Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)

腾讯网

QQ.com

smart communication inspires

智慧溝通 靈感無限

2011

ANNUAL REPORT

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Antonie Andries Roux *(Chairman)*
Iain Ferguson Bruce
Ian Charles Stone

INVESTMENT COMMITTEE

Lau Chi Ping Martin *(Chairman)*
Ma Huateng
Zhang Zhidong
Antonie Andries Roux
Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng (*Chairman)*
Charles St Leger Searle
Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

REMUNERATION COMMITTEE

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY 1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Nanshan District
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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3002, 30th Floor
Far East Finance Centre
16 Harcourt Road
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

Financial Summary

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenues	3,820,923	7,154,544	12,439,960	19,646,031	**28,496,072**
Gross profit	2,703,366	4,984,123	8,550,492	13,325,831	**18,567,764**
Profit before income tax	1,534,503	3,104,895	6,040,731	9,913,133	**12,099,069**
Profit for the year	1,568,008	2,815,650	5,221,611	8,115,209	**10,224,831**
Profit attributable to equity holders of the Company	1,566,020	2,784,577	5,155,646	8,053,625	**10,203,083**
Total comprehensive income for the year	1,568,008	2,815,650	5,221,611	9,936,338	**8,956,702**
Total comprehensive income attributable to equity holders of the Company	1,566,020	2,784,577	5,155,646	9,874,754	**8,937,627**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
			(Restated)		
Assets					
Non-current assets	2,090,312	3,359,696	4,348,823	10,456,373	**21,300,877**
Current assets	4,835,132	6,495,861	13,156,942	25,373,741	**35,503,488**
Total assets	6,925,444	9,855,557	17,505,765	35,830,114	**56,804,365**
Equity and liabilities					
Equity attributable to the Company's equity holders	5,170,396	7,020,926	12,178,507	21,756,946	**28,463,834**
Non-controlling interests	64,661	98,406	120,146	83,912	**624,510**
Total equity	5,235,057	7,119,332	12,298,653	21,840,858	**29,088,344**
Non-current liabilities	40,770	644,628	644,033	967,211	**6,532,673**
Current liabilities	1,649,617	2,091,597	4,563,079	13,022,045	**21,183,348**
Total liabilities	1,690,387	2,736,225	5,207,112	13,989,256	**27,716,021**
Total equity and liabilities	6,925,444	9,855,557	17,505,765	35,830,114	**56,804,365**

Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2011 to the shareholders.

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.

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 synchronisation 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 USD600 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 Baa1 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.

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.

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.

Ma Huateng
Chairman

Hong Kong, 14 March 2012

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
	(in millions)			
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.

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 2011	30 September 2011
	RMB'000	*RMB'000*
Revenues	**7,922,451**	7,496,157
Cost of revenues	**(2,741,535)**	(2,661,407)
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	**(1,553,038)**	(1,469,278)
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	**(40,819)**	(59,926)
Profit before income tax	**2,981,535**	2,952,908
Income tax expense	**(430,332)**	(506,760)
Profit for the period	**2,551,203**	2,446,148
Attributable to:		
Equity holders of the Company	**2,537,026**	2,446,437
Non-controlling interests	**14,177**	(289)
	2,551,203	2,446,148
Non-GAAP profit attributable to equity holders of the Company	**2,899,588**	2,769,143

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	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
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	**67,940**	**0.9%**	47,550	0.6%
Total revenues	**7,922,451**	**100.0%**	7,496,157	100.0%

– 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
	(RMB in thousands, except percentages)			
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	**80,656**	**118.7%**	71,020	149.4%
Total cost of revenues	**2,741,535**		2,661,407	

– 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
	RMB'000	*RMB'000*
Revenues	**28,496,072**	19,646,031
Cost of revenues	**(9,928,308)**	(6,320,200)
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	**(5,283,154)**	(2,836,226)
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	**(165,731)**	3,399
Profit before income tax	**12,099,069**	9,913,133
Income tax expense	**(1,874,238)**	(1,797,924)
Profit for the period	**10,224,831**	8,115,209
Attributable to:		
Equity holders of the Company	**10,203,083**	8,053,625
Non-controlling interests	**21,748**	61,584
	10,224,831	8,115,209
Non-GAAP profit attributable to equity holders of the Company	**10,940,208**	8,582,135

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
	(RMB in thousands, except percentages)			
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	**190,257**	**0.7%**	75,277	0.4%
Total revenues	**28,496,072**	**100.0%**	19,646,031	100.0%

– 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
	(RMB in thousands, except percentages)			
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	**239,972**	**126.1%**	105,605	140.3%
Total cost of revenues	**9,928,308**		6,320,200	

– 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 increase 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		
			31 December	30 September	31 December
	2011	2010	2011	2011	2010
	(RMB in thousands)		(RMB in thousands)		
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		
			31 December	30 September	31 December
	2011	2010	2011	2011	2010
	(RMB in thousands)		(RMB in thousands)		
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	**726,221**	109,411	**228,197**	222,163	24,833
EBITDA	**13,298,239**	10,323,506	**3,502,553**	3,403,665	2,773,330
Share-based compensation	**732,691**	495,772	**220,118**	178,121	144,159
Adjusted EBITDA	**14,030,930**	10,819,278	**3,722,671**	3,581,786	2,917,489

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						
		Adjustments					
	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)	Non-GAAP
	(RMB in thousands, except percentages)						
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						
		Adjustments					
	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)	Non-GAAP
	(RMB in thousands, except percentages)						
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					
	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)**	**Non-GAAP**
	(RMB in thousands, except percentages)						
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					
	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)	Non-GAAP
	(RMB in thousands, except percentages)						
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					
	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)	Non-GAAP
	(RMB in thousands, except percentages)						
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	Unaudited 30 September 2011
	RMB'000	*RMB'000*
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	**3,071,621**	3,071,621
	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	**(5,040,720)**	(4,448,430)
Net cash	**17,667,030**	15,654,534

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.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 79 of this annual report.

The directors have recommended the payment of a final dividend of HKD0.75 per share for the year ended 31 December 2011. The dividend is expected to be payable on 30 May 2012 to the shareholders whose names appear on the register of members of the Company on 23 May 2012. The total dividend for the year under review is HKD0.75 per share.

RESERVES

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

As at 31 December 2011, the Company had distributable reserves amounting to RMB1,590.7 million (2010: RMB1,900.8 million).

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

FIXED ASSETS

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

SHARE CAPITAL

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

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2011 are set out in Note 11 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in Note 27 and Note 28 to the consolidated financial statements.

DONATION

The donation made by the Group in the year was RMB100.0 million to the Tencent Charity Fund.

FINANCIAL SUMMARY

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

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 shareholders' 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 Highest price paid HKD	Lowest price paid HKD	Aggregate consideration 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	104,300	144.90	142.60	14,988,000
Total:	7,585,700			1,267,354,000

Save as disclosed above and in Note 20 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2011.

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

As at 31 December 2011, there were a total of 6,760,000 outstanding share options granted to the directors of the Company, details of which are as follows:

			Number of shares issuable under the options				
Name of director	Date of grant	Exercise price HKD	As at 1 January 2011	Granted during the year	Exercised during the year	As at 31 December 2011	Exercise period
Lau Chi Ping Martin	4 April 2007	25.26	600,000	–	–	600,000	4 April 2008 to 23 March 2014 (Note 1)
	5 July 2007	33.05	2,000,000	–	–	2,000,000	5 July 2009 to 4 July 2014 (Note 2)
	5 July 2007	33.05	3,000,000	–	–	3,000,000	5 July 2010 to 4 July 2014 (Note 3)
	24 March 2010	158.50	1,000,000	–	–	1,000,000	24 March 2015 to 23 March 2020 (Note 4)
		Total:	6,600,000	–	–	6,600,000	
Li Dong Sheng	4 April 2007	25.26	100,000	–	60,000 (Note 5)	40,000	4 April 2008 to 23 March 2014 (Note 1)
Iain Ferguson Bruce	4 April 2007	25.26	60,000	–	–	60,000	4 April 2008 to 23 March 2014 (Note 1)
Ian Charles Stone	4 April 2007	25.26	60,000	–	–	60,000	4 April 2008 to 23 March 2014 (Note 1)
		Grand Total:	6,820,000	–	60,000	6,760,000	

Note:

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

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

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

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

5. The closing price immediately before the date on which the options were exercised was HKD192.20.

6. No options were granted, cancelled or lapsed during the year.

SUMMARY OF THE SHARE OPTION SCHEMES

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

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

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
4.	Maximum entitlement of each participant	The number of ordinary shares in respect of which options may be granted is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	All the options are exercisable in installments from the commencement of the relevant vesting period until 31 December 2011, but on the condition that the Company has been listed in a sizeable securities market. The Board may at their discretion determine the specific vesting and exercise periods.	The option period is determined by the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the options.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 10-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
6.	Acceptance of offer	Options granted must be accepted within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Subscription price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
8.	Remaining life of the scheme	It expired on 31 December 2011.	It shall be valid and effective for a period of ten years, commencing on 24 March 2004.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.

Note:

The total number of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III is 86,413,132, which is approximately 4.70% of the issued share capital of the Company as at the date of the annual report.

MOVEMENTS IN THE SHARE OPTIONS

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

VALUATION OF SHARE OPTIONS

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

SHARE AWARD SCHEME

The Board adopted the Share Award Scheme in which eligible persons (including any director) of the Group will be entitled to participate. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the adoption date. The maximum number of shares which can be awarded under the Share Award Scheme and to an Awarded Person are limited to two percent (i.e. 35,755,232 shares) and one percent (i.e. 17,877,616 shares) of the issued share capital of the Company respectively as at the date of adoption.

Pursuant to the Share Award Scheme, the Board shall select the eligible persons for participation in the Share Award Scheme and determine the number of shares to be awarded. Shares will be acquired by an independent trustee at the cost of the Company or shares will be allotted to the independent trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time and be held in trust for the Awarded Persons, excluding the directors and substantial shareholders of the Group, until the end of each vesting period.

Vested shares will be transferred at no cost to the Awarded Persons. The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

The Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the Awarded Persons satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Awarded Persons, the relevant Awarded Shares will be transferred to the Awarded Persons on or about the relevant vesting dates.

During the year, a total of 5,995,410 Awarded Shares were granted and out of which, 35,000 Awarded Shares were granted to the independent non-executive directors of the Company. Details of the movements in the Share Award Scheme during the year are set out in Note 22 to the consolidated financial statements.

As at 31 December 2011, there were a total of 35,000 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	**Date of grant**	**As at 1 January 2011**	**Granted during the year**	**Vested during the year**	**As at 31 December 2011**	**Vesting period**
Iain Ferguson Bruce	17 March 2011	–	20,000	–	20,000	17 March 2012 to 17 March 2016
Ian Charles Stone	17 March 2011	–	15,000	–	15,000	17 March 2012 to 17 March 2016
	Grand Total:	–	35,000	–	35,000	

DIRECTORS

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

Executive Directors

Ma Huateng (Chairman)
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Antonie Andries Roux
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

In accordance with Article 87 of the Articles of Association, Messrs Li Dong Sheng and Iain Ferguson Bruce will retire at the AGM and, being eligible, will offer themselves for re-election.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Ma Huateng, age 40, is an executive director, Chairman of the Board and CEO of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a member of the 5th Shenzhen Municipal People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 18 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which holds shares of the Company.

Lau Chi Ping Martin, age 38, is an executive director with effect from 21 March 2007. Mr Lau was appointed as the President of the Company in February 2006 to assist Mr Ma, Chairman of the Board and CEO, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) LLC's investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong.

Zhang Zhidong, age 40, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science degree specialising in Computer & its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 15 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which holds shares of the Company.

Antonie Andries Roux, age 53, has been a non-executive director since 10 December 2002. Mr Roux is the CEO of the MIH Group, a position he has held since April 2011. Mr Roux joined the Naspers group in 1979 and was a founding member of M-Net in 1985. In 1997, he was appointed CEO of M-Web South Africa and in 2002 as CEO of Naspers/MIH Internet operations. Currently, Mr Roux serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Roux has more than 33 years of experience in the telecommunications industry.

Charles St Leger Searle, age 48, has been a non-executive director since 5 June 2001. Mr Searle is currently the Chief Investment Officer of MIH Internet group companies. Prior to joining the MIH group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 18 years of experience in the telecommunications and Internet industries.

Li Dong Sheng, age 55, has been an independent non-executive Director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 17 years of experience in the information technology field.

Iain Ferguson Bruce, age 71, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 47 years' experience in the accounting profession. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Paul Y. Engineering Group Limited, a construction and engineering services company, Sands China Ltd., an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed companies in Hong Kong. Mr Bruce is also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed in Singapore, of China Medical Technologies, Inc., a China-based medical device company that is listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce is an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited.

Ian Charles Stone, age 61, has been an independent non-executive director since April 2004. Mr Stone is currently an Advisor on International Projects for PCCW Limited and CEO of SITC (a PCCW joint venture) in Saudi Arabia. Since 2001 in PCCW he has been CEO of UKBroadband in UK and then PCCW Mobile in Hong Kong, followed by being the Managing Director of the International Projects business. Mr Stone has more than 41 years of experience in the telecom and mobile industries. He was the CEO of SmarTone between 1999 and 2001 prior to which held various senior positions in telecom businesses of the First Pacific Group in Hong Kong and Philippines. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom, including as Managing Director of CSL and Commercial Director of Hongkong Telecom. Mr Stone is a fellow member of the Hong Kong Institute of Directors.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 41, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science Degree in Computer Science from Shenzhen University in 1993 and a Master of Science Degree in Computer Science from Nanjing University in 1996.

Chen Yidan, age 41, Chief Administration Officer. Mr Chen oversees administration, legal affairs, human resources and charity fund of the Company. Mr Chen is also responsible for the Group's management system, intellectual property rights and government relations. Mr Chen is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Chen worked in the Shenzhen Entry-Exit Inspection and Quarantine Bureau for several years. Mr Chen received a Bachelor of Science Degree in Applied Chemistry from Shenzhen University in 1993 and a Master of Law Degree in Economic Law from Nanjing University in 1996.

Xiong Minghua, age 46, Co-Chief Technology Officer and Senior Executive Vice President, joined the Company in 2005. He is responsible for product strategy planning of the overall platform, new product innovation, research and development of core technologies, and management for engineering excellence of the Group. Mr Xiong oversees the Company's core platform product teams, including IM and email teams. He is also responsible for the product development, strategic planning and operations for the search engine and advertising platform of the Group. Prior to joining to the Company, Mr Xiong worked at Microsoft for 9 years and was responsible for the product management of Internet Explorer, Windows and MSN. He also established the MSN China Development Center. Prior to that, he worked at IBM Internet Division. Mr Xiong received his Bachelor of Engineering Degree in Information System Engineering from National University of Defense Technology in 1987 and a Master of Science Degree in Information Retrieval from Chinese Defense Science and Technology Information Center (CDSTIC) in Beijing in 1990.

James Gordon Mitchell, age 38, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 2011. He is responsible for the Company's strategic planning and implementation. Prior to joining the Company, Mr Mitchell had worked in Investment Banking for 16 years. Most recently, Mr Mitchell was a Managing Director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analyzed Internet, entertainment and media companies globally. Mr Mitchell received a Bachelor Degree from Oxford University and holds a Chartered Financial Analyst Certification.

David A M Wallerstein, age 37, Senior Executive Vice President, joined the Company in 2001. He oversees the Company's international business initiatives through identifying cooperation with multinational partners and is responsible for the Group's operations outside the PRC. Prior to joining the Company, Mr Wallerstein was the Vice President, Business Development of MIH in China, and was involved in Internet strategy and mergers and acquisitions activities in China. Prior to that, Mr Wallerstein worked as a management consultant in China's telecommunications and IT industries. Mr Wallerstein received a Master's Degree in Political Economy from UC Berkeley and a Bachelor's Degree from the Jackson School at the University of Washington.

Liu Chengmin, age 40, Senior Executive Vice President and President of Wireless Business, joined the Company in 2003 as General Manager for telecommunication business division and mobile communication business division. Since October 2005, Mr Liu has been responsible for the development and operation of the Company's wireless business and the management of its regional markets in China. Prior to joining the Company, Mr Liu worked for Huawei Technologies Co., Ltd. in its domestic marketing and sales department. Mr Liu received a Master of Science Degree in Mechanics from Harbin Industrial University.

Wu Xiaoguang, age 36, Senior Executive Vice President and President of Internet business, joined the Company in 1999, he led the development and product planning for the Group's core product, the QQ IM client software and has served as Project Manager for the research and development team of QQ, General Manager for IM product and General Manager for Internet business division. Currently, he is in charge of the Company's various Internet services including community, community value-added services and e-commerce. Mr Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. He received a Bachelor of Science Degree in Weather Dynamics from Nanjing University in 1996 and an EMBA from China Europe International Business School (CEIBS) in 2008.

Ren Yuxin, age 36, Senior Executive Vice President and President of Interactive Entertainment Business, joined the Company in 2000 and had served as General Manager for the value-added services development division and General Manager for Interactive Entertainment business division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Limited. Mr Ren received a Bachelor of Science Degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA from China Europe International Business School (CEIBS) in 2008.

Lau Seng Yee, age 45, Senior Executive Vice President and President of the Online Media Business, joined the Company in 2006 and is responsible for overseeing the Company's online media business, and the development of the Company's online advertising business model, as well as the branding strategies for the Company. Mr Lau is a seasoned professional in the media and marketing industry with more than 20 years of solid experience working, with a rare 17 years of on-ground China market experience. In 2007, Mr Lau sat in the advisory board for ad:tech, the globally renowned organisation for Online Marketing. Mr Lau held the post of Vice Chairman of China Advertising Association since 2007, as well as the Visiting Professor of both Shanghai Normal University and Xiamen University. Prior to joining the Company, Mr Lau was the Managing Partner of Publicis China and the CEO for BBDO China. Before that, he also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr Lau received his EMBA from Rutgers State University of New Jersey, USA. He completed the Advanced Marketing Management courses of Harvard Business School in 2007 and the AMP (Advanced Management Program) of Harvard Business School in 2010. In 2011, Mr Lau was honored by New York based AdAge publication as one of "The World's 21 Most Influential People in Marketing and Media industry".

Li Haixiang, age 39, Senior Executive Vice President, joined the Company in 1999 and has been responsible for planning, construction and managing the technical platform supporting our various operations since December 2005, including technical architecture, information security, settlements, business intelligence, channel connection, fundamental IT, applications maintenance and customer services. Since 2010, Mr Li has been in charge of the Company's search businesses. Mr Li was awarded as "China Outstanding Chief Information Officer" by "IT Manager" magazine in 2008. Prior to joining the Company, Mr Li served in a system integration company for the research and development of financial and network application software. Mr Li received his Bachelor of Science Degree in Computer Software from South China University of Technology and an EMBA from China Europe International Business School (CEIBS) in 2007.

Tong Tao Sang, age 38, Senior Vice President, joined the Company in 2005 and has been responsible for social network platforms as well as the related value added businesses since October 2008. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the development of operator-scale messaging systems; and later on was involved in new product planning and business development. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr Tong received his Bachelor of Science Degree in Computer Science from University of Michigan, Ann Arbor in 1991 and a Master of Science Degree in Electrical Engineering from Stanford University in 1997.

Lu Shan, age 37, Senior Vice President, joined the Company in 2000 and had served as General Manager for IM Product Division and Vice President for Platform Research and Development of the Company. Since March 2008, Mr Lu has been responsible for overseeing the Operations Platform System of the Company. Prior to joining the Company, he worked for Liming Network Systems. Mr Lu received his Bachelor of Science Degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998.

Guo Kaitian, age 39, Senior Vice President, joined the Company in 2002 and he has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, public relations, charity fund, procurement and government policy development. Prior to joining the Company, Mr Guo worked in Shenzhen Industrial Products Group. Mr Guo received his Bachelor of Law Degree from Zhongnan University of Economics and Law in 1996.

Lo Shek Hon John, age 43, Senior Vice President and Deputy Chief Financial Officer, joined the Company in 2004 and served as our Financial Controller from 2004 to 2008. Mr Lo was appointed as the Company's Vice President and Deputy CFO in 2008. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr Lo received his Bachelor of Business in Accounting from Curtin University of Technology and an EMBA from Kellogg Graduate School of Management, Northwestern University and HKUST.

Xi Dan, age 36, Senior Vice President. Mr Xi joined the Company in 2002 and he has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr Xi was responsible for HR management in ZTE Corporation, has more than 16 years of experience in IT and Internet industries. Mr Xi received his Bachelor of Science Degree in Computer Science from Shenzhen University in 1996 and an MBA Degree from Tsinghua University in 2005.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long and Short Positions in the Shares and Underlying Shares of the Company

Name of director	Long/short position	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital
Ma Huateng	Long position	Corporate (Note 1)	189,892,880	10.32%
	Short position	Corporate (Note 1)	930,000	0.05%
Zhang Zhidong	Long position	Corporate (Note 2)	66,750,000	3.63%
Lau Chi Ping Martin	Long position	Personal	10,353,600 (Note 3)	0.56%
Li Dong Sheng	Long position	Personal	40,000 (Note 4)	0.002%
Iain Ferguson Bruce	Long position	Personal	105,000 (Note 5)	0.006%
Ian Charles Stone	Long position	Personal	75,000 (Note 6)	0.004%

Note:

1. These shares are held by Advance Data Services Limited, a British Virgin Islands company wholly owned by Ma Huateng.

2. These shares are held by Best Update International Limited, a British Virgin Islands company wholly owned by Zhang Zhidong.

3. The interest comprises 3,753,600 shares and 6,600,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

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

5. The interest comprises 25,000 shares and 80,000 underlying shares in respect of the 60,000 share options granted pursuant to Post-IPO Option Scheme I and 20,000 awarded shares granted pursuant to the Share Awarded Scheme. Details of the share options and awarded shares granted to this director are set out above under "Share Option Schemes" and "Share Award Scheme" respectively.

6. The interest comprises 75,000 underlying shares in respect of the 60,000 share options granted pursuant to the Post-IPO Option Scheme I and 15,000 awarded shares granted pursuant to the Share Awarded Scheme. Details of the share options and awarded shares granted to this director are set out above under "Share Option Schemes" and "Share Award Scheme" respectively.

(B) Long Position in the Shares in Associated Corporations

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB6,857,130 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2011.

CONNECTED TRANSACTIONS

Reference is made to the waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004. The Company's independent non-executive directors had reviewed the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2011 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Cyber Shenzhen, Tencent Chengdu and Tencent Shanghai. The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan and the New OPCOs to the holders of their equity interests and any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period the terms of which are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to the New OPCOs.

The Auditor had carried out procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of Tencent Computer, Shiji Kaixuan and the New OPCOs as at 31 December 2011 to the WFOEs and that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan or the New OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2011, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the TCS CFC, the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established the TCS Co-operation Committee according to this agreement. During the year, other than the Structure Contracts mentioned below, Tencent Computer purchased technology amounting to approximately RMB160,000,000 from Tencent Technology. In addition, revenue sharing amounting to approximately RMB10,529,802,000, RMB2,152,173,000, RMB2,998,664,000, RMB839,653,000, and RMB34,038,000 was paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, and Tencent Chengdu, Tencent Shanghai, respectively.

2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, services fee amounting to approximately RMB63,559,000 was paid or payable by Shiji Kaixuan to Tencent Shanghai.

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

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

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

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

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

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

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Cooperation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, revenue sharing amounting to approximately RMB1,563,000, RMB5,734,000, and RMB666,000 was paid or payable by Beijing Emark to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB177,058,000, RMB149,603,000, and RMB475,994,000 was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin, and Tencent Beijing, respectively. Revenue sharing amounting to approximately RMB57,010,000, RMB47,685,000, RMB89,894,000, and RMB361,936,000 was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin, Tencent Beijing, and Tencent Chengdu respectively. Revenue sharing amounting to approximately RMB11,902,000, RMB80,000, RMB19,057,000, and RMB33,325,000 was paid or payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin, Tencent Beijing, and Tencent Chengdu respectively. Revenue sharing amounting to approximately RMB158,000 and RMB15,000 was paid or payable by Guangzhou Yunxun to Tencent Technology and Tencent Beijing.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long and Short Positions in the Shares in the Company

Name of shareholder	Long/short position	Nature of interest	Number of shares	Percentage of issued share capital
MIH China	Long position	Corporate (Note 1)	630,240,380	34.26%
Advance Data Services Limited	Long position	Corporate (Note 2)	189,892,880	10.32%
	Short position	Corporate (Note 2)	930,000	0.05%

Note:

1. As MIH China is wholly owned by Naspers Limited through its intermediary companies, MIH (Mauritius) Limited and MIH Holdings Limited. Naspers Limited, MIH (Mauritius) Limited and MIH Holdings Limited are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO.

2. As Advance Data Services Limited is wholly owned by Ma Huateng, Mr Ma has interest in these shares as disclosed under the section of "Directors' Interests in Securities".

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 31 December 2011, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the five largest customers of the Group accounted for approximately 8.97% of the Group's total revenues while the largest customer of the Group accounted for approximately 2.19% of the Group's total revenues. In addition, for the year ended 31 December 2011, the five largest suppliers of the Group accounted for approximately 55.34% of the Group's total purchases while the largest supplier of the Group accounted for approximately 24.79% of the Group's total purchases.

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

AUDIT COMMITTEE

The Audit Committee 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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this annual 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 CG Code.

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

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The directors have complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 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).

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

(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.

AUDITOR

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

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 14 March 2012

Corporate Governance Report

The Company applied the principles and complied with all code provisions of the CG Code with the deviations in respect of the segregation of the role of the chairman and CEO and the provision regarding the retirement and re-election of directors. The following summarises the Company's corporate governance practices and explains the deviations from the CG Code.

A. DIRECTORS

1. The Board

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

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

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

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

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

v) The dates of regular Board meetings are proposed, considered and determined by the Board well before the meeting date. For any ad hoc Board meetings or Board committee meetings, Board members were given as much notice as is reasonable and practicable in the circumstances.

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

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

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

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

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

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

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

xiii) Whenever necessary and upon request by the Board, the company secretary will coordinate to seek independent professional advice at the expense of the Company. Advices from external legal advisors, financial advisers and valuers as well as tax advisors are made available to the Board for them to make informed decision.

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

2. Chairman and CEO

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

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

i) Mr Ma Huateng serves as the Chairman and CEO and CG Code A.2.1 is deviated:

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

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

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

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

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

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

3. Board Composition

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

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

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

iii) A list of directors and their respective biographies are set out on pages 38 to 40 of this annual report.

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

4. Appointments, Re-election and Removal

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

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

i) Except for Mr Ma Huateng, Chairman of the Company, every director is subject to retirement by rotation at least once every three years and CG Code A.4.2 is deviated. According to the Articles of Association, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation, provided that the Chairman of the Board shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. The Chairman of the Board is one of the core founders of the Company and plays a leading role in the growth and development of the Company and his continuing presence adds positive value and assurance to the sustainable development of the Company. The Board considers that the existing provision of retirement and re-election in the Articles of Association, which have been in operation for a number of years, shall not have a material impact on the operation of the Company as a whole.

   In compliance with the provisions in the Articles of Association, in the 2011 annual general meeting, two directors retired and were re-elected and the re-election of Mr Li Dong Sheng, who was re-elected in 2008, was not considered in the 2011 annual general meeting and his re-election will be considered in subsequent AGM.

   Notwithstanding the above, the Board will review the current provision in the Articles of Association from time to time and shall make necessary amendments at the appropriate time.

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

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

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

v) Nomination to the Board

- The Board determines the selection, orientation and evaluation of the directors.
- The Board identifies and evaluates the candidates for appointment as directors. Following the appointments of new directors to the Board, orientation programmes will be arranged to facilitate their understanding of the Group.
- A nomination committee has been established with written terms of reference in March 2012.

5. Responsibilities of Directors

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

i) The Board has the following primary responsibilities:

- determines the Group's mission, provides strategic direction to the Group and is responsible for the approval of strategic plans;
- approves the annual business plan and budget proposed by management and financial performance updates are presented to the Board on a quarterly basis;
- retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual budget and business plan;
- establishes Board sub-committees with clear terms of reference and responsibilities as appropriate;
- all policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions; and
- defines levels of delegation in respect of specific matters, with required authority to board sub-committees and management.

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

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

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

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

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

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

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

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

x) The attendance records of all Board meetings held in 2011 are set out below:

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

xi) Model Code

- The Company has adopted the Model Code.
- All directors have confirmed, following specific enquiry by the Company, full compliance with the Model Code throughout the year 2011.
- The Board has adopted a staff code for their dealing in the securities of the Company on no less exacting terms than the Model Code for staff who is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.
- Details of securities interests in the Company held by the directors are set out in the Directors' Report on pages 45 to 46 of this annual report.

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

6. Supply of and Access to Information

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

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

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

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

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

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

1. The Level and Make-up of Remuneration and Disclosure

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

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

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

iii) The terms of reference of the Remuneration Committee are posted on the Company Website.

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

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

vi) No director can determine his own remuneration.

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

viii) Details of the remuneration of the directors for the year ended 31 December 2011 are set out in Note 36 to the consolidated financial statements.

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

2. Major Work Done by the Remuneration Committee in 2011

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

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

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

iv) The attendance of individual members at the Remuneration Committee meetings held in 2011 is set out below:

Number of meetings	**4**
Non-Executive Director	
Antonie Andries Roux (Chairman)	4/4
Independent Non-Executive Directors	
Li Dong Sheng	0/4
Ian Charles Stone	4/4

v) The chairman of the Remuneration Committee will be changed to Mr Ian Charles Stone, an independent non-executive director, with effect from 15 March 2012.

vi) The terms of reference of the Remuneration Committee have been revised to comply with the revised code provisions in Appendix 14 of the Listing Rules, which will be effective on 1 April 2012.

C. ACCOUNTABILITY AND AUDIT

1. Financial Reporting

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

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

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

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

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

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

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

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

viii) The Company has appointed an external auditor, PricewaterhouseCoopers, to perform reviews on its interim financial information and an audit of its annual financial statements which are prepared in accordance with the IFRS.

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

2. Internal Controls

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

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

ii) The Company has various tiers of delegation of authorities, which are applicable to different managerial levels and are subject to review from time to time. This mechanism aims to:

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

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

- A distinct organisational structure exists with defined lines of authority and control responsibilities. Relevant division or department heads are involved in preparing the strategic plan which lays down the corporate strategies to be pursued in the following year for achieving the annual operational and financial targets. Both the strategic plan and the annual operating plan lay down the foundation for the preparation of the annual budget by which resources are allocated in accordance with identified and prioritised business opportunities. The annual operating plan and budget are approved by the Board on an annual basis.
- Variances against budgets are analysed, and explained, and appropriate actions are taken, if necessary, to rectify deficiencies noted.
- The IA performs independent reviews of the operational areas and presents the findings and the prospective audit plan to the Audit Committee on a quarterly basis.
- The IC facilitates management to ensure controls in operational processes are efficient and effective, and regularly communicates to the Audit Committee.

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

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

vi) The IC provides advisory of setting and implementing policies, process and controls on key and high risk business areas based on the COSO Framework.

vii) In 2011, the Company engaged a professional consulting firm to perform a high level review of the Group's existing internal controls by benchmarking the COSO Framework. Recommendations with prioritisation have been proposed and management has developed a remedial plan to improve the internal control procedures.

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

ix) Mr Lo John Shek Hon, Deputy Chief Financial Officer of the Group, has the overall responsibilities for finance and accounting functions of the Group. He is a fellow of CPA Australia, a fellow of Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Institute of Management Accountants. A majority of the managers of the Finance Division of the Group are members of The Chinese Institute of Certified Public Accountants or Association of Chartered Certified Accountants or other recognised professional bodies or holder of the Chartered Financial Analyst designation. Staff of the Finance Division are required to attend relevant training programmes provided by professional accounting firms and in-house training programmes arranged by the Group from time to time. The Board considers that the resources, qualifications and experience of staff of the Finance Division, their training programmes and budget are adequate.

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

3. Audit Committee

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

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

ii) Two out of the three members of the Audit Committee are independent non-executive directors and no member of the Audit Committee is a former partner of the Auditor.

iii) Members of the Audit Committee have unrestricted access to the external auditor and internal auditor. Senior representatives of the external auditor and members of management are invited to attend the meetings when necessary.

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

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

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

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

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

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

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

xi) In 2011, the fees paid or payable to the Company's external auditor for non-audit related activities amounted to approximately RMB7,575,000.

xii) The principal responsibilities of and work done by the Audit Committee in 2011 include:

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

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

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

- To review, approve and monitor the progress of the annual audit plans of both the external auditor and internal auditor.

- To review and consider updates from external auditor, the IA and the IC, of which compliance and corporate governance measures and practices will usually be covered, on a quarterly basis.

- To review and consider the adequacy of the supporting resources provided to the IA and the IC.

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

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

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

xiii) The attendance of individual members at the Audit Committee meetings held in 2011 is set out below:

Number of meetings	**5**
Independent Non-Executive Directors	
Iain Ferguson Bruce (Chairman)	5/5
Ian Charles Stone	5/5
Non-Executive Director	
Charles St Leger Searle	5/5

xiv) The terms of reference of the Audit Committee have been revised to comply with the revised code provisions in Appendix 14 of the Listing Rules, which will be effective on 1 April 2012.

D. DELEGATION BY THE BOARD

1. Management Functions

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

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

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

2. Board Committees

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

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

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

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

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

v) Endorsement of relevant Board committees is available for the Board to make informed decision.

vi) In addition to the Nomination Committee, a corporate governance committee has been established by the Board with terms of reference in March 2012.

E. COMMUNICATION WITH SHAREHOLDERS

1. Effective Communication

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

i) The 2011 annual general meeting of the shareholders had been held in May 2011.

ii) Notice and circular regarding the matters to be dealt with in the 2011 annual general meeting, prepared in accordance with the applicable rules and regulations, were sent to the shareholders timely.

iii) Chairmen of the Audit Committee and the Remuneration Committee attended the shareholder meeting in 2011.

iv) In the 2011 annual general meeting, the shareholders were encouraged to clear their queries regarding the matters to be dealt with in the meetings and separate resolutions were put to vote by poll by the shareholders.

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

vi) A shareholder communication policy has been approved by the Board in March 2012.

2. Voting by Poll

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

i) At the commencement of the annual general meeting, detailed procedures for conducting a poll have been explained.

ii) An external scrutineer has been appointed to monitor and count the votes cast by poll at the annual general meeting.

iii) Questions from the shareholders regarding voting by way of a poll, if any, have been answered before the poll voting started.

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 72 to 188, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2012

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	**5,884,952**	3,292,828
Construction in progress	7	**158,656**	386,943
Investment properties	8	**21,871**	37,229
Land use rights	9	**230,915**	229,890
Intangible assets	10	**3,779,976**	572,981
Investment in associates	12	**4,338,075**	1,070,633
Investment in jointly controlled entities	13	**61,903**	74,542
Deferred income tax assets	30	**198,058**	219,019
Available-for-sale financial assets	15	**4,343,602**	4,126,878
Prepayments, deposits and other assets	17	**2,282,869**	445,430
		21,300,877	10,456,373
Current assets			
Accounts receivable	16	**2,020,796**	1,715,412
Prepayments, deposits and other assets	17	**2,211,917**	487,872
Term deposits with initial term of over three months	18	**13,716,040**	11,725,743
Restricted cash	24, 27	**4,942,595**	1,036,457
Cash and cash equivalents	19	**12,612,140**	10,408,257
		35,503,488	25,373,741
Total assets		**56,804,365**	35,830,114

Consolidated Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	**198**	198
Share premium	20	**123,021**	1,100,302
Shares held for share award scheme	20	**(606,874)**	(258,137)
Share-based compensation reserve	20	**1,935,030**	1,199,663
Other reserves	21	**302,091**	1,919,695
Retained earnings		**26,710,368**	17,795,225
		28,463,834	21,756,946
Non-controlling interests		**624,510**	83,912
Total equity		**29,088,344**	21,840,858
LIABILITIES			
Non-current liabilities			
Long-term notes payable	28	**3,733,331**	–
Deferred income tax liabilities	30	**939,534**	967,211
Long-term payables	26	**1,859,808**	–
		6,532,673	967,211

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Current liabilities			
Accounts payable	23	**2,244,114**	1,380,464
Other payables and accruals	24	**5,014,281**	2,997,808
Derivative financial instruments	25	**20,993**	17,964
Short-term borrowings	27	**7,999,440**	5,298,947
Current income tax liabilities		**708,725**	341,103
Other tax liabilities	39(b)	**179,499**	225,188
Deferred revenue	29	**5,016,296**	2,760,571
		21,183,348	13,022,045
Total liabilities		**27,716,021**	13,989,256
Total equity and liabilities		**56,804,365**	35,830,114
Net current assets		**14,320,140**	12,351,696
Total assets less current liabilities		**35,621,017**	22,808,069

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 188 were approved by the Board of Directors on 14 March 2012 and were signed on its behalf.

Ma Huateng
Director

Zhang Zhidong
Director

Statement of Financial Position - The Company

As at 31 December 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Fixed assets		**243**	342
Intangible assets		**4,958**	4,809
Investments in subsidiaries	11(a)	**5,782,381**	2,834,852
Contribution to Share Scheme Trust	11(c)	**896**	287
		5,788,478	2,840,290
Current assets			
Amounts due from subsidiaries		**1,260,180**	708,074
Prepayments, deposits and other receivables		**3,706**	4,584
Term deposits with initial term of over three months		**–**	635
Cash and cash equivalents	19	**187,791**	237,525
		1,451,677	950,818
Total assets		**7,240,155**	3,791,108
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	**198**	198
Share premium	20	**123,021**	1,100,302
Shares held for share award scheme	20	**(606,874)**	(258,137)
Share-based compensation reserve		**1,827,855**	1,199,663
Retained earnings/(accumulated deficit)		**246,667**	(140,999)
Total equity		**1,590,867**	1,901,027

Statement of Financial Position - The Company

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term notes payable	28	**3,733,331**	–
Current liabilities			
Amounts due to subsidiaries	11(b)	**1,829,429**	1,833,802
Other payables and accruals		**86,528**	56,279
		1,915,957	1,890,081
Total liabilities		**5,649,288**	1,890,081
Total equity and liabilities		**7,240,155**	3,791,108
Net current liabilities		**(464,280)**	(939,263)
Total assets less current liabilities		**5,324,198**	1,901,027

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 188 were approved by the Board of Directors on 14 March 2012 and were signed on its behalf.

Ma Huateng	**Zhang Zhidong**
Director	*Director*

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
		Year ended 31 December	
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		**190,257**	75,277
	5	**28,496,072**	19,646,031
Cost of revenues	31, 34	**(9,928,308)**	(6,320,200)
Gross profit		**18,567,764**	13,325,831
Interest income	32	**468,990**	255,922
Other gains, net	33	**420,803**	38,056
Selling and marketing expenses	34	**(1,920,853)**	(945,370)
General and administrative expenses	34	**(5,283,154)**	(2,836,226)
Operating profit		**12,253,550**	9,838,213
Finance income/(costs), net	38	**35,505**	(838)
Share of (losses)/profit of associates		**(24,255)**	72,359
Share of (losses)/profit of jointly controlled entities		**(165,731)**	3,399
Profit before income tax		**12,099,069**	9,913,133
Income tax expense	39(a)	**(1,874,238)**	(1,797,924)
Profit for the year		**10,224,831**	8,115,209
Attributable to:			
Equity holders of the Company		**10,203,083**	8,053,625
Non-controlling interests		**21,748**	61,584
		10,224,831	8,115,209

Consolidated Income Statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– basic	41(a)	**5.609**	4.432
– diluted	41(b)	**5.490**	4.328
Dividend per share			
Final dividend proposed	42	**HKD0.75**	HKD0.55

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**10,224,831**	8,115,209
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	**(34,256)**	–
	(1,268,129)	1,821,129
Total comprehensive income for the year	**8,956,702**	9,936,338
Attributable to:		
Equity holders of the Company	**8,937,627**	9,874,754
Non-controlling interests	**19,075**	61,584
	8,956,702	9,936,338

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858
Comprehensive income									
Profit for the 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	–	–	–	–	–	–

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Profit appropriations to statutory reserves	–	–	–	–	439,650	(439,650)	–	–	–
Repurchase and cancellation of shares	–	(1,047,033)	–	–	–	–	(1,047,033)	–	(1,047,033)
Dividend (Note 42)	–	–	–	–	–	(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 (Note 43(a) and (b))	–	–	–	–	(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 (Note 43(a))	–	–	–	–	(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	198	123,021	(606,874)	1,935,030	302,091	26,710,368	28,463,834	624,510	29,088,344

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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	–	–	–	–	–	–

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 for the year	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

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	44(a)	**15,194,370**	13,191,728
Income tax paid		**(1,836,263)**	(872,435)
Net cash flows generated from operating activities		**13,358,107**	12,319,293
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(1,444,442)**	(268,852)
Purchase of fixed assets, construction in progress and investment properties		**(4,046,246)**	(1,488,220)
Proceeds from disposals of fixed assets	44(a)	**599**	1,574
Payments for investment in associates		**(3,427,363)**	(511,967)
Payments for investment in jointly controlled entities		**(194,915)**	(71,143)
Purchase/Prepayment of intangible assets		**(788,375)**	(301,831)
Payments for land use rights		**(5,950)**	(456,555)
Purchase of available-for-sale financial assets		**(1,706,752)**	(2,179,096)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries		**(23,919)**	(118,260)
Proceeds from disposal of equity interests in a subsidiary without change of control		**10,448**	–
Proceeds from the redemption of held-to-maturity investments		**–**	341,410
Receipt from the repayments of term deposits with initial term of over three months		**5,989,298**	114,662
Payments for term deposits with initial term of over three months		**(7,979,595)**	(6,530,237)
Payment for restricted cash		**(2,055,486)**	(836,457)
(Loan advanced)/Repayment of loan to associates and jointly controlled entities		**(117,115)**	54,700
Interest received		**415,055**	219,937
Dividend received		**20,000**	15,338
Net cash flows used in investing activities		**(15,354,758)**	(12,014,997)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from short-term borrowings	**6,682,837**	5,298,947
Repayment of short-term borrowings	**(3,765,941)**	(202,322)
Payment for derivative financial instruments in relation to short-term borrowings	**(93,761)**	–
Net proceeds from issuance of long-term notes	**3,760,928**	–
Proceeds from issuance of ordinary shares	**159,729**	199,249
Payments for repurchase of shares	**(1,047,033)**	(310,222)
Payment for purchase of shares for share award scheme	**(438,714)**	(167,519)
Proceeds from capital injection from non-controlling interests	**9,800**	–
Dividends paid to the Company's shareholders	**(838,290)**	(639,264)
Dividends paid to non-controlling interests	**(56,531)**	(66,723)
Net cash flows generated from financing activities	**4,373,024**	4,112,146
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	**(172,490)**	(51,881)
Cash and cash equivalents at end of the year	**12,612,140**	10,408,257

The notes on pages 86 to 188 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the "Company") was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY 1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

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

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

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

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things, the rights to:

- receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- ensure that Tencent Technology own the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer without making any payment; and
- control the management and financial and operating policies of Tencent Computer.

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

1 GENERAL INFORMATION (Cont'd)

Similar Structure Contracts were also executed for other PRC operating companies similar to Tencent Computer subsequent to 2000. All these PRC operating companies were treated as subsidiaries of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 14 March 2012.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The following revised standards, amendments and interpretation to existing standards, have been published and are mandatory for the financial year beginning 1 January 2011, but are not currently relevant to the Group.

- IAS 32 (Amendment) — Classification of Rights Issue
- Amendment to IFRIC 14 — Prepayments of A Minimum Funding Requirement
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments
- IAS 24 (Revised) — Related Party Disclosures

The third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by the International Accounting Standards Board ("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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

The following new 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' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2015.

- IFRS 10 'Consolidated Financial Statements' builds on the existing principles by identifying the concept of control as the determining factor for whether an entity should be included in the consolidated financial statements of the parent company. The standard provides additional guidance for the determination of control where it is difficult to assess. The Group is yet to assess the full impact of IFRS 10 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 'Joint Arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full impact of IFRS 11 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of IFRS 12 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- IFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting rights but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(b) Associates

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within "Other gains, net" in the income statement.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for using the equity method, which is similar to that for associates in note (b) above. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount within "Other gains, net" in the income statement.

(d) Business combinations

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (Note 2.8).

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(d) Business combinations (Cont'd)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For a business combination achieved in stages, the Group applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interests.

(e) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(f) Investment in an associate/a jointly controlled entity achieved in stages

The cost of an associate/a jointly controlled entity acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the associate/jointly controlled entity became an associate/a jointly controlled entity. A gain or loss on remeasurement of the previously held interest is taken to the income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(g) Partial disposals

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

(h) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 11(c)), a controlled special purpose entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation (Cont'd)

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

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

2.5 Fixed assets

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Fixed assets (Cont'd)

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains, net" in the income statement.

2.6 Investment properties

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Land use rights

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

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Other intangible assets

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

Other intangible assets are being amortised over their estimated useful lives (generally three to seven years).

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Shares held for share award scheme

The consideration paid by the Share Scheme Trust (as defined in Note 11(c)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

(a) Classification

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(a) Classification (Cont'd)

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(b) Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

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

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Impairment of financial assets (Cont'd)

(b) Assets classified as available-for-sale financial assets

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

2.14 Derivative financial instruments

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

During the year ended 31 December 2011, the Group did not hold any derivative instruments designated as a hedging instrument but held certain derivative instruments which did not qualify for hedge accounting. The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within "Other gains, net".

2.15 Accounts receivable

Accounts receivable is amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Cash and cash equivalents

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

2.17 Share capital

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

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

2.18 Accounts payable

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

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

2.19 Put option liabilities

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 Borrowings

Borrowings (including short-term borrowings and long-term notes issued by the Group) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 Current and deferred income tax

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.21 Current and deferred income tax (Cont'd)

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

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

2.22 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option scheme and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model - Black-Scholes valuation model (the "BS Model"), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the "Investment in subsidiaries" in the Company's statement of financial position.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Provisions

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

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

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

2.24 Revenue recognition

The Group principally derives revenues from provision of IVAS, MVAS and online advertising services in the PRC.

(a) IVAS and MVAS

Revenues from IVAS are derived principally from the provision of online games and community value-added services across various Internet platforms.

MVAS revenues are derived principally from providing users with bundled SMS packages, mobile games, and other mobile value-added services such as mobile music and mobile books.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(a) IVAS and MVAS (Cont'd)

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

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

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

In addition, the IVAS can also be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through non-mobile channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenue" in the statement of financial position (see Note 29). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship, whichever is longer.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(b) Online advertising

Online advertising revenues are mainly derived from display advertising on instant messaging clients, portals and other platforms, and search advertising through the self-developed search engines of the Group. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For advertising contracts based on the actual time period that the advertisements appear on the Group's instant messaging clients, portals and other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed.

(c) Interest income

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

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.25 Government grants/subsidies

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

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

2.26 Leases

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

2.27 Dividend distribution

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments, the Group holds some monetary assets denominated in USD, HKD or EUR subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD or EUR as management considers that such risk could not be effectively reduced in a low-cost way. However, the Group had entered into certain foreign exchange forward contracts arrangements for managing the foreign exchange risk in relation to short-term borrowings denominated in USD. Details are disclosed in Note 25.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

As at 31 December 2011, the Group and the Company's non-RMB monetary assets and liabilities are listed below.

Group

	Denomination currency	As at 31 December 2011 RMB'000	2010 RMB'000
Monetary assets			
Current assets			
Receivables	USD	**194,171**	–
Receivables	HKD	**11,048**	–
Restricted cash	USD	**20,322**	–
Term deposits with initial term of over three months	USD	**1,676**	15,664
Term deposits with initial term of over three months	HKD	**–**	34,054
Cash and cash equivalents	USD	**5,429,054**	2,528,206
Cash and cash equivalents	HKD	**293,787**	231,608
Cash and cash equivalents	EUR	**194,705**	–
Monetary liabilities			
Non-current liabilities			
Long-term notes payable	USD	**3,733,331**	–
Long-term payables	USD	**1,796,306**	–
Current liabilities			
Payables	USD	**1,559,692**	502,427
Payables	HKD	**52,086**	–
Short-term borrowings	USD	**5,040,720**	3,973,620

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

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

Company

	Denomination currency	As at 31 December 2011 RMB'000	2010 RMB'000
Monetary assets			
Current assets			
Receivables	USD	**1,260,180**	–
Term deposits with initial term of over three months	USD	**–**	635
Cash and cash equivalents	USD	**47,110**	35,281
Cash and cash equivalents	HKD	**140,681**	202,244
Monetary liabilities			
Non-current liabilities			
Long-term notes payable	USD	**3,733,331**	–

During the year ended 31 December 2011, the Group reported exchange gains of approximately RMB108,042,000 (2010: RMB34,189,000) as a result of RMB appreciation. The gains were recorded in "Finance income/(costs), net" in the consolidated income statement for the year ended 31 December 2011.

At 31 December 2011, if USD, EUR and HKD had strengthened/weakened by 5% (2010: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB301,869,000 lower/higher (2010: RMB83,326,000 lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR and HKD.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

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

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

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2010: 5%) higher/lower as at 31 December 2011, the other comprehensive income would have been approximately RMB212,909,000 (2010: RMB206,344,000) higher/lower.

iii) Interest rate risk

The Group has interest-bearing assets including loans to associates and a jointly controlled entity, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 17, 18 and 19.

The Group's interest rate risk arises from borrowings (including short-term borrowings and long-term notes issued by the Group). Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk (Cont'd)

As mentioned in foreign exchange risk above, the Group had extended bank borrowings and issued long-term notes denominated in USD having fixed interest rate as at 31 December 2011. Concurrently upon the draw-down of certain short-term borrowings, the Group entered into forward foreign exchange contracts to buy USD by selling RMB at designated future periods which substantially coincide with the respective loan maturity dates (see Note 27 for details).

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

For the year ended 31 December 2011, if the average interest rate on variable interest-bearing borrowings had been 5% (2010: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB3,165,000 (2010: RMB1,751,000) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

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

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

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

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

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

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalent. For the year ended 31 December 2011, in order to improve liquidity, the Group also issued long-term notes (see Note 28).

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2011					
Long-term notes payable	**174,850**	**174,850**	**4,305,090**	**–**	**4,654,790**
Long-term payables	**–**	**316,622**	**641,070**	**1,002,541**	**1,960,233**
Short-term borrowings	**7,999,440**	**–**	**–**	**–**	**7,999,440**
Derivative financial instruments	**20,993**	**–**	**–**	**–**	**20,993**
Accounts payable, other payables and accruals (excluding prepayments received from customers)	**7,155,609**	**–**	**–**	**–**	**7,155,609**
Total	**15,350,892**	**491,472**	**4,946,160**	**1,002,541**	**21,791,065**
At 31 December 2010					
Short-term borrowings	5,298,947	–	–	–	5,298,947
Derivative financial instruments	17,964	–	–	–	17,964
Accounts payable, other payables and accruals (excluding prepayment received from customers)	4,303,649	–	–	–	4,303,649
Total	9,620,560	–	–	–	9,620,560

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2011					
Long-term notes payable	**174,850**	**174,850**	**4,305,090**	**–**	**4,654,790**
Amounts due to subsidiaries	**1,829,429**	**–**	**–**	**–**	**1,829,429**
Other payables and accruals	**86,528**	**–**	**–**	**–**	**86,528**
Total	**2,090,807**	**174,850**	**4,305,090**	**–**	**6,570,747**
At 31 December 2010					
Amounts due to subsidiaries	1,833,802	–	–	–	1,833,802
Other payables and accruals	56,279	–	–	–	56,279
Total	1,890,081	–	–	–	1,890,081

As of 31 December 2011, the Company reported net current liabilities amounting to approximately RMB464,280,000 on the statement of financial position of the Company. Nevertheless, certain subsidiaries held by the Company declared dividends in aggregate of HKD4,500,000,000 (equivalent to approximately RMB3,653,100,000), which would be paid to the Company subsequent to the end of the reporting period and the net current liabilities position was reversed subsequently. Accordingly, the directors of the Company consider it is appropriate to prepare the financial statements of the Company on the going concern basis.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total liabilities	**27,716,021**	13,989,256
Total assets	**56,804,365**	35,830,114
Gearing ratio	**49%**	39%

The increase in gearing ratio as at 31 December 2011 was mainly due to the increase in short-term borrowings and long-term notes payable.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2011.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,318,794	–	1,024,808	4,343,602
Total	3,318,794	–	1,024,808	4,343,602
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	20,993	–	20,993
Total	–	20,993	–	20,993

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets that are measured at fair value as at 31 December 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,869,033	–	257,845	4,126,878
Total	3,869,033	–	257,845	4,126,878
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	17,964	–	17,964
Total	–	17,964	–	17,964

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

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

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	Available-for-sale financial assets RMB'000
Opening balance	**257,845**
Additions	**802,963**
Impairment provision	**(36,000)**
Closing balance	**1,024,808**

The following table presents the changes in level 3 instruments for the year ended 31 December 2010:

	Available-for-sale financial assets RMB'000
Opening balance	153,462
Additions	131,192
Transfer to investment in associates	(26,809)
Closing balance	257,845

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Recognition of revenues and accounts receivables related to IVAS and MVAS

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

As at 31 December 2011, the balance of accounts receivable not yet confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB746,471,000 (2010: RMB479,134,000).

Were the actual outcome to differ by 5% (2010: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB37,324,000 (2010: RMB23,957,000) if unfavourable; or
- increase the revenue and accounts receivable by RMB37,324,000 (2010: RMB23,957,000) if favourable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

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

The fair value of options granted for the year ended 31 December 2011 determined using the BS Model was approximately HKD63,000,000 (2010: HKD251,307,000).

In addition, the Group also granted awarded shares to its employees at fair value of HKD1,157,928,000 during 2011 (2010: HKD666,732,000).

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods ("Expected Retention Rate of Grantees") in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2011, the Expected Retention Rate of Grantees was assessed to be 91% (2010: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2010: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB65,143,000 (2010: RMB32,315,000).

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax liabilities in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the group would need to:

- Increase the income tax liabilities by RMB35,436,000 (2010: RMB17,055,000) and the deferred tax liabilities by RMB46,977,000 (2010: RMB48,361,000), if unfavourable; or
- Decrease the income tax liabilities by RMB35,436,000 (2010: RMB17,055,000) and the deferred tax liabilities by RMB46,977,000 (2010: RMB48,361,000), if favourable.

4.2 Critical judgments in applying the Group's accounting policies

Recognition of deferred tax assets

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

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

As at 31 December 2011, the relevant deferred tax assets were approximately RMB197,010,000 (2010: RMB219,019,000) (Note 30), which are expected to be recovered by the tax profits to be generated from Tencent Computer and Shiji Kaixuan in future.

5 SEGMENT INFORMATION

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

The Group has 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.

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

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 applied in the consolidated income statement.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

5 SEGMENT INFORMATION (Cont'd)

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 advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	23,042,758	3,270,841	1,992,216	190,257	28,496,072
Gross profit/(losses)	15,409,134	2,011,085	1,197,260	(49,715)	18,567,764
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	(165,731)	–	–	–	(165,731)

	Year ended 31 December 2010				
	IVAS	MVAS	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	15,482,301	2,715,931	1,372,522	75,277	19,646,031
Gross profit/(losses)	10,719,866	1,705,073	931,220	(30,328)	13,325,831
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	3,399	–	–	–	3,399

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

5 SEGMENT INFORMATION (Cont'd)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. For the year ended 31 December 2011, revenues from external customers in the PRC (excluding Hong Kong) were RMB28,027,516,000 (2010: RMB19,632,117,000), and revenues from external customers in other areas were RMB468,556,000 (2010: RMB13,914,000).

The Group also conducts operations in United States and Europe, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	Total assets	
	2011	2010
	RMB'000	RMB'000
Operating assets		
– The PRC	**42,118,996**	27,720,196
– United States and Europe	**2,726,895**	13,772
Investments		
– The PRC (excluding Hong Kong)	**4,409,589**	446,608
– Hong Kong	**3,538,071**	2,734,762
– United States	**206,962**	159,719
– Europe	**2,658,526**	3,869,033
– Other countries	**1,145,326**	886,024
Consolidated	**56,804,365**	35,830,114

As at 31 December 2011, the total non-current assets other than financial instruments and deferred tax assets located in the PRC were RMB13,620,472,000 (2010: RMB5,282,748,000), and the total non-current assets located in other countries were RMB3,138,745,000 (2010: RMB827,728,000).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2011.

Turnover consists of revenues generated by the Group, which were RMB28,496,072,000 and RMB19,646,031,000 for the years ended 31 December 2011 and 2010, respectively.

6 FIXED ASSETS

	Buildings RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2010						
Cost	1,299,071	1,955,282	68,837	8,118	90,368	3,421,676
Accumulated depreciation	(46,836)	(784,461)	(20,535)	(5,598)	(47,044)	(904,474)
Net book amount	1,252,235	1,170,821	48,302	2,520	43,324	2,517,202
Year ended 31 December 2010						
Opening net book amount	1,252,235	1,170,821	48,302	2,520	43,324	2,517,202
Business combinations	–	2,174	316	–	–	2,490
Other additions	68,761	1,273,450	57,135	575	42,486	1,442,407
Disposals	–	(338)	(23)	(75)	(255)	(691)
Depreciation	(59,458)	(574,870)	(17,072)	(1,065)	(16,115)	(668,580)
Closing net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
At 31 December 2010						
Cost	1,368,462	3,185,873	125,816	7,636	130,305	4,818,092
Accumulated depreciation	(106,924)	(1,314,636)	(37,158)	(5,681)	(60,865)	(1,525,264)
Net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828

6 FIXED ASSETS (Cont'd)

	Buildings RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
Year ended 31 December 2011						
Opening net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
Business combinations	–	17,388	1,113	415	122	19,038
Other additions	363,067	3,030,367	129,038	4,947	256,018	3,783,437
Disposals	–	(1,870)	(104)	(37)	(282)	(2,293)
Depreciation	(77,438)	(1,046,924)	(34,396)	(1,183)	(47,791)	(1,207,732)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Closing net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952
At 31 December 2011						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952

For the year ended 31 December 2011, depreciation of RMB883,938,000 (2010: RMB446,062,000), RMB13,377,000 (2010: RMB12,198,000) and RMB310,417,000 (2010: RMB210,320,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

7 CONSTRUCTION IN PROGRESS

	2011	2010
	RMB'000	RMB'000
Opening net book amount	386,943	105,771
Additions	500,268	410,362
Transfer to fixed assets	(728,555)	(129,190)
Closing net book amount	158,656	386,943

8 INVESTMENT PROPERTIES

	2011	2010
	RMB'000	RMB'000
Opening net book amount	37,229	68,025
Additions	–	247
Transfer to fixed assets	(14,829)	(29,763)
Depreciation	(529)	(1,280)
Closing net book amount	21,871	37,229

The investment properties as at 31 December 2011 mainly represent certain units in office buildings in Chengdu, the PRC.

The fair value of the investment properties was estimated to be approximately RMB38,884,000 (31 December 2010: RMB53,492,000) as at 31 December 2011, which was determined based on current prices in an active market for similar buildings in the same district.

The period of leases whereby the Group leases its investment properties under operating leases is within 3 years.

9 LAND USE RIGHTS

	2011 RMB'000	2010 RMB'000
Opening net book amount	**229,890**	35,296
Additions	**5,950**	198,318
Amortisation	**(4,925)**	(3,724)
Closing net book amount	**230,915**	229,890

The land use rights all relate to land in the PRC with remaining lease period of 44 to 49 years. For the year ended 31 December 2011, RMB4,925,000 (2010: RMB3,724,000) of the amortisation was charged as general and administrative expenses.

10 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software and technology RMB'000	Licences RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010					
Cost	62,234	257,817	196,806	14,497	531,354
Accumulated amortisation	–	(107,750)	(145,140)	(9,751)	(262,641)
Net book amount	62,234	150,067	51,666	4,746	268,713
Year ended 31 December 2010					
Opening net book amount	62,234	150,067	51,666	4,746	268,713
Business combinations	240,467	32,134	324	26,116	299,041
Other additions	–	87,887	25,000	1,751	114,638
Amortisation	–	(39,091)	(62,975)	(7,345)	(109,411)
Closing net book amount	302,701	230,997	14,015	25,268	572,981
At 31 December 2010					
Cost	302,701	377,838	222,130	42,364	945,033
Accumulated amortisation	–	(146,841)	(208,115)	(17,096)	(372,052)
Net book amount	302,701	230,997	14,015	25,268	572,981

10 INTANGIBLE ASSETS (Cont'd)

	Goodwill RMB'000	Computer software and technology RMB'000	Licences RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2011					
Opening net book amount	302,701	230,997	14,015	25,268	572,981
Business combinations (Note 43)	2,391,995	110,031	663,549	239,084	3,404,659
Other additions	–	141,792	469,392	1,187	612,371
Amortisation	–	(113,508)	(436,683)	(176,030)	(726,221)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Closing net book amount	2,615,778	368,980	707,199	88,019	3,779,976
At 31 December 2011					
Cost	2,694,696	629,661	1,355,071	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Net book amount	2,615,778	368,980	707,199	88,019	3,779,976

Amortisation of RMB659,165,000 (2010: RMB72,378,000) and RMB67,056,000 (2010: RMB37,033,000) were charged as general and administrative expenses and cost of revenues respectively for the year ended 31 December 2011.

10 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of IVAS.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the IVAS business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2011 and 2010 are as follows:

	2011	2010
Gross margin	**64%**	60%
Growth rate	**3%**	3%
Discount rate	**18%**	17%

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

Based on the assessment made by management, no provision for impairment on goodwill was required as at 31 December 2011.

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

(a) Investments in subsidiaries

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Investments in subsidiaries:		
– investments in equity interests - at cost, unlisted	**69**	52
– deemed investments arising from share-based compensation (Note (i))	**1,827,855**	1,199,663
– advance to subsidiaries (Note (ii))	**3,954,457**	1,635,137
	5,782,381	2,834,852

The following is a list of principal subsidiaries of the Company as at 31 December 2011:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	**Indirect**	Direct	Indirect	
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	**–**	**100% (Note (iii))**	–	100%	Provision of Internet and mobile and telecommunications value-added services, and Internet advertisement services
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	**–**	**100%**	–	100%	Development of computer software and provision of information service
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	**–**	**100% (Note (iii))**	–	100%	Provision of Internet advertisement service

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

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services

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

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/ paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	–	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	–	91.8%	–	–	Development and operation of online games

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

(a) Investments in subsidiaries (Cont'd)

Note:

(i) The amount represents share-based compensation expenses arising from grant of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.

(ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.

(iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its legally owned subsidiaries. As a result, they are presented as consolidating subsidiaries of the Company.

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2011 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2011, the amounts due from subsidiaries were neither past due nor impaired.

(c) Consolidation of a special purpose entity

In connection with the implementation of the share award scheme of the Group mentioned in Note 22(b), the Company has set up a special purpose entity ("Share Scheme Trust"), and its particulars are as follows:

Special purpose entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible persons of the scheme

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2011, the Company contributed approximately RMB314,064,000 (2010: RMB163,395,000) to the Share Scheme Trust for financing its acquisition of the Company's shares.

12 INVESTMENT IN ASSOCIATES

	2011	2010
	RMB'000	RMB'000
At beginning of the year	**1,070,633**	477,622
Acquisitions (Note (i), (ii), (iii) and (iv))	**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 43)	**(257,585)**	–
Share of (losses)/profit of associates	**(24,255)**	72,359
Dividends received from associates	**(20,000)**	(15,338)
Impairment provision	**(165,177)**	–
At end of the year	**4,338,075**	1,070,633

Note:

(i) 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 accounted for eLong as an associate although the Group held 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.

(ii) 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 specialises 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.

(iii) 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.

(iv) 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 businesses.

12 INVESTMENT IN ASSOCIATES (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates who are listed companies, are shown in aggregate as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/ (Losses) RMB'000	Fair value of listed companies as at 31 December 2011 RMB'000
2011					
Listed companies:					
16.15% equity interest in eLong (Note (i))	576,958	33,065	55,452	(4,554)	524,178
15.28% equity interest in Kingsoft (Note (i))	871,194	115,218	70,055	14,159	419,441
	1,448,152	148,283	125,507	9,605	943,619
Non-listed companies:					
A Southeast Asia based online game company, 31.25% equity interest	518,742	25,455	218,540	44,515	
A PRC based securities investment analysis software company, 20.20% equity interest	391,301	23,523	60,326	(12,222)	
A PRC based e-commerce company, 33.37% equity interest	327,299	19,809	59,166	(6,947)	
A PRC based SNS company, 13.79% equity interest (Note (i))	258,480	6,759	6,890	(2,475)	
A PRC based e-commerce company, 21.70% equity interest	317,360	48,771	64,963	(33,870)	
Other associates (Note (ii))	1,692,702	343,361	963,817	(22,861)	
	3,505,884	467,678	1,373,702	(33,860)	
	4,954,036	615,961	1,499,209	(24,255)	

12 INVESTMENT IN ASSOCIATES (Cont'd)

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit RMB'000
2010				
Non-listed companies:				
A Southeast Asia based online game company, 30.02% equity interest	471,650	22,879	191,261	34,684
A United States based online game company, 22.34% equity interest	124,472	13,223	31,072	7,729
A PRC advertising media company, 10.00% equity interest (Note (i))	148,250	17,950	–	–
A PRC based online game company, 50.00% equity interest	98,272	3,465	20,794	7,681
Other associates (Note (ii))	318,079	32,573	96,386	22,265
	1,160,723	90,090	339,513	72,359

Note:

(i) Although the Group holds less than 20% equity interest in these investees, the Group treated them as associates because the Group is able to exercise its significant influence on the financial and operating policy decisions of these investees through its representatives on their board of directors.

(ii) The carrying amount of the investment made in each individual associate as at 31 December 2011 was below RMB250,000,000 (2010: Below RMB80,000,000).

As at 31 December 2011 and 2010, there were certain call options embedded in investments in associates. The directors of the Company considered that the fair value of such call options was insignificant and accordingly, the Group did not separately recognise these call options in the financial statements.

13 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	2011 RMB'000	2010 RMB'000
At beginning of the year	74,542	–
Additions	194,915	71,143
Share of (losses)/profit of jointly controlled entities	(165,731)	3,399
Impairment provision	(41,823)	–
At end of the year	61,903	74,542

14 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Assets			
At 31 December 2011			
Available-for-sale financial assets (Note 15)	–	4,343,602	4,343,602
Accounts receivable (Note 16)	2,020,796	–	2,020,796
Deposits and other receivables	1,433,473	–	1,433,473
Term deposits with initial term of over three months (Note 18)	13,716,040	–	13,716,040
Restricted cash	4,942,595	–	4,942,595
Cash and cash equivalents (Note 19)	12,612,140	–	12,612,140
Total	34,725,044	4,343,602	39,068,646

14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
At 31 December 2010			
Available-for-sale financial assets	–	4,126,878	4,126,878
Accounts receivable	1,715,412	–	1,715,412
Deposits and other receivables	281,126	–	281,126
Term deposits with initial term of over three months	11,725,743	–	11,725,743
Restricted cash	1,036,457	–	1,036,457
Cash and cash equivalents	10,408,257	–	10,408,257
Total	25,166,995	4,126,878	29,293,873

	Liabilities at fair value through the profit or loss RMB'000	**Other financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Liabilities			
At 31 December 2011			
Long-term notes payable (Note 28)	**–**	**3,733,331**	**3,733,331**
Long-term payables (Note 26)	**–**	**1,859,808**	**1,859,808**
Accounts payable (Note 23)	**–**	**2,244,114**	**2,244,114**
Other payables and accruals (excluded prepayment received from customers)	**–**	**4,911,495**	**4,911,495**
Short-term borrowings (Note 27)	**–**	**7,999,440**	**7,999,440**
Derivative financial instruments	**20,993**	**–**	**20,993**
Total	**20,993**	**20,748,188**	**20,769,181**

14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
At 31 December 2010			
Accounts payable	–	1,380,464	1,380,464
Other payables and accruals (excluded prepayment received from customers)	–	2,923,185	2,923,185
Short-term borrowings	–	5,298,947	5,298,947
Derivative financial instruments	17,964	–	17,964
Total	17,964	9,602,596	9,620,560

Company

	Loans and receivables RMB'000
Assets	
At 31 December 2011	
Amounts due from subsidiaries (Note 11(b))	**1,260,180**
Deposits and other receivables	**2,702**
Cash and cash equivalents (Note 19)	**187,791**
Total	**1,450,673**

14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company (Cont'd)

	Loans and receivables RMB'000
At 31 December 2010	
Amounts due from subsidiaries	708,074
Deposits and other receivables	3,721
Term deposits with initial term of over three months	635
Cash and cash equivalents	237,525
Total	949,955

	Other financial liabilities at amortised cost RMB'000
Liabilities	
At 31 December 2011	
Long-term notes payable (Note 28)	**3,733,331**
Amounts due to subsidiaries	**1,829,429**
Other payables and accruals	**86,528**
Total	**5,649,288**
At 31 December 2010	
Amounts due to subsidiaries	1,833,802
Other payables and accruals	56,279
Total	1,890,081

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 RMB'000	2010 RMB'000
At beginning of the year	**4,126,878**	153,462
Additions (Notes (i), (ii), (iii) and (iv))	**1,487,645**	2,179,096
Transfer to investment in associates	**–**	(26,809)
(Losses)/gains from changes in fair value of available-for-sale financial assets	**(1,234,921)**	1,821,129
Impairment provision	**(36,000)**	–
At end of the year, all non-current	**4,343,602**	4,126,878

Note:

(i) During the year ended 31 December 2011, the Group acquired 4.60% equity interest in Huayi Brother Media Corporation ("Huayi"), 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.

(ii) During the year ended 31 December 2011, the Group acquired 5.01% equity interest in Media Asia Group Holdings Limited ("Media Asia"), 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).

(iii) 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).

(iv) In addition to the above, the Group acquired some other available-for-sale financial assets for an aggregate consideration of RMB612,795,000 during the year ended 31 December 2011. They are principally engaged in software development, equity investments and content production.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Cont'd)

Available-for-sale financial assets include the following:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Listed equity interests:		
7.76% (2010: 7.56%) equity interest in Mail.ru Group Limited	**2,658,527**	3,869,033
4.60% (2010: nil) equity interest in Huayi	**439,518**	–
3.98% (2010: nil) equity interest in Hangzhou Shunwang Technology Co., Ltd.	**129,961**	–
5.01% (2010: nil) equity interest in Media Asia	**90,788**	–
	3,318,794	3,869,033
Unlisted equity interests:		
5.00% (2010: nil) equity interest in an investment fund in Hong Kong	**321,709**	–
20.31% (2010: nil) equity interest in an investment fund in the PRC (Note)	**160,000**	–
4.08% (2010: nil) equity interest in a film company in the PRC	**100,000**	–
20.50% (2010: nil) equity interest in an investment fund in the Cayman Islands (Note)	**56,435**	–
Others	**386,664**	257,845
	1,024,808	257,845
	4,343,602	4,126,878
Market value of listed securities	**3,318,794**	3,869,033

Note:

Although the Group holds over 20% equity interest in these two investment funds, the Group treats them as available-for-sale financial assets because the Group has no representative on the governing bodies of these investment funds, and accordingly, the Group is not able to exercise the significant influence on the financial and operating policy decisions of these investment funds.

16 ACCOUNTS RECEIVABLE

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
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	**227,479**	308,267
	2,020,796	1,715,412

Accounts receivable was mainly denominated in RMB.

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Telecommunications operators	**1,178,445**	1,030,549
Online advertising customers	**673,844**	613,427
Others	**168,507**	71,436
	2,020,796	1,715,412

While there are no contractual requirements for the telecommunication operators to pay amounts owing 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.

As at 31 December 2011, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2011.

17 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Included in non-current assets:		
Prepayment for land use rights	**258,237**	258,237
Prepayment for purchase of building	**510,425**	–
Prepayment for licensed content	**458,009**	187,193
Loans to associates and a jointly controlled entity (Note)	**111,063**	–
Non-current portion of running royalty fees for online games	**945,135**	–
	2,282,869	445,430
Included in current assets:		
Current portion of running royalty fees for online games	**405,915**	85,755
Prepaid expenses	**483,592**	120,991
Rental deposits and other deposits	**112,714**	46,466
Interest receivables	**143,370**	89,435
Refundable value-added tax	**270,028**	45,764
Loans advanced to associates (Note)	**6,052**	–
Others	**790,246**	99,461
	2,211,917	487,872
	4,494,786	933,302

Note:

During the year ended 31 December 2011, the Group made loans to its associates and a jointly controlled entity with an aggregate principal amount of RMB113,050,000. The loans to associates with an aggregate principal amount of RMB100,448,000 are required to be repaid in 1 to 3 years and the applicable interest rates were at 1.0% to 5.1% per annum or interest-free. The loan to a jointly controlled entity with aggregate principal amount of RMB12,602,000 has no fixed term of repayment, bearing applicable interest rate of 5.5%.

The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2011.

Deposits and other receivables (excluding prepayment for land use rights, prepayment for purchase of building, prepaid expenses, prepayment for online game licences and running royalty fees for online games) were neither past due nor impaired. Their recoverability was assessed with reference made to the credit status of the recipients.

18 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2011 was 2.95% (2010: 2.15%).

An analysis of the Group and the Company's term deposits denominated in USD and HKD with initial term of over three months as at 31 December 2011 were presented in Note 3.1(a).

The directors of the Company considered that the carrying value of the term deposits with initial term of over three months approximated their fair value as at 31 December 2011. Term deposits with initial term of over three months were neither past due nor impaired.

As at 31 December 2011, approximately 94% (2010: 94%) of these term deposits were placed in the Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank, Industrial and Commercial Bank of China, Morgan Stanley Bank International (China) Limited, The Hongkong and Shanghai Banking Corporation, Australian and New Zealand bank Group Ltd. and Sumitomo Mitsui Banking Corporation.

19 CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Bank balances and cash	**7,833,767**	5,688,087	**187,791**	237,525
Term deposits with initial terms within three months	**4,778,373**	4,720,170	**–**	–
	12,612,140	10,408,257	**187,791**	237,525
Maximum exposure to credit risk	**12,611,379**	10,407,767	**187,791**	237,525

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2011 and 2010 were 1.16% and 1.62%, respectively.

Details of the balances denominated in USD, EUR and HKD maintained by the Group and the Company as at 31 December 2011 are presented in Note 3.1(a). Approximately RMB6,694,164,000 (2010: RMB7,648,272,000) of the total balance of the Group was denominated in RMB and it was deposited with banks in the PRC. The Company had no material cash balance denominated in RMB.

As at 31 December 2011, cash in bank and term deposits with initial terms within three months were neither past due nor impaired. In addition, approximately 89% (2010: approximately 88%) of cash and cash equivalents of the Group were placed in Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation, Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank, Industrial and Commercial Bank of China, and China Citic Bank.

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

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2010: same) with par value of HKD0.0001 per share (2010: HKD0.0001 per share).

As at 31 December 2011, the total number of issued ordinary shares of the Company was 1,839,814,008 shares (2010: 1,835,730,235 shares) which included 17,809,839 shares (2010: 13,562,814 shares) held under the share award scheme (Note 22(b)). They were all fully paid up.

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
At 1 January 2010	1,818,890,059	197	1,244,425	(123,767)	703,563	1,824,418
Employee share option schemes:						
– value of employee services	–	–	–	–	139,621	139,621
– number of shares issued and proceeds received	15,801,201	1	199,248	–	–	199,249
Employee share award scheme:						
– value of employee services	–	–	–	–	356,479	356,479
– shares purchased for share award scheme	–	–	–	(167,519)	–	(167,519)
– shares allotted for share award scheme	3,662,975	–	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(33,149)	33,149	–	–
Repurchase and cancellation of shares	(2,624,000)	–	(310,222)	–	–	(310,222)
At 31 December 2010	1,835,730,235	198	1,100,302	(258,137)	1,199,663	2,042,026

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

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
At 1 January 2011	1,835,730,235	198	1,100,302	(258,137)	1,199,663	2,042,026
Employee share option schemes:						
– value of employee services	–	–	–	–	159,233	159,233
– number of shares issued and proceeds received (Note (i))	7,624,113	–	159,729	–	–	159,729
Employee share award scheme:						
– value of employee services	–	–	–	–	576,134	576,134
– shares acquired and withheld for share award scheme (Note (ii))	–	–	–	(438,714)	–	(438,714)
– shares allotted for share award scheme (Note (iv))	4,045,360	–	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(89,977)	89,977	–	–
Repurchase and cancellation of shares	(7,585,700)	–	(1,047,033)	–	–	(1,047,033)
At 31 December 2011	1,839,814,008	198	123,021	(606,874)	1,935,030	1,451,375

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

Note:

(i) During the year ended 31 December 2011, 7,060,933 Post-IPO options with exercise prices ranging from HKD3.6650 to HKD90.3000; and 563,180 Pre-IPO options with exercise prices ranging from USD0.0497 to USD0.4396 were exercised.

(ii) During the year ended 31 December 2011, the Share Scheme Trust acquired 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 shareholders' equity.

(iii) During the year ended 31 December 2011, the Share Scheme Trust transferred 2,572,145 ordinary shares of the Company (2010: 1,696,478 shares) to the share awardees upon vesting of the awarded shares.

(iv) During the year ended 31 December 2011, the Company allotted 4,045,360 ordinary shares (2010: 3,662,975 shares) to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.

(v) As at 31 December 2011, included in "Shares held for share award scheme", 1,970,840 shares (2010: 80 shares) held by the Share Scheme Trust had not yet been granted to employees.

21 OTHER RESERVES

	Capital reserve (Note i) RMB'000	Available-for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Total RMB'000
Balance at 1 January 2010	(236,693)	–	–	57,924	12,405	(166,364)
Reversal of the liabilities in respect of the put options granted to non-controlling interests owners	94,246	–	–	–	–	94,246
Acquisition of additional interests in a subsidiary	154,198	–	–	–	–	154,198
Profit appropriations to statutory reserves	–	–	–	8,237	–	8,237
Net gains from changes in fair value of available-for-sale financial assets	–	1,821,129	–	–	–	1,821,129
Transfer from retained earnings	8,249	–	–	–	–	8,249
Balance at 31 December 2010	20,000	1,821,129	–	66,161	12,405	1,919,695

21 OTHER RESERVES (Cont'd)

	Capital reserve (Note (i)) RMB'000	Available-for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Total RMB'000
Balance at 1 January 2011	20,000	1,821,129	–	66,161	12,405	1,919,695
Recognition of financial liabilities in respect of the put options granted to non-controlling interests (Note 43(a)(ii))	(670,985)	–	–	–	–	(670,985)
Non-controlling interests and deemed consideration arising from business combinations (Note 43(a) and (b))	(154,732)	–	–	–	–	(154,732)
Changes in equity interests in subsidiaries without change of control	23,919	–	–	–	–	23,919
Profit appropriations to statutory reserves	–	–	–	439,650	–	439,650
Net losses from changes in fair value of available-for-sale financial assets	–	(1,233,873)	–	–	–	(1,233,873)
Currency translation differences	–	–	(31,583)	–	–	(31,583)
Transfer from retained earnings	10,000	–	–	–	–	10,000
Balance at 31 December 2011	(771,798)	587,256	(31,583)	505,811	12,405	302,091

21 OTHER RESERVES (Cont'd)

Note:

(i) The capital reserve mainly arises from transactions with non-controlling interests.

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

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

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

22 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and Post-IPO Option Scheme III, under which the directors may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

22 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	—	—	55,798,405
Granted	—	—	—	—	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	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Exercisable as at 31 December 2010	USD0.0935	563,193	HKD11.2750	11,069,343	HKD41.4494	6,210,804	—	—	17,843,340
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	—	—	**HKD12.3871**	**8,761,937**	**HKD59.9665**	**26,156,088**	**HKD158.5000**	**1,000,000**	**35,918,025**
Exercisable as at 31 December 2011	—	—	**HKD11.4611**	**8,173,937**	**HKD42.9814**	**8,996,582**	—	—	**17,170,519**

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

As a result of the options exercised during the year ended 31 December 2011, 7,624,113 ordinary shares (2010: 15,801,201 ordinary shares) were issued by the Company (Note 20). The weighted average price of the shares at the time these options were exercised was HKD187.26 (equivalent to approximately RMB155.40) per share (2010: HKD161.12 per share).

22 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2011 and 31 December 2010 are as follows:

		Number of share options	
Expiry Date	Range of exercise price	31 December 2011	31 December 2010
31 December 2011	USD0.0497	–	482,700
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	–	80,493
		–	563,193
10 years commencing from the adoption date of 24			
March 2004 (Post-IPO	HKD3.6650-HKD8.3500	4,164,319	5,553,585
Option Scheme I)	HKD11.5500-HKD25.2600	4,597,618	7,252,178
		8,761,937	12,805,763
7 years commencing from			
the date of grant of	HKD31.7500-HKD43.5000	12,715,582	14,186,579
options (Post-IPO	HKD45.5000-HKD90.3000	9,733,781	11,660,539
Option Scheme II)	HKD128.4000-HKD194.4000	3,706,725	2,948,050
		26,156,088	28,795,168
10 years commencing from the date of grant of options (Post-IPO			
Option Scheme III)	HKD158.5000	1,000,000	1,000,000
		35,918,025	43,164,124

22 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. The weighted average fair value of options granted during the year ended 31 December 2011 was HKD81.69 per option (2010: HKD67.77 per option).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model, which are summarised as below.

	2011	2010
Weighted average share price at the grant dates	**HKD191.19**	HKD143.66
Risk free rate	**1.35% - 2.31%**	1.72% - 2.73%
Dividend yield	**0.36%**	0.63%
Expected volatility (Note)	**49.10% - 49.90%**	51.10% - 52.10%

Note:

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

The share options granted during the year ended 31 December 2011 were divided into three or five tranches on an equal basis. The first tranche can be exercised after a specified period ranging from one to four years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

22 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme

The Company has adopted a share award scheme (the "Share Award Scheme"), which is managed by an independent trustee appointed by the Group (the "Trustee"). 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	–	(1,696,478)
At 31 December 2010	80	13,562,734
Exercisable as at 31 December 2010		101,337
At 1 January 2011	**80**	**13,562,734**
Purchased and withheld (Note 20)	**2,773,810**	**–**
Allotted	**4,045,360**	**–**
Granted (Note)	**(5,995,410)**	**5,995,410**
Lapsed	**1,147,000**	**(1,147,000)**
Vested	**–**	**(2,572,145)**
At 31 December 2011	**1,970,840**	**15,838,999**
Exercisable as at 31 December 2011		**14,406**

Note:

During the year ended 31 December 2011, 35,000 awarded shares (2010: Nil) were granted to independent non-executive directors of the Company.

22 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2011 was HKD193.14 per share (2010: HKD137.53 per share). In addition, such awarded shares were divided into two to five tranches on an equal basis. The first tranche can be exercised immediately or after a specified period ranging from six months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

During the year ended 31 December 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to the relevant resolution passed at the 2011 general meeting of the Company. The Board may, at its absolute discretion, select any employees to participate in the EIS by subscribing for partnership interest for consideration. The total cash contribution by selected employees is limited to approximately RMB80,000,000. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS ranging from 4 to 7 years. A wholly-owned subsidiary of the Company acts as a general partner of the EIS to manage, and in essence, control it. The EIS is therefore consolidated by the Company. Further, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expense of which for the year ended 31 December 2011 was considered not material to the Group by the directors of the Company.

(d) Share options and restricted share award scheme adopted by non-wholly owned subsidiaries

Other than the above, certain non-wholly owned subsidiaries (including Riot Games as mentioned in Note 43(a)) of the Company operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches.

The directors of the Company considered that the fair value of share options/restricted shares granted under the share-based compensation plans of the non-wholly owned subsidiaries, and the relevant share-based compensation expenses charged into the income statement of the Group for the year ended 31 December 2011, are not significant to the Group.

22 SHARE-BASED PAYMENTS (Cont'd)

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2011, the Expected Retention Rate was assessed to be 91% (31 December 2010: 91%).

23 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
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	**270,035**	93,416
	2,244,114	1,380,464

24 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Staff costs and welfare accruals	**1,478,391**	1,337,627
Marketing and administrative expense accruals	**731,571**	533,631
Prepayments received from customers and e-commerce business	**1,840,947**	841,095
Current portions of running royalty fee for online games	**315,045**	–
Purchase consideration payables for business combinations and associates	**252,952**	–
Others	**395,375**	285,455
	5,014,281	2,997,808

25 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Foreign exchange forward contracts - held for trading	**20,993**	17,964

The Group entered into a number of foreign exchange forward contracts with RMB to purchase a total notional amount of USD475,000,000. The contracted amount of US dollars was equal to the aggregate principal amounts of USD bank borrowings and bonds (details were disclosed in Notes 27(b) and (c)). These forward contracts will mature within one year, and they will be settled at the difference between the forward rates stated in the contracts and the spot rates as at the respective maturity dates, multiplied by the notional amounts of the face value of the contracts.

26 LONG-TERM PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current portion of the present value of running royalty fee for online games	**945,135**	–
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary (Note 43 (a)(ii))	**670,985**	–
Purchase consideration payable for business combinations	**131,180**	–
Others	**112,508**	–
	1,859,808	–

27 SHORT-TERM BORROWINGS

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

Note:

(a) Bank borrowings of carrying amounts of RMB2,958,720,000 were secured by 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 borrowings with an aggregate principal amount of USD375,000,000 upon the respective borrowing due dates (Note 25). However, the Group arranged the bank borrowings 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 (Note 25). The accounting treatments for the bonds and related foreign exchange forward contacts 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.

28 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 for general corporate purpose. 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 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..

29 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain IVAS and MVAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2011. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

30 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2011 and 2010.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**150,211**	164,442
– to be recovered within 12 months	**47,847**	54,577
	198,058	219,019
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(50,461)**	(14,633)
– to be recovered within 12 months	**(889,073)**	(952,578)
	(939,534)	(967,211)

The movements of the deferred income tax assets/liabilities account were as follows:

	2011	2010
	RMB'000	RMB'000
At beginning of the year	**(748,192)**	(68,967)
Business combinations	**(326,434)**	(8,691)
Charge to income statement relating to origination and reversal of temporary differences (Note 39(a))	**(10,299)**	(615,639)
Withholding tax paid in related to the remittance of dividends	**339,946**	–
Effect of change in tax rates recognised in income statement (Note 39(a))	**–**	(54,895)
Credit to other comprehensive income	**1,048**	–
Exchange difference	**2,455**	–
At end of the year	**(741,476)**	(748,192)

30 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales	Deferred tax assets arising from change in fair value of available-for -sale financial assets	Total
	RMB'000 (Note)	RMB'000	RMB'000
At 1 January 2010	301,016	–	301,016
Credit to income statement relating to origination of temporary differences	29,709	–	29,709
Effect of change in tax rates recognised in income statement	(54,895)	–	(54,895)
Charge to income statement relating to reversal of temporary differences	(56,811)	–	(56,811)
At 31 December 2010	219,019	–	219,019
At 1 January 2011	**219,019**	**–**	**219,019**
Credit to income statement relating to origination of temporary differences	**32,832**	**–**	**32,832**
Charge to income statement relating to reversal of temporary differences	**(54,841)**	**–**	**(54,841)**
Credit to other comprehensive income	**–**	**1,048**	**1,048**
At 31 December 2011	**197,010**	**1,048**	**198,058**

Note:

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

30 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2011, the Group did not recognise deferred income tax assets of RMB347,355,000 (2010: RMB66,459,000) in respect of cumulative tax losses amounting to RMB1,102,264,000 (2010: RMB265,836,000). These tax losses will expire from 2012 to 2016.

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries	Total
	RMB'000	RMB'000 (Note)	RMB'000
At 1 January 2010	(19,983)	(350,000)	(369,983)
Business combinations	(8,691)	–	(8,691)
Credit /(charge) to income statement relating to origination of temporary differences	6,625	(595,162)	(588,537)
At 31 December 2010	(22,049)	(945,162)	(967,211)
At 1 January 2011	**(22,049)**	**(945,162)**	**(967,211)**
Business combinations	**(326,434)**	–	**(326,434)**
Credit/(charge) to income statement relating to origination and reversal of temporary differences	**234,210**	**(222,500)**	**11,710**
Withholding tax paid in related to the remittance of dividends	–	**339,946**	**339,946**
Exchange difference	**2,455**	–	**2,455**
At 31 December 2011	**(111,818)**	**(827,716)**	**(939,534)**

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 39 (a) (v)).

30 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2011, the Group recognised the relevant deferred tax liabilities of RMB827,716,000 (2010: RMB945,162,000) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB4,264,270,000 (2010: RMB3,610,269,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

31 COST OF REVENUES

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

32 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current deposit, restricted cash, term deposits with initial term of three months or less, and term deposits with initial term of over three months.

33 OTHER GAINS, NET

	2011 RMB'000	2010 RMB'000
Gains on deemed disposal of associates (Note 43)	**708,486**	–
Government subsidies	**101,406**	96,537
Losses from derivative financial instruments	**(96,790)**	(17,964)
Donation to a charity fund established by the Group	**(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	**52,395**	28,600
	420,803	38,056

34 EXPENSES BY NATURE

	2011 RMB'000	2010 RMB'000
Employee benefits expenses (Note)/(Note 35)	**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)/(Note 6)	**1,207,732**	668,580
Amortisation of intangible assets (Note 10)	**726,221**	109,411
Amortisation of land use rights (Note 9)	**4,925**	3,724
Travelling and entertainment expenses	**224,748**	124,320
Operating lease rentals in respect of office buildings	**342,957**	116,378
Auditor's remunerations:		
– Audit services	**10,760**	8,000
– Non-audit services	**7,575**	3,564
Other expenses	**867,064**	479,106
	17,132,315	10,101,796

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).

35 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2011	2010
	RMB'000	RMB'000
Wages, salaries and bonuses	**3,450,307**	2,223,725
Welfare, medical and other expenses	**247,109**	207,495
Share-based compensation expenses	**814,771**	495,772
Contributions to pension plans (Note)	**321,801**	197,238
Training expenses	**31,756**	19,737
	4,865,744	3,143,967

Note:

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

	Percentage
Pension insurance	10% – 22%
Medical insurance	6% – 12%
Unemployment insurance	0% – 2%
Housing fund	10% – 12%

36 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid/payable to directors of the Company for the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	RMB'000	RMB'000
Fees - independent non-executive directors	**2,053**	2,157
Salaries, bonuses, allowances and benefits in kind	**44,622**	39,919
Contributions to pension plans	**108**	48
Share-based compensation expenses charged to income statement	**20,474**	21,796
	67,257	63,920
Number of directors		
– with emoluments	**6**	6
– without emoluments	**2**	2
Number of directors	**8**	8

36 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2011 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng	–	20,615	54	–	20,669
Zhang Zhidong	–	14,741	54	–	14,795
Lau Chi Ping Martin	756	9,266	–	18,564	28,586
Iain Ferguson Bruce	567	–	–	1,059	1,626
Ian Charles Stone	365	–	–	806	1,171
Li Dong Sheng	365	–	–	45	410
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,053	44,622	108	20,474	67,257

The remuneration of every director for the year ended 31 December 2010 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng	–	18,419	24	–	18,443
Zhang Zhidong	–	13,282	24	–	13,306
Lau Chi Ping Martin	795	8,218	–	21,523	30,536
Iain Ferguson Bruce	596	–	–	91	687
Ian Charles Stone	383	–	–	91	474
Li Dong Sheng	383	–	–	91	474
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,157	39,919	48	21,796	63,920

36 DIRECTORS' EMOLUMENTS (Cont'd)

During the year ended 31 December 2011, 35,000 awarded shares were granted to independent non-executive directors (2010: 1,000,000 share options were granted to Mr Lau Chi Ping, Martin). Other than that, no options/awarded shares were granted to other executive, non-executive or independent non-executive directors of the Company (2010: Nil).

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the year ended 31 December 2011 (2010: Nil).

37 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included two (2010: two) directors whose details have been reflected in the analysis presented in Note 36. The emoluments paid/payable to the remaining three (2010: three) individuals during the year were as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**33,661**	28,832
Share-based compensation expenses charged to income statement	**21,378**	22,042
Contributions to pension plans	**160**	70
	55,199	50,944

The emoluments of the above three individuals (2010: three) fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands		
HKD16,000,001 – HKD16,500,000	**–**	1
HKD18,500,001 – HKD19,000,000	**1**	–
HKD21,000,001 – HKD21,500,000	**–**	2
HKD22,000,001 – HKD22,500,000	**1**	–
HKD25,000,001 – HKD25,500,000	**1**	–

38 FINANCE INCOME/(COSTS), NET

	2011	2010
	RMB'000	RMB'000
Exchange gains	108,042	34,189
Interest and related expenses	(72,537)	(35,027)
	35,505	(838)

Interest expenses mainly arose from the short-term borrowings and long-term notes mentioned in Note 27 and Note 28, respectively.

39 TAX EXPENSE

(a) Income tax

(i) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in these jurisdictions for the year ended 31 December 2011 (2010: Nil).

(ii) Hong Kong profits tax

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

(iii) PRC Corporate Income Tax ("CIT")

CIT provision was made 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.

39 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Corporate Income Tax ("CIT") (Cont'd)

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.

(iv) United States corporate income tax

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

(v) 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
	RMB'000	RMB'000
Current tax	**1,863,939**	1,127,390
Deferred income tax (Note 30)	**10,299**	670,534
	1,874,238	1,797,924

39 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 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 RMB'000	2010 RMB'000
Profit before income tax	**12,099,069**	9,913,133
Add: Share of losses/(profit) of associates and jointly controlled entities	**189,986**	(75,758)
	12,289,055	9,837,375
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 (Note 30)	**–**	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 (Note 30)	**222,500**	595,162
Unrecognised deferred income tax assets	**144,054**	28,375
Income tax expense	**1,874,238**	1,797,924

39 TAX EXPENSE (Cont'd)

(b) Value-added tax, business tax and related taxes

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

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	17%	Sales value of goods sold, offsetting by VAT on purchases
	3%	Sales value of goods sold
Business tax ("BT")	3% - 5%	Services fee income
City construction tax	1% - 7%	Net VAT and BT payable amount
Educational surcharge	3% - 5%	Net VAT and BT payable amount

40 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2011 is dealt with in the financial statements of the Company to the extent of RMB1,279,795,000 (2010: loss of RMB59,255,000).

41 EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

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

41 EARNINGS PER SHARE (Cont'd)

(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)	**10,203,083**	8,053,625
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)	**10,683**	8,777
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,858,546**	1,860,983
Diluted EPS (RMB per share)	**5.490**	4.328

42 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 Share Scheme Trust for the purposes 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 annual general meeting to be held on 16 May 2012. The consolidated financial statements do not reflect this dividend payable.

43 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.

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 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.

43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

(i) Step-up business combination (Cont'd)

	RMB'000
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	**154,732**
Total considerations	**1,679,364**
Fair value of the Previously Held Interest	**576,539**
Fair value of the Non-controlling interests	**187,092**
	2,442,995
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 (Note 30)	**(269,793)**
Total identifiable net assets	**510,619**
Goodwill	**1,932,376**
	2,442,995
Acquisition-related costs (Note)	**54,400**

Note:

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

43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

(i) Step-up business combination (Cont'd)

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 (Note 33).

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.

43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

(ii) Other arrangements associated with the Riot Games Acquisition (Cont'd)

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 Group Limited ("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.

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.

43 BUSINESS COMBINATIONS (Cont'd)

(b) The Gamegoo Acquisition (Cont'd)

	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	239,901
	764,311
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	136,293
Fixed assets	3,700
Existing game licenses and other acquired intangible assets	283,910
Other payables and accruals	(18,745)
Deferred income tax liabilities (Note 30)	(42,525)
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 (Note 33).

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.

43 BUSINESS COMBINATIONS (Cont'd)

(c) Acquisition of 100% equity interest in another three companies

During the year ended 31 December 2011, the Group acquired 100% equity interests in a mobile security software development company, an Internet service providing company and a mobile synchronisation software company respectively.

The aggregate considerations and the allocation of such considerations to the fair value of the net assets acquired and goodwill recognised as at the dates of these acquisitions are as follows:

	RMB'000
Purchase considerations	**102,800**
Fair value of net assets acquired	**44,859**
Goodwill	**57,941**
	102,800

The revenues and net profits contributed by these three subsidiaries from their respective acquisition dates to 31 December 2011 to the Group were not material.

44 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2011 RMB'000	2010 RMB'000
Profit for the year	**10,224,831**	8,115,209
Adjustments for:		
Income tax expense	**1,874,238**	1,797,924
Gains on deemed disposal of associates	**(708,486)**	–
Depreciation of fixed assets and investment properties	**1,208,261**	669,860
Amortisation of intangible assets	**726,221**	109,411
Amortisation of land use rights	**4,925**	3,724
Losses/(gains) on disposals of fixed assets	**1,694**	(883)
Losses from derivative financial liabilities	**96,790**	17,964
Interest income	**(468,990)**	(255,922)
Share-based compensation expenses	**732,691**	495,772
Share of losses/(profit) of associates	**24,255**	(72,359)
Share of losses/(profit) of jointly controlled entities	**165,731**	(3,399)
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	**243,000**	–
Exchange gains	**(108,042)**	(34,189)
Changes in working capital:		
Accounts receivable	**(250,693)**	(483,712)
Prepayments, deposits and other receivables	**(2,630,368)**	(51,936)
Long-term payables	**1,057,643**	(179,804)
Accounts payable	**827,573**	478,330
Other payables and accruals	**1,816,339**	1,551,226
Other tax liabilities	**(45,689)**	9,942
Restricted cash	**(1,850,652)**	–
Deferred revenue	**2,253,098**	1,024,570
Net cash generated from operating activities	**15,194,370**	13,191,728

44 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to net cash inflow from operating activities: (Cont'd)

In the consolidated cash flow statement, proceeds from disposals of fixed assets comprise:

	2011	2010
	RMB'000	RMB'000
Net book amount	**2,293**	691
(Losses)/gains on disposals of fixed assets	**(1,694)**	883
Proceeds from disposals of fixed assets	**599**	1,574

(b) Major non-cash transactions

There were no material non-cash transactions for the year ended 31 December 2011.

45 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2011.

46 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2011 and 2010 are analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Construction/purchase of building and purchase of land use rights	**463,046**	211,558
Purchase of other fixed assets	**132,260**	135,165
Capital investment in investees	**816,910**	100,996
	1,412,216	447,719
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	**1,186,867**	373,277
Capital investment in investees	**651,927**	385,000
	1,838,794	758,277
	3,251,010	1,205,996

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Not later than one year	**520,396**	236,343
Later than one year and not later than five years	**1,462,788**	572,818
Later than five years	**286,135**	18,845
	2,269,319	828,006

46 COMMITMENTS (Cont'd)

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Not later than one year	**596,031**	1,064,792
Later than one year and not later than five years	**768,291**	1,981,543
	1,364,322	3,046,335

47 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 17 (loans to associates and jointly controlled entity), Note 22 (Share options and share award scheme) and Note 36 (Directors' emoluments) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2011, and no other related parties' balances as at 31 December 2011. The key management compensation has already been disclosed in Note 36 (Directors' emoluments).

48 SUBSEQUENT EVENTS

(a) On 19 January 2012, the Group entered into 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! International Holdings Pte. Ltd. ("Level Up"), representing 49% of its issued share capital at the date of 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, which have not been fulfilled at the date of this annual report. 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.

Definitions

In this annual report, 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 or any adjournment thereof
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Awarded Person"	a person who is eligible to participate in the Share Award Scheme
"Awarded Shares"	the shares of the Company awarded under the Share Award Scheme
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Emark"	Beijing Emark Information and Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Board"	the board of directors of the Company
"CEO"	chief executive officer
"CG Code"	the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
"China Mobile"	China Mobile Communications Corporation
"CNNIC"	China Internet Network Information Center
"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
"Company Website"	the website of the Company at www.tencent.com
"Corporate Governance Committee"	the corporate governance committee of the Company
"COSO Framework"	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations

Term	Definition
"Cyber Shenzhen"	Tencent Cyber (Shenzhen) Company Limited
"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited
"DNF"	Dungeon and Fighter
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"GAAP"	Generally Accepted Accounting Principles
"Gamegoo"	Gamegoo Group Limited
"Group"	the Company and its subsidiaries
"Guangzhou Yunxun"	Guangzhou Yunxun Technology Company Limited
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"IA"	internal audit department of the Company
"IC"	internal control department of the Company
"IFRS"	International Financial Reporting Standards
"IM"	instant messaging
"Investment Committee"	the investment committee of the Company
"IPO"	initial public offering
"IVAS"	Internet value-added services
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LOL"	League of Legends
"Mail.ru"	Mail.ru Group Limited
"MIH China"	MIH China (BVI) Limited

Term	Definition
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules
"MVAS"	mobile and telecommunications value-added services
"New OPCOs"	Beijing Emark, Wang Dian, Beijing BIZCOM, Beijing Starsinhand, Shenzhen Shijitianyou Technology Company Limited, Guangzhou Yunxun, Shenzhen Dadi Tongtu Information Technology Limited, Shenzhen Shiji Huixiang Technology Company Limited, Shenzhen Shiji Tongxiang Technology Company Limited, Shenzhen Xinghuo Chuangxin Technology Company Limited and Shenzhen Xingguang Tongchuang Technology Company Limited
"Nomination Committee"	the nomination committee of the Company
"PCU"	peak concurrent user accounts
"Post-IPO Option Scheme I"	the Post-IPO Share Option Scheme adopted by the Company on 24 May 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
"Remuneration Committee"	the remuneration committee of the Company
"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
"SFO"	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share Award Scheme"	the share award scheme adopted by the Company on 13 December 2007
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Company Limited
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan

Term	Definition
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"SMS"	short message service
"SNS"	social networking service
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCS CFC"	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
"TCS Co-operation Committee"	the co-operation committee established under the TCS CFC
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited
"Tencent Charity Fund"	a charity fund established by the Group
"Tencent Chengdu"	Tencent Technology (Chengdu) Company Limited
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited
"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"	the lawful currency of the United States
"VAS"	value-added services
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Cyber Shenzhen, Tencent Chengdu, Tencent Shanghai and Tencent Wuhan

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