GAAP operating profit represented 44.4% for the fourth quarter of 2011, compared to 50.9% for the same period in 2010 and 45.1% for the third quarter of 2011.

Profit attributable to equity holders of the Company for the fourth quarter of 2011 was RMB2,537.0 million, an increase of 15.3% over the same period in 2010 and an increase of 3.7% from the third quarter of 2011.

Non-GAAP profit attributable to equity holders of the Company for the fourth quarter of 2011 was RMB2,899.6 million, an increase of 23.0 % over the same period in 2010 and an increase of 4.7% from the third quarter of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2011 Compared to Third Quarter of 2011

The following table sets forth the comparative figures for the fourth quarter of 2011 and the third quarter of 2011:

	Unaudited	
	Three months ended	
	31 December	30 September
	2011	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	7,922,451	7,496,157
Cost of revenues	<u>(2,741,535)</u>	<u>(2,661,407)</u>
Gross profit	5,180,916	4,834,750
Interest income	137,623	124,159
Other gains, net	69,725	9,200
Selling and marketing expenses	(743,657)	(507,252)
General and administrative expenses	<u>(1,553,038)</u>	<u>(1,469,278)</u>
Operating profit	3,091,569	2,991,579
Finance (costs)/income, net	(5,494)	43,097
Share of losses of associates	(63,721)	(21,842)
Share of losses of jointly controlled entities	<u>(40,819)</u>	<u>(59,926)</u>
Profit before income tax	2,981,535	2,952,908
Income tax expense	<u>(430,332)</u>	<u>(506,760)</u>
Profit for the period	<u>2,551,203</u>	<u>2,446,148</u>
Attributable to:		
Equity holders of the Company	2,537,026	2,446,437
Non-controlling interests	<u>14,177</u>	<u>(289)</u>
	<u>2,551,203</u>	<u>2,446,148</u>
Non-GAAP profit attributable to equity holders of the Company	<u>2,899,588</u>	<u>2,769,143</u>

Revenues. Revenues increased by 5.7% to RMB7,922.5 million for the fourth quarter of 2011 from RMB7,496.2 million for the third quarter of 2011. The following table sets forth our revenues by line of business for the fourth quarter of 2011 and the third quarter of 2011:

	Unaudited			
	Three months ended			
	31 December 2011		30 September 2011	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	6,401,763	80.8%	6,003,135	80.1%
MVAS	854,310	10.8%	844,900	11.3%
Online advertising	598,438	7.5%	600,572	8.0%
Others	<u>67,940</u>	<u>0.9%</u>	<u>47,550</u>	<u>0.6%</u>
Total revenues	<u>7,922,451</u>	<u>100.0%</u>	<u>7,496,157</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 6.6% to RMB6,401.8 million for the fourth quarter of 2011 from RMB6,003.1 million for the third quarter of 2011. Despite weaker seasonality, online game revenues increased by 7.4% to RMB4,457.9 million from RMB4,149.9 million for the previous quarter. This mainly reflected increased user activity and spending growth in products such as DNF, LOL, and QQ Game. Revenues from our community VAS increased by 4.9% to RMB1,943.9 million from RMB1,853.2 million for the previous quarter, mainly driven by greater contributions from Qzone and QQ Membership. Revenues from Qzone grew on the back of substantially increased item-based sales for third-party and first-party applications offered on the platform, which more than offset modestly lower subscription revenue. QQ Membership expanded its subscriber base and subscription revenue.
- Revenues from our MVAS increased slightly by 1.1% to RMB854.3 million for the fourth quarter of 2011 from RMB844.9 million for the third quarter of 2011. This mainly reflected an increase in revenues from mobile books and mobile games against a backdrop of volatile realisation rates.

- Revenues from our online advertising business decreased slightly by 0.4% to RMB598.4 million for the fourth quarter of 2011 from RMB600.6 million for the third quarter of 2011. Increased revenues from search and video advertising offset a seasonally weak quarter for our traditional display advertising business.

Cost of revenues. Cost of revenues increased by 3.0% to RMB2,741.5 million for the fourth quarter of 2011 from RMB2,661.4 million for the third quarter of 2011. This mainly reflected an increase in sharing costs and equipment depreciation. As a percentage of revenues, cost of revenues increased to 34.6% for the fourth quarter of 2011 from 35.5% for the third quarter of 2011. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2011 and the third quarter of 2011:

	Unaudited			
	Three months ended			
	31 December 2011		30 September 2011	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	2,064,145	32.2%	2,039,091	34.0%
MVAS	290,077	34.0%	349,725	41.4%
Online advertising	306,657	51.2%	201,571	33.6%
Others	<u>80,656</u>	118.7%	<u>71,020</u>	149.4%
Total cost of revenues	<u>2,741,535</u>		<u>2,661,407</u>	

- Cost of revenues for our IVAS increased by 1.2% to RMB2,064.1 million for the fourth quarter of 2011 from RMB2,039.1 million for the third quarter of 2011. This mainly reflected an increase in equipment depreciation and staff costs, partly offset by a decrease in sharing costs and bandwidth and server custody fees. The reduction in sharing costs and bandwidth and server custody fees mainly reflected the allocation of a significant proportion of costs related to our online video platform to the online advertising segment in view of the increasing operating scale and the growing significance of the advertising business model for this platform.

- Cost of revenues for our MVAS decreased by 17.1% to RMB290.1 million for the fourth quarter of 2011 from RMB349.7 million for the third quarter of 2011. This was primarily driven by the assignment of a higher proportion of staff costs to research and development expenses, reflecting the increased investments in strategic platforms and technologies for the long term growth of our MVAS business.
- Cost of revenues for our online advertising business increased by 52.1% to RMB306.7 million for the fourth quarter of 2011 from RMB201.6 million for the third quarter of 2011, primarily driven by the aforementioned allocation of costs related to our online video platform to the online advertising segment. This allocation included content cost that was amortised using accelerated method since the fourth quarter of 2011 and was trued up for the shortfall from previous quarters, as well as bandwidth and server custody fees related to the platform. In addition, sharing costs for our search business also increased significantly during the quarter with growth in traffic from our search distribution partners.

Other gains, net. Other gains, net of RMB69.7 million were recorded for the fourth quarter of 2011, a significant increase compared to RMB9.2 million for the third quarter of 2011. This mainly reflected the recognition of a deemed disposal gain of RMB249.4 million in the fourth quarter of 2011 as a result of the acquisition of an additional stake in Gamegoo, an online game developer, as well as an increase in government subsidies. The increase was partly offset by the recognition of an impairment provision of RMB243.0 million for selected investee companies in the fourth quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses increased by 46.6% to RMB743.7 million for the fourth quarter of 2011 from RMB507.3 million for the third quarter of 2011. This was primarily driven by a seasonal end-of-year increase in advertising and promotional spending on products and platforms such as online games, online security products, mobile products and online videos. As a percentage of revenues, selling and marketing expenses increased to 9.4% for the fourth quarter of 2011 from 6.8% for the third quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 5.7% to RMB1,553.0 million for the fourth quarter of 2011 from RMB1,469.3 million for the third quarter of 2011. This was mainly driven by an increase in staff costs, research and development expenses, as well as administrative expenses. As a percentage of revenues, general and administrative expenses were 19.6% for the fourth quarter of 2011, stable compared to the third quarter of 2011.

Income tax expense. Income tax expense decreased by 15.1% to RMB430.3 million for the fourth quarter of 2011 from RMB506.8 million for the third quarter of 2011. This primarily reflected a significant decrease in deferred tax liabilities recognised in relation to withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 3.7% to RMB2,537.0 million for the fourth quarter of 2011 from RMB2,446.4 million for the third quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 4.7% to RMB2,899.6 million for the fourth quarter of 2011 from RMB2,769.1 million for the third quarter of 2011.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

The following table sets forth the comparative figures for the years ended 31 December 2011 and 2010:

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	28,496,072	19,646,031
Cost of revenues	<u>(9,928,308)</u>	<u>(6,320,200)</u>
Gross profit	18,567,764	13,325,831
Interest income	468,990	255,922
Other gains, net	420,803	38,056
Selling and marketing expenses	(1,920,853)	(945,370)
General and administrative expenses	<u>(5,283,154)</u>	<u>(2,836,226)</u>
Operating profit	12,253,550	9,838,213
Finance income/(costs), net	35,505	(838)
Share of (losses)/profit of associates	(24,255)	72,359
Share of (losses)/profit of jointly controlled entities	<u>(165,731)</u>	<u>3,399</u>
Profit before income tax	12,099,069	9,913,133
Income tax expense	<u>(1,874,238)</u>	<u>(1,797,924)</u>
Profit for the period	<u>10,224,831</u>	<u>8,115,209</u>
Attributable to:		
Equity holders of the Company	10,203,083	8,053,625
Non-controlling interests	<u>21,748</u>	<u>61,584</u>
	<u>10,224,831</u>	<u>8,115,209</u>
Non-GAAP profit attributable to equity holders of the Company	<u>10,940,208</u>	<u>8,582,135</u>

Revenues. Revenues increased by 45.0% to RMB28,496.1 million for the year ended 31 December 2011 from RMB19,646.0 million for the year ended 31 December 2010. The following table sets forth our revenues by line of business for the years ended 31 December 2011 and 2010:

	Year ended 31 December			
	2011		2010	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	23,042,758	80.8%	15,482,301	78.8%
MVAS	3,270,841	11.5%	2,715,931	13.8%
Online advertising	1,992,216	7.0%	1,372,522	7.0%
Others	<u>190,257</u>	<u>0.7%</u>	<u>75,277</u>	<u>0.4%</u>
Total revenues	<u>28,496,072</u>	<u>100.0%</u>	<u>19,646,031</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 48.8% to RMB23,042.8 million for the year ended 31 December 2011 from RMB15,482.3 million for the year ended 31 December 2010. Online game revenues increased by 66.4% to RMB15,821.4 million from RMB9,509.7 million for the previous year. This mainly reflected the increased popularity of our existing major titles such as Cross Fire, DNF, QQ Game, Qi Xiong Zheng Ba and QQ Speed, and contributions from new titles such as LOL. Revenues from our community VAS increased by 20.9% to RMB7,221.4 million from RMB5,972.6 million for the previous year, primarily attributable to growth in QQ Membership and Qzone. QQ Membership benefited from an expanded subscriber base riding on continued enhancements in privileges and value-added functions. The increase in revenues from Qzone was mainly driven by growth in item-based sales as a result of the significant increase in the number of third-party and first-party applications offered on the platform.
- Revenues from our MVAS increased by 20.4% to RMB3,270.8 million for the year ended 31 December 2011 from RMB2,715.9 million for the year ended 31 December 2010. This was primarily driven by growth in revenues from bundled SMS packages and mobile games. This was partly offset by the negative impact of the new policy on service cancellation introduced by China Mobile in early 2011 which resulted in lower realisation rates.

- Revenues from our online advertising business increased by 45.2% to RMB1,992.2 million for the year ended 31 December 2011 from RMB1,372.5 million for the year ended 31 December 2010. Online video advertising and paid search advertising complemented display advertising in driving the revenue growth of our online advertising business.

Cost of revenues. Cost of revenues increased by 57.1% to RMB9,928.3 million for the year ended 31 December 2011 from RMB6,320.2 million for the year ended 31 December 2010. This primarily reflected an increase in sharing costs, staff costs, equipments depreciation as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 34.8% for the year ended 31 December 2011 from 32.2% for the year ended 31 December 2010. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2011 and 2010:

	Year ended 31 December			
	2011		2010	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	7,633,624	33.1%	4,762,435	30.8%
MVAS	1,259,756	38.5%	1,010,858	37.2%
Online advertising	794,956	39.9%	441,302	32.2%
Others	<u>239,972</u>	126.1%	<u>105,605</u>	140.3%
Total cost of revenues	<u>9,928,308</u>		<u>6,320,200</u>	

- Cost of revenues for our IVAS increased by 60.3% to RMB7,633.6 million for the year ended 31 December 2011 from RMB4,762.4 million for the year ended 31 December 2010. This was mainly driven by increased sharing costs as a result of the growth in revenues from our licensed games. Equipment depreciation as well as bandwidth and server custody fees also increased due to our expanded business scale.
- Cost of revenues for our MVAS increased by 24.6% to RMB1,259.8 million for the year ended 31 December 2011 from RMB1,010.9 million for the year ended 31 December 2010. This primarily reflected increased staff costs for the long-term growth of the business. Other costs also increased as our business volume grew.

- Cost of revenues for our online advertising business increased by 80.1% to RMB795.0 million for the year ended 31 December 2011 from RMB441.3 million for the year ended 31 December 2010. This mainly reflected an increase in sharing costs for our search business arising from the significant growth in traffic generated from our search distribution partners and higher sales commissions paid to advertising agencies driven by revenue growth. Bandwidth and server custody fees and staff costs also increased.

Other gains, net. We recorded other gains, net of RMB420.8 million for the year ended 31 December 2011, a significant increase compared to RMB38.1 million for the year ended 31 December 2010. This primarily reflected the recognition of deemed disposal gains of RMB459.0 million and RMB249.4 million related to the Riot Games Acquisition and the acquisition of an additional stake in Gamegoo respectively in the year ended 31 December 2011. This was partially offset by an increase in 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, as well as an increase in donation made to the Tencent Charity Fund. In addition, an impairment provision of RMB243.0 million for selected investee companies was recognised in the year ended of 31 December 2011, whereas no such provision was recognised in the previous year.

Selling and marketing expenses. Selling and marketing expenses increased by 103.2% to RMB1,920.9 million for the year ended 31 December 2011 from RMB945.4 million for the year ended 31 December 2010. This mainly reflected an increase in advertising and promotional spending on products and platforms, including microblog, online games, online security products and mobile products, partially offset by a reduction in brand investments as we launched significant advertising campaigns for the World Cup and the World Expo in 2010. As a percentage of revenues, selling and marketing expenses increased to 6.7% for the year ended 31 December 2011 from 4.8% for the year ended 31 December 2010.

General and administrative expenses. General and administrative expenses increased by 86.3% to RMB5,283.2 million for the year ended 31 December 2011 from RMB2,836.2 million for the year ended 31 December 2010. This mainly reflected the impact of the Riot Games Acquisition, including amortisation of intangible assets acquired. This also reflected higher research and development expenses, staff costs and administrative expenses due to our business expansion. As a percentage of revenues, general and administrative expenses increased to 18.5% for the year ended 31 December 2011 from 14.4% for the year ended 31 December 2010. Excluding the impact of Riot Games, general and administrative expenses increased by 50.0% compared to the previous year.

Income tax expense. We recorded income tax expense of RMB1,874.2 million for the year ended 31 December 2011 compared to RMB1,797.9 million for the year ended 31 December 2010. This primarily reflected the increase in profit before tax, partially offset by the decrease in deferred tax liabilities recognised in relation to withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. The decrease was also partly offset by the reversal of deferred tax liabilities arising from the Riot Games Acquisition.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 26.7% to RMB10,203.1 million for the year ended 31 December 2011 from RMB8,053.6 million for the year ended 31 December 2010. Non-GAAP profit attributable to equity holders of the Company increased by 27.5% to RMB10,940.2 million for the year ended 31 December 2011 from RMB8,582.1 million for the year ended 31 December 2010.

Other Financial Information

	Year ended 31 December		Unaudited three months ended		
	2011	2010	31 December 2011	30 September 2011	31 December 2010
	<i>(RMB in thousands)</i>		<i>(RMB in thousands)</i>		
EBITDA (a)	13,298,239	10,323,506	3,502,553	3,403,665	2,773,330
Adjusted EBITDA (a)	14,030,930	10,819,278	3,722,671	3,581,786	2,917,489
Adjusted EBITDA margin (b)	49.2%	55.1%	47.0%	47.8%	52.8%
Interest expense	72,537	35,027	27,959	14,760	12,410
Net cash (c)	17,667,030	17,849,546	17,667,030	15,654,534	17,849,546

Note:

- (a) EBITDA for any year or period consists of operating profit less interest income and other gains, net, and plus depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by the revenues for the relevant year or period.
- (c) Net cash is calculated as cash and cash equivalents, term deposits with initial term of over three months, and restricted cash pledged for secured bank borrowings, minus total debt.

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the years and periods indicated.

	Year ended 31 December		Unaudited three months ended		
	2011	2010	31 December 2011	30 September 2011	31 December 2010
	<i>(RMB in thousands)</i>		<i>(RMB in thousands)</i>		
Operating profit	12,253,550	9,838,213	3,091,569	2,991,579	2,652,502
Less: Interest income	(468,990)	(255,922)	(137,623)	(124,159)	(79,467)
Less: Other gains, net	(420,803)	(38,056)	(69,725)	(9,200)	(23,437)
Add: Depreciation of fixed assets and investment properties	1,208,261	669,860	390,135	323,282	198,899
Add: Amortisation of intangible assets	<u>726,221</u>	<u>109,411</u>	<u>228,197</u>	<u>222,163</u>	<u>24,833</u>
EBITDA	13,298,239	10,323,506	3,502,553	3,403,665	2,773,330
Share-based compensation	<u>732,691</u>	<u>495,772</u>	<u>220,118</u>	<u>178,121</u>	<u>144,159</u>
Adjusted EBITDA	<u>14,030,930</u>	<u>10,819,278</u>	<u>3,722,671</u>	<u>3,581,786</u>	<u>2,917,489</u>

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 unaudited 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 years ended 31 December 2011 and 2010, the fourth quarter of 2011 and 2010, and the third quarter of 2011 to the nearest measures prepared in accordance with IFRS:

Year ended 31 December 2011							
As reported	Adjustments					Non-GAAP	
	Share-based compensation	Gain on deemed disposal (a)	Amortisation of intangible assets (b)	Put options granted to employees of investees (c)	Impairment provision (d)		
<i>(RMB in thousands, except percentages)</i>							
Operating profit	12,253,550	732,691	(708,486)	607,851	82,080	243,000	13,210,686
Profit for the period	10,224,831	732,691	(708,486)	431,434	82,080	243,000	11,005,550
Profit attributable to equity holders of the Company	10,203,083	724,266	(708,486)	402,596	75,749	243,000	10,940,208
Operating margin	43.0%						46.4%
Net margin	35.9%						38.6%
Year ended 31 December 2010							
As reported	Adjustments					Non-GAAP	
	Share-based compensation	Gain on deemed disposal (a)	Amortisation of intangible assets (b)	Put options granted to employees of investees (c)	Impairment provision (d)		
<i>(RMB in thousands, except percentages)</i>							
Operating profit	9,838,213	495,772	–	41,640	–	–	10,375,625
Profit for the period	8,115,209	495,772	–	35,015	–	–	8,645,996
Profit attributable to equity holders of the Company	8,053,625	495,772	–	32,738	–	–	8,582,135
Operating margin	50.1%						52.8%
Net margin	41.3%						44.0%

Unaudited three months ended 31 December 2011

	Adjustments						Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal (a)	Amortisation of intangible assets (b)	Put options granted to employees of investees (c)	Impairment provision (d)	
	<i>(RMB in thousands, except percentages)</i>						
Operating profit	3,091,569	220,118	(249,449)	185,194	24,249	243,000	3,514,681
Profit for the period	2,551,203	220,118	(249,449)	140,554	24,249	243,000	2,929,675
Profit attributable to equity holders of the Company	2,537,026	216,959	(249,449)	129,753	22,299	243,000	2,899,588
Operating margin	39.0%						44.4%
Net margin	32.2%						37.0%

Unaudited three months ended 30 September 2011

	Adjustments						Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal (a)	Amortisation of intangible assets (b)	Put options granted to employees of investees (c)	Impairment provision (d)	
	<i>(RMB in thousands, except percentages)</i>						
Operating profit	2,991,579	178,121	—	184,212	24,294	—	3,378,206
Profit for the period	2,446,148	178,121	—	131,211	24,294	—	2,779,774
Profit attributable to equity holders of the Company	2,446,437	176,934	—	123,375	22,397	—	2,769,143
Operating margin	39.9%						45.1%
Net margin	32.6%						37.1%

Unaudited three months ended 31 December 2010

	Adjustments						Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal (a)	Amortisation of intangible assets (b)	Put options granted to employees of investees (c)	Impairment provision (d)	
	<i>(RMB in thousands, except percentages)</i>						
Operating profit	2,652,502	144,159	–	13,167	–	–	2,809,828
Profit for the period	2,213,282	144,159	–	11,726	–	–	2,369,167
Profit attributable to equity holders of the Company	2,200,818	144,159	–	11,647	–	–	2,356,624
Operating margin	48.0%						50.9%
Net margin	40.1%						42.9%

Note:

- (a) Gain on deemed disposal of previously held interest in associates
- (b) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (c) 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
- (d) Impairment provision for investment in associates, investment in jointly controlled entities and available-for-sale financial assets

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash positions as at 31 December 2011 and 30 September 2011 are as follows:

	Audited 31 December 2011 <i>RMB'000</i>	Unaudited 30 September 2011 <i>RMB'000</i>
Cash and cash equivalents	12,612,140	6,978,825
Term deposits with initial term of over three months	13,716,040	13,011,238
Restricted cash pledged for secured bank borrowings	<u>3,071,621</u>	<u>3,071,621</u>
	29,399,801	23,061,684
Long-term notes payable	(3,733,331)	—
Secured short-term borrowings	(2,958,720)	(2,958,720)
Unsecured short-term borrowings	<u>(5,040,720)</u>	<u>(4,448,430)</u>
Net cash	<u>17,667,030</u>	<u>15,654,534</u>

As at 31 December 2011, RMB5,919.2 million of our financial resources (30 September 2011: RMB1,739.1 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.

CAPITAL EXPENDITURES

For the year ended 31 December 2011, our capital expenditures consisted of additions to fixed assets, construction in progress, land use rights and intangible assets (excluding game licences) totalling RMB4,158.6 million. For the year ended 31 December 2010, our capital expenditures consisted of similar items totalling RMB2,007.0 million.

BUSINESS REVIEW AND OUTLOOK

China Internet Industry Review for 2011

2011 was a year of challenges and opportunities for the Internet sector in China. On the macroeconomic front, the global economy faced increased uncertainties during the year as the European sovereign debt crisis deepened. Against this backdrop, the economic growth of China reduced but still remained at a relatively robust level. Meanwhile, China's Internet market continued to grow in terms of total users, although the growth rate decelerated along with its increased scale. According to the CNNIC, the total number of Internet users increased by 12.2% on year-on-year basis, lower than the growth rate of 19.1% for the previous year, to 513.1 million at the end of 2011, while Internet penetration increased further to 38.3%.

Despite the slowdown in user expansion, Internet usage among users continued to increase and the ways through which Internet penetrates into users' daily lives proliferated further. During 2011, popularity of mobile Internet among users grew significantly on the back of the increasing adoption of smartphones and the emergence of a large variety of compelling mobile applications. Mobile Internet users equated to 69.3% of the total Internet user base at the end of 2011, up from 66.2% a year ago. In particular, microchat generated highly positive market response and became a popular type of social application on smartphones. For microblog, the substantial growth in user base continued during the year, solidifying its position as a major social media in China. While the online game sector has entered a relatively steady stage of development, the web game segment presented incremental growth opportunities for developers and publishers. The online advertising sector continued to benefit from China's robust economic growth and the increase in advertisers' online advertising budgets. In addition, the growth of the sector was fueled by the emergence of new media platforms, particularly online videos. The e-commerce sector continued to grow rapidly. On top of the traditional C2C and B2C models, group buying enjoyed explosive growth but faced significant slowdown and consolidation in the second half of the year. Last but not least, the growth in the overall search market remained robust, and mobile search showed strong development potential in both traffic and revenue.

Company Highlights for 2011

A. Overall Financial Performance

In 2011, we achieved solid growth in our core businesses. While the growth in community VAS slowed down as the user expansion of China's Internet market decelerated, we extended our leadership in the online game market with growth in market share, thanks to the increased popularity of our major titles and contributions from new titles. For MVAS, 2011 saw revenue growth from our bundled SMS packages, mobile games and mobile books, against the backdrop of a more stringent regulatory environment. Our online advertising also registered healthy growth, reflecting our expanded platforms as well as our efforts in enhancing our brands and business operations.

For the fourth quarter of 2011, our online game business registered sequential revenue growth despite weaker seasonality, primarily reflecting the growth in DNF, LOL, and QQ Game. Our community VAS also achieved revenue growth, riding on increased item-based sales from third-party and first-party applications on Qzone and higher subscription base of QQ Membership. Our MVAS grew slightly compared to the previous quarter as our mobile games and mobile book service gained further popularity, while our realisation rates remained volatile. Our online advertising business experienced a modest quarter-on-quarter decline in revenues, with the growth in our search and video advertising revenues offset by weaker seasonality.

B. Strategic Progress

In our 2010 annual report, we identified several strategic initiatives for 2011. During the past year, we made substantial progress against many of these initiatives:

- *Open platform.* We believe we operate the leading open platform in China in terms of user activities and revenue opportunities for third-party developers. Our platform now has over 40,000 registered third-party applications including games, tools and lifestyle services. More than 10 third-party applications have achieved over 10 million monthly active users.
- *Tencent Microblog.* The user base and activity on Tencent Microblog have sharply increased, and it is now the leader in China in metrics such as registered accounts and daily active users.

- *Online security.* Our PC Manager has achieved wide market acceptance, and growth in market share. We have enriched our product features and functionalities by investing in technologies and forging partnerships with leading industry players.
- *International expansion.* Riot Games' LOL title has become one of the most popular online games in the United States, Europe, Taiwan, Korea, as well as mainland China. Our investee company Mail.ru has enjoyed substantial growth in advertising, IVAS, and game revenue in Russia.
- *Search.* Our search engine has achieved substantial traffic growth, especially on mobile devices. We believe we are among the top two search engines in China in terms of mobile market share.
- *E-commerce.* Paipai continued to register strong transaction volume growth in 2011. We launched a new B2B2C platform, Buy.qq.com, to build a healthy eco-system for our e-commerce partners and users. We also made strategic investments in different subsectors along the e-commerce value chain. It is encouraging that some of our investee companies have delivered significant growth in business scale in their target verticals.

More broadly, we continued to build on our leading position in the overall social networking sector in China, riding on our unique multi-platform social network spanning communications, SNS and social media. In 2011, we strengthened our leadership in the sector with the continued expansion of our major social platforms, including IM, Qzone, Pengyou, Tencent Microblog and QQ Mail. Weixin, as an extension of our mobile IM service, has achieved significant growth in user base and become a social phenomenon since its launch in early 2011, deepening our social leadership in mobile as well as enhancing our penetration into the high-end smartphone user segment. In addition, we enhanced our social infrastructure across different platforms with single login ID, shared social graph and cross-platform synchronization of comments. This allows us to sharpen our differentiation and enhance user stickiness by offering a seamless user experience for different use cases.

In December 2011, we successfully completed the offering of 5-year US\$600 million senior unsecured notes. Not only is this a landmark transaction for Tencent but also the first international debt offering by an Asian Internet company. We have been assigned a Baal issuer rating by Moody's Investors Service and a BBB+ long-term corporate credit rating by Standard & Poor's Rating Services. Our ratings are the highest international ratings achieved to date by a non-state-owned enterprise in China.

C. Divisional and Product Review

IM Platform

Our IM platform expanded its user base and maintained its leading market position in China. Active user accounts reached 721.0 million at the end of 2011, representing a year-on-year growth of 11.3%, and PCU increased by 19.8% to 152.7 million. While user growth of our IM platform continued to decelerate along with the slowdown in industry user growth and the maturity of QQ Farm and QQ Ranch which caused certain accounts created solely for the purpose of playing such games to become inactive, user activity level grew on the back of the increasing penetration of mobile Internet and enhanced cross-platform integration.

Media Platforms

In 2011, QQ.com consolidated its position as the most visited portal in China and commanded leading positions in key verticals such as entertainment, automobile, finance and sports. During the year, we deepened the integration between QQ.com and Tencent Microblog to strengthen the media influence of both platforms and enhance our differentiation. We also continued to improve our content and operations to better address the needs of different user groups.

Tencent Microblog enjoyed substantial growth in 2011 and became the largest microblog in China with 373 million registered users and 68 million daily active users at the end of the year. This reflected our strategy of increasing user base and user activity by enriching content, optimising user experience and promoting our brand awareness through marketing programs. As a leading and influential social media in China, Tencent Microblog is well placed to capture the business opportunities as they emerge in future.

IVAS

Our community VAS enjoyed steady revenue increase. During the year, Qzone maintained its position as the leading SNS platform in China with 552.1 million active users at the end of 2011. It is also the largest photo-sharing site in the country. While the maturity of QQ Farm and QQ Ranch reduced the growth of Qzone's active users, item-based sales for third-party and first-party applications significantly increased and offset the pressure on subscription revenue during the year. As we focus on attracting and nurturing more third-party applications as part of our open platform strategy, the contribution from item-based revenues has been increasing. In the real-name SNS segment, Pengyou gained market share and extended its leading position, with its active user accounts increasing

by 82.7% year-on-year to 202.4 million at the end of 2011. As for other community VAS, QQ Membership enjoyed healthy growth in its subscription base as we improved functionalities, enriched privileges and leveraged cross-platform synergies. QQ Music maintained its industry leadership and achieved significant revenue growth.

In 2011, our online game business enjoyed another fruitful year. We significantly outperformed the industry growth rate and further expanded our market share. Our major titles, such as Cross Fire, DNF, QQ Dancer, and QQ Speed, delivered significant growth and commanded leading positions in terms of PCU in their respective genres such as first-person shooting, action, music and racing games. In addition, LOL was well received by users and registered strong PCU growth in China. It also continued to gain traction in overseas markets. QQ Game, the largest mini-casual game platform in China, enjoyed healthy growth with its PCU achieving a record-high level of 8.4 million in the fourth quarter of 2011.

MVAS

In 2011, we strengthened our leadership in MVAS and continued to position for new growth opportunities in the industry. Underpinned by the increased popularity of our bundled SMS packages and rapid user increase of mobile games, our MVAS business enjoyed solid revenue growth. On the regulatory front, the “cancellation before verification” policy introduced by China Mobile in early 2011 has increased the volatility of realisation rates and dampened our revenue growth. We expect the impact of this policy to linger, and a new co-operation model for 2.5G products provides new policy uncertainties for the MVAS industry.

In view of the rapid adoption of mobile Internet and the opportunities ahead, we have been proactively positioning ourselves across the industry value chain. For instance, we have introduced location-based service as a core function of our mobile offerings, and extended our community leadership into mobile Internet, as evidenced by the significant user growth of Wireless QQ and Weixin. We have also built substantial market share in the mobile browser and security segments, which may prove strategically significant over time.

Online Advertising

Our online advertising business grew further in 2011, mainly reflecting an increase in revenues from key sectors such as online services, apparel, automobile, and IT products. To capture the emerging opportunities in video advertising, we launched our web-based online video platform in March 2011 and made significant investments in video content, servers and bandwidth. We

also launched marketing and promotional campaigns to enhance our awareness and stimulate viewership. While our video platform is still in its early stage of development, it is encouraging that its growth momentum has been strong. Our video advertising revenue increased by 70% sequentially in the fourth quarter of 2011. In addition, our platform was ranked number two by the number of videos viewed according to comScore Videometrix. As for search advertising, 2011 saw strong revenue growth on the back of increased traffic. We launched an enhanced paid advertising system during the year, which improved our keyword revenue yield. We will continue to upgrade our algorithmic search engine during 2012.

Our Outlook for 2012

Our company-wide strategic priority for 2012 is to reinforce and extend our social leadership by further expanding, integrating and mobilising our social platforms. To complement our company-wide priority and capture new growth opportunities, we are implementing a number of major initiatives at a divisional level:

- We are expanding our open platform to enhance user activity and engagement with more third-party applications. This aligns with the trend of users' spending on our social platforms, which is shifting from subscriptions to item purchases.
- We will further strengthen our security software to provide our users with greater protection and peace of mind on desktop and mobile devices.
- We will continue to embrace mobile Internet opportunities by strengthening our presence in areas such as social communications, mobile entertainment, mobile browser and mobile search.
- We will focus on further enhancing our market share in China's online game market by strengthening our existing titles and penetrating into new game genres. We will continue to explore global opportunities.
- We are significantly expanding our online advertising business by leveraging our traffic base, users' social graph and login relationship with users. On top of display and search advertising, we aim to capitalise on new opportunities such as online video and performance-based advertising.
- We will continue to invest selectively but forcefully in emerging growth opportunities, notably e-commerce and search.

Our priority focus and initiatives require significant investments, which have affected and may continue to affect our profitability, but which we expect to ultimately generate substantial strategic and financial returns. We will continue to appropriately manage our risks and expenses in the dynamic China Internet market to deliver long-term value to the Company, our shareholders, and our users.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2011, the Group had 17,446 employees (2010: 10,692), 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 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 year ended 31 December 2011 was RMB4,879.1 million (2010: RMB3,146.1 million).

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

During the year ended 31 December 2011, the Company repurchased 7,585,700 shares on the Stock Exchange for an aggregate consideration of approximately HKD1,267.4 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 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	75,351,000
April	211,300	190.00	189.60	40,128,000
August	3,417,900	185.00	165.80	600,512,000
September	1,879,100	170.00	152.00	307,000,000
October	1,421,800	160.00	140.10	207,695,000
November	151,300	145.00	140.85	21,680,000
December	<u>104,300</u>	144.90	142.60	<u>14,988,000</u>
Total	<u>7,585,700</u>			<u>1,267,354,000</u>

Save as disclosed above and in the “Financial Information” section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year ended 31 December 2011.

Closure of Register of Members

(a) Entitlement to Attend and Vote at the AGM

The register of members will be closed from Monday, 14 May 2012 to Wednesday, 16 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, 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 Friday, 11 May 2012.

(b) Entitlement to the Proposed Final Dividend

The register of members will be closed from Tuesday, 22 May 2012 to Wednesday, 23 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order 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 Monday, 21 May 2012.

Audit Committee

The Audit Committee has reviewed the Group’s audited financial statements for the year ended 31 December 2011. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters.

Auditor’s Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group’s results for the year ended 31 December 2011 have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2010 annual report and the 2011 interim report of the Company, 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 2011, complied with the code provisions of the Code on Corporate Governance Practices 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.

Publication of the Annual Results, Annual Report and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.tencent.com) in due course.

APPRECIATION

Over the past year, with the tremendous commitments of our employees and management, we have grown our Company organically in order to better serve our user community. The Board congratulates on their achievements and, in appreciation of their hard work as well as continuous support from our shareholders and stakeholders, wishes the Company goes from strength to strength in 2012.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 14 March 2012

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. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

Definitions

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

Term	Definition
“AGM”	the annual general meeting of the Company to be held on 16 May 2012
“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 Communications Corporation
“CIT”	corporate income tax
“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
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Gamegoo”	Gamegoo Group Limited
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IASB”	International Accounting Standard Board
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“Level Up”	Level Up! International Holdings Pte. Ltd., a private company limited by shares incorporated under the laws of Singapore
“LIBOR”	London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LOL”	League of Legends
“Main Board”	the main board of the Stock Exchange
“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“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 adopted by the Company on 27 July 2001
“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
“Share Award Scheme”	the share award scheme adopted by the Company on 13 December 2007
“SMS”	short message 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
“United States”	the United States of America
“USD” or “US\$”	the lawful currency of the United States
“VAS”	value-added services