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Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2010**

The board of directors (the “Board”) of Tencent Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three and nine months ended 30 September 2010. These interim results have been reviewed by PricewaterhouseCoopers, the auditors of the Company (the “Auditors”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2010

		Unaudited	Audited
		30 September	31 December
		2010	2009
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		3,114,580	2,517,202
Construction in progress		275,964	105,771
Investment properties		67,278	68,025
Land use rights		231,069	35,296
Intangible assets		566,203	268,713
Investment in associates		882,805	477,622
Investment in a jointly controlled entity		71,143	—
Deferred income tax assets		258,554	301,016
Held-to-maturity investments		—	341,410
Available-for-sale financial assets		2,292,170	153,462
Prepayments, deposits and other assets		454,384	80,306
		<u>8,214,150</u>	<u>4,348,823</u>
Current assets			
Accounts receivable	3	1,842,081	1,229,436
Prepayments, deposits and other assets		421,800	373,642
Derivative financial instruments		6,613	—
Term deposits with initial term of over three months		9,714,422	5,310,168
Restricted cash	6	1,036,457	200,000
Cash and cash equivalents		7,712,112	6,043,696
		<u>20,733,485</u>	<u>13,156,942</u>
Total assets		<u>28,947,635</u>	<u>17,505,765</u>

		Unaudited	Audited
		30 September	31 December
		2010	2009
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		198	197
Share premium		1,066,331	1,244,425
Shares held for share award scheme		(232,692)	(123,767)
Share-based compensation reserve		1,055,414	703,563
Other reserves		90,484	(166,364)
Retained earnings		<u>15,602,489</u>	<u>10,520,453</u>
		17,582,224	12,178,507
Non-controlling interests		<u>74,879</u>	<u>120,146</u>
Total equity		<u>17,657,103</u>	<u>12,298,653</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		621,799	369,983
Long-term payables		—	274,050
		<u>621,799</u>	<u>644,033</u>
Current liabilities			
Accounts payable	5	1,287,239	696,511
Other payables and accruals		2,313,245	1,626,051
Short-term bank borrowings	6	3,838,240	202,322
Current income tax liabilities		460,682	85,216
Other tax liabilities		252,312	216,978
Deferred revenue		<u>2,517,015</u>	<u>1,736,001</u>
		<u>10,668,733</u>	<u>4,563,079</u>
Total liabilities		<u>11,290,532</u>	<u>5,207,112</u>
Total equity and liabilities		<u>28,947,635</u>	<u>17,505,765</u>
Net current assets		<u>10,064,752</u>	<u>8,593,863</u>
Total assets less current liabilities		<u>18,278,902</u>	<u>12,942,686</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2010**

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2010	2009	2010	2009
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
	Internet value-added services	4,129,008	2,622,625	11,098,361	6,683,656
	Mobile and telecommunications value-added services	695,057	446,152	1,987,415	1,355,700
	Online advertising	382,542	293,558	984,396	683,165
	Others	20,021	6,573	51,696	29,175
		5,226,628	3,368,908	14,121,868	8,751,696
	Cost of revenues	(1,676,544)	(1,024,086)	(4,487,838)	(2,744,613)
	Gross profit	3,550,084	2,344,822	9,634,030	6,007,083
	Interest income	65,259	33,329	176,455	94,898
	Other gains/(losses), net	22,479	5,685	14,619	(31,327)
	Selling and marketing expenses	(227,817)	(160,671)	(643,574)	(373,363)
	General and administrative expenses	(744,092)	(542,818)	(1,995,819)	(1,453,465)
	Operating profit	2,665,913	1,680,347	7,185,711	4,243,826
	Finance income/(costs)	3,431	(1,179)	(1,103)	(1,584)
	Share of profit of associates	10,985	3,840	35,232	12,664
	Profit before income tax	2,680,329	1,683,008	7,219,840	4,254,906
	Income tax expense	(512,013)	(249,808)	(1,317,913)	(566,348)
	Profit/Total comprehensive income for the period	<u>2,168,316</u>	<u>1,433,200</u>	<u>5,901,927</u>	<u>3,688,558</u>
Attributable to:					
	Equity holders of the Company	2,153,111	1,419,851	5,852,807	3,647,701
	Non-controlling interests	15,205	13,349	49,120	40,857
		<u>2,168,316</u>	<u>1,433,200</u>	<u>5,901,927</u>	<u>3,688,558</u>

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2010	2009	2010	2009
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)					
- basic	10	<u>1.185</u>	<u>0.787</u>	<u>3.223</u>	<u>2.027</u>
- diluted	10	<u>1.159</u>	<u>0.767</u>	<u>3.148</u>	<u>1.980</u>

* After deduction of share-based compensation charge amounting to RMB131,042,000 for the three months ended 30 September 2010 (for the three months ended 30 September 2009: RMB117,839,000) and RMB351,613,000 for the nine months ended 30 September 2010 (for the nine months ended 30 September 2009: RMB221,077,000).

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653
Profit/Total comprehensive income for the period	-	-	-	-	-	5,852,807	5,852,807	49,120	5,901,927
Employee share option schemes:									
- value of employee services	-	-	-	95,139	-	-	95,139	-	95,139
- proceeds from shares issued	1	158,425	-	-	-	-	158,426	-	158,426
Employee share award scheme:									
- value of employee services	-	-	-	256,712	-	-	256,712	-	256,712
- shares purchased for share award scheme	-	-	(135,222)	-	-	-	(135,222)	-	(135,222)
- vesting of awarded shares	-	(26,297)	26,297	-	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	-	6,329	(6,329)	-	-	-
Dividends	-	-	-	-	-	(639,264)	(639,264)	(63,292)	(702,556)
Repurchase and cancellation of shares	-	(310,222)	-	-	-	-	(310,222)	-	(310,222)
Reversal of liabilities in respect of put options granted to non-controlling interest owners	-	-	-	-	94,246	-	94,246	-	94,246
Acquisition of additional interests in a subsidiary	-	-	-	-	156,273	(125,178)	31,095	(31,095)	-
Balance at 30 September 2010	<u>198</u>	<u>1,066,331</u>	<u>(232,692)</u>	<u>1,055,414</u>	<u>90,484</u>	<u>15,602,489</u>	<u>17,582,224</u>	<u>74,879</u>	<u>17,657,103</u>

Unaudited

Attributable to equity holders of the Company									
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2009	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332
Profit/Total comprehensive income for the period	-	-	-	-	-	3,647,701	3,647,701	40,857	3,688,558
Employee share option schemes:									
- value of employee services	-	-	-	135,549	-	-	135,549	-	135,549
- proceeds from shares issued	1	133,564	-	-	-	-	133,565	-	133,565
Employee share award scheme:									
- value of employee services	-	-	-	86,141	-	-	86,141	-	86,141
- shares purchased for share award scheme	-	-	(60,338)	-	-	-	(60,338)	-	(60,338)
Repurchase and cancellation of shares	-	(74,570)	-	-	-	-	(74,570)	-	(74,570)
Profit appropriations to statutory reserves	-	-	-	-	1,417	(1,417)	-	-	-
Dividends	-	-	-	-	-	(554,604)	(554,604)	(29,116)	(583,720)
Exercise of put option granted to minority shareholders	-	-	-	-	281	-	281	(281)	-
Balance at 30 September 2009	<u>196</u>	<u>1,214,203</u>	<u>(82,147)</u>	<u>603,129</u>	<u>(431,340)</u>	<u>9,030,610</u>	<u>10,334,651</u>	<u>109,866</u>	<u>10,444,517</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	Unaudited	
	Nine months ended	
	30 September	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	8,564,700	5,741,801
Net cash flows used in investing activities	(9,524,104)	(3,267,216)
Net cash flows from/(used in) financing activities	<u>2,646,343</u>	<u>(382,741)</u>
Net increase in cash and cash equivalents	1,686,939	2,091,844
Cash and cash equivalents at beginning of period	6,043,696	3,067,928
Exchange losses on cash and cash equivalents	<u>(18,523)</u>	<u>(450)</u>
Cash and cash equivalents at end of period	<u>7,712,112</u>	<u>5,159,322</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	4,001,590	2,412,594
Short-term highly liquid investments with initial term of three months or less	<u>3,710,522</u>	<u>2,746,728</u>
	<u>7,712,112</u>	<u>5,159,322</u>

1 General information, basis of preparation and presentation

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

The Company is an investment holding company. The Group is principally engaged in the provision of Internet value-added services, mobile and telecommunications value-added services and online advertising services to users in the People’s Republic of China (the “PRC”).

The consolidated statement of financial position as at 30 September 2010, the related consolidated statements of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity, and the condensed consolidated statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 10 November 2010.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2009 (the “2009 Financial Statements”) as set out in the 2009 annual report of the Company dated 17 March 2010.

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2009 Financial Statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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

The following new standards and amendments to existing standards, which have been published and are mandatory for the financial year beginning 1 January 2010, are relevant to the Group:

IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
IFRS 3 (Revised)	Business Combinations

The Group has applied IAS 27 (Revised), IFRS 2 (Amendment) and IFRS 3 (Revised) and management has considered that these new standards and amendments have no significant impact on the Interim Financial Information.

2 Segment information

The Group has the following reportable segments for the three and nine months ended 30 September 2010 and 2009:

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

Other segments of the Group are mainly comprised of the provision of online payment services and trademark licensing.

There were no inter-segment sales during the three and nine months ended 30 September 2010 and 2009.

The segment information provided to the executive directors for the reportable segments for the three and nine months ended 30 September 2010 and 2009 is as follows:

	Unaudited				
	Three months ended 30 September 2010				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>4,129,008</u>	<u>695,057</u>	<u>382,542</u>	<u>20,021</u>	<u>5,226,628</u>
Gross profit/(loss)	<u>2,864,257</u>	<u>427,095</u>	<u>267,698</u>	<u>(8,966)</u>	<u>3,550,084</u>
Depreciation	100,062	9,617	5,110	3,846	118,635
Amortisation	3,428	–	–	–	3,428
Share of profit/(loss) of associates	<u>11,217</u>	<u>(232)</u>	<u>–</u>	<u>–</u>	<u>10,985</u>

	Unaudited				
	Three months ended 30 September 2009				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>2,622,625</u>	<u>446,152</u>	<u>293,558</u>	<u>6,573</u>	<u>3,368,908</u>
Gross profit/(loss)	<u>1,877,828</u>	<u>273,675</u>	<u>205,169</u>	<u>(11,850)</u>	<u>2,344,822</u>
Depreciation	37,323	4,740	2,016	2,103	46,182
Amortisation	16,580	–	–	–	16,580
Share of profit of associates	<u>3,244</u>	<u>596</u>	<u>–</u>	<u>–</u>	<u>3,840</u>

	Unaudited				
	Nine months ended 30 September 2010				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>11,098,361</u>	<u>1,987,415</u>	<u>984,396</u>	<u>51,696</u>	<u>14,121,868</u>
Gross profit/(loss)	<u>7,720,650</u>	<u>1,256,013</u>	<u>681,181</u>	<u>(23,814)</u>	<u>9,634,030</u>
Depreciation	253,997	24,841	13,376	9,846	302,060
Amortisation	34,105	–	–	–	34,105
Share of profit of associates	<u>31,578</u>	<u>3,654</u>	<u>–</u>	<u>–</u>	<u>35,232</u>

	Unaudited				
	Nine months ended 30 September 2009				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>6,683,656</u>	<u>1,355,700</u>	<u>683,165</u>	<u>29,175</u>	<u>8,751,696</u>
Gross profit/(loss)	<u>4,729,080</u>	<u>834,582</u>	<u>469,352</u>	<u>(25,931)</u>	<u>6,007,083</u>
Depreciation	90,937	12,316	4,431	4,612	112,296
Amortisation	57,191	–	–	–	57,191
Share of profit of associates	<u>7,143</u>	<u>5,521</u>	<u>–</u>	<u>–</u>	<u>12,664</u>

3 Accounts receivable

	Unaudited 30 September 2010 <i>RMB'000</i>	Audited 31 December 2009 <i>RMB'000</i>
0 - 30 days	1,066,643	690,858
31 - 60 days	214,986	173,331
61 - 90 days	178,780	112,752
Over 90 days but less than a year	<u>381,672</u>	<u>252,495</u>
	<u>1,842,081</u>	<u>1,229,436</u>

Receivable balances as at 30 September 2010 mainly represented amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

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

4 Share option and share award schemes

(a) Share option schemes

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

(i) *Pre-IPO Share Option Scheme (the “Pre-IPO Option Scheme”)*

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

(ii) *Post-IPO Share Option Scheme I (the “Post-IPO Option Scheme I”)*

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

(iii) *Post-IPO Option Scheme II*

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

(iv) *Post-IPO Share Option Scheme III (the “Post-IPO Option Scheme III”)*

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

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2009	USD0.0964	4,124,083	HKD10.4762	37,615,536	HKD41.2330	28,715,506	-	-	70,455,125
Granted	-	-	-	-	HKD84.5601	2,702,150	-	-	2,702,150
Exercised	USD0.1221	(1,798,295)	HKD8.3170	(10,574,427)	HKD41.7192	(1,484,694)	-	-	(13,857,416)
Lapsed	USD0.0497	<u>(254,080)</u>	HKD9.5685	<u>(419,937)</u>	HKD45.0372	<u>(543,059)</u>	-	-	<u>(1,217,076)</u>
At 30 September 2009	USD0.0798	<u>2,071,708</u>	HKD11.3482	<u>26,621,172</u>	HKD45.1217	<u>29,389,903</u>	-	-	<u>58,082,783</u>
Currently exercisable as at 30 September 2009	USD0.0798	<u>2,071,708</u>	HKD9.5228	<u>14,185,571</u>	HKD41.3276	<u>3,473,927</u>	-	-	<u>19,731,206</u>
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	USD0.0761	(1,088,100)	HKD9.7552	(10,596,957)	HKD42.9947	(1,778,703)	-	-	(13,463,760)
Lapsed	-	<u>-</u>	HKD17.9514	<u>(210,203)</u>	HKD52.7582	<u>(212,574)</u>	-	-	<u>(422,777)</u>
At 30 September 2010	USD0.0884	<u>776,968</u>	HKD12.7210	<u>14,134,758</u>	HKD53.7478	<u>29,708,492</u>	HKD158.5000	<u>1,000,000</u>	<u>45,620,218</u>
Currently exercisable as at 30 September 2010	USD0.0884	<u>776,968</u>	HKD10.8463	<u>11,592,918</u>	HKD41.2209	<u>6,885,484</u>	-	-	<u>19,255,370</u>

During the nine months ended 30 September 2010, 1,000,000 share options (during the nine months ended 30 September 2009: Nil) were granted to an executive director of the Company.

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Scheme and awarded shares for the nine months ended 30 September 2010 and 2009 are as follows:

	Shares held for the Share Scheme	Awarded shares
At 1 January 2009	132,160	1,349,450
Purchased	707,200	—
Allotted	8,181,180	—
Granted	(8,888,450)	8,888,450
Cancelled	(132,080)	—
Vested	<u>—</u>	<u>(71,778)</u>
At 30 September 2009	<u>10</u>	<u>10,166,122</u>
Currently exercisable as at 30 September 2009		<u>199,248</u>
At 1 January 2010	10	10,411,424
Purchased (<i>Note</i>)	972,483	—
Allotted	3,662,975	—
Granted	(4,635,388)	4,635,388
Vested	<u>—</u>	<u>(1,495,680)</u>
At 30 September 2010	<u>80</u>	<u>13,551,132</u>
Currently exercisable as at 30 September 2010		<u>177,861</u>

Note:

During the nine months ended 30 September 2010, 972,483 shares were acquired through an independent trustee at a consideration of approximately HKD153,949,000 (equivalent to approximately RMB135,222,000).

During the nine months ended 30 September 2010, no awarded shares (during the nine months ended 30 September 2009: Nil) had been granted to any director of the Company.

5 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	30 September	31 December
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	941,348	493,013
31 - 60 days	135,419	72,554
61 - 90 days	63,057	82,525
Over 90 days but less than a year	147,415	48,419
	<u>1,287,239</u>	<u>696,511</u>

6 Short-term bank borrowings

	Unaudited	Audited
	30 September	31 December
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings accounted for as RMB borrowings (<i>Note (a)</i>)		
- Secured (<i>Note (b)</i>)	990,887	202,322
- Unsecured	334,440	—
	1,325,327	202,322
USD borrowings		
- Unsecured (<i>Note (c)</i>)	2,512,913	—
	3,838,240	202,322

Note:

- (a) These bank borrowings were denominated in USD according to the loan agreements executed with the banks. The aggregate principal amount was USD198,637,000 and the interest rates were fixed at 1.71% to 3.36% per annum. These borrowings will be repaid in full in USD and the term for each of these borrowings is one year. Concurrently, foreign exchange forward contracts were arranged with the same banks as at the respective initial borrowing dates in order to enable the Group to purchase the required amount of USD with RMB for settling the principal amount of the borrowings plus related interest upon the loan due dates. The bank borrowings and the foreign exchange forward contracts are deemed as linked transactions and accordingly, the bank borrowings have effectively been accounted for as borrowings denominated in RMB.

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

- (b) These bank borrowings were secured by a pledge of restricted cash of RMB1,014,493,000.
- (c) The unsecured bank borrowings as at 30 September 2010 were also denominated in USD. The aggregate principal amount was USD375,000,000 and the interest rates were fixed at 1.63% to 2.32% per annum. In addition, the Group entered into foreign forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the borrowings upon the due dates. However, the Group arranged both the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and relevant foreign forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains/(losses), net” in the consolidated statements of comprehensive income.

The fair value of the short-term bank borrowings approximated to their carrying amounts as at 30 September 2010.

7 Other gains/(losses), net

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Fair value gains on financial assets held for trading	—	—	—	11,929
(Losses)/gains from derivative financial instruments	(10,965)	—	6,613	—
Government subsidies	37,599	943	51,133	21,523
Donation to a charity fund established by the Group	(30,000)	—	(70,000)	(55,000)
Others	25,845	4,742	26,873	(9,779)
	<u>22,479</u>	<u>5,685</u>	<u>14,619</u>	<u>(31,327)</u>

8 Expenses by nature

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (<i>Note</i>)	842,167	584,589	2,238,066	1,531,924
Mobile and telecom charges and bandwidth and server custody fees	546,943	382,687	1,537,147	1,134,116
Content costs and agency fees	751,075	414,739	1,943,029	988,258
Depreciation of fixed assets (<i>Note</i>)	175,375	104,672	469,967	286,107
Promotion and advertising expenses	127,650	83,213	364,974	178,856
Travelling and entertainment expenses	31,780	24,776	84,644	76,185
Operating lease rentals in respect of office buildings	27,205	22,412	67,754	71,226
Amortisation of intangible assets	21,483	31,269	84,578	100,462
Other expenses	124,775	79,218	337,072	204,307
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<u>2,648,453</u>	<u>1,727,575</u>	<u>7,127,231</u>	<u>4,571,441</u>

Note:

Research and development expenses were RMB450,744,000 and RMB1,209,174,000 for the three and nine months ended 30 September 2010, respectively (for the three and nine months ended 30 September 2009: RMB322,665,000 and RMB858,520,000, respectively). The expenses included employee benefit expenses of RMB386,096,000 and depreciation of fixed assets of RMB49,501,000 for the three months ended 30 September 2010 (for the three months ended 30 September 2009: 261,618,000 and RMB53,831,000, respectively) and employee benefit expenses of 1,012,346,000 and depreciation of fixed assets of RMB147,010,000 for the nine months ended 30 September 2010 (for the nine months ended 30 September 2009: RMB676,182,000 and RMB163,188,000, respectively).

The Group did not capitalise any research and development expenses for the three and nine months ended 30 September 2010 (for the three and nine months ended 30 September 2009: Nil).

9 **Income tax expense**

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

(a) **Cayman Islands and British Virgin Islands profits tax**

The Group has not been subject to any taxation in these jurisdictions for the three and nine months ended 30 September 2010 and 2009.

(b) **Hong Kong profits tax**

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the three and nine months ended 30 September 2010 and 2009.

(c) **PRC corporate income tax ("CIT")**

CIT is provided on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 ("CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective on 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 date of promulgation of the CIT Law and which were entitled to preferential income tax rates under the then effective tax laws or regulations. Pursuant to the "Circular to Implementation of the Transitional Preferential Policies for the Corporate Income Tax", the transitional income tax rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rates for the respective years.

In 2008, six subsidiaries of the Group in the PRC were approved as High/New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% according to the CIT Law. With such status, the above mentioned transitional income tax rates for the period from 2008 to 2010 were no longer applicable to them.

In addition, according to relevant tax circulars issued by 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 (“CIT Preferential Holiday”). The CIT Preferential Holiday commences either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses from prior years.

(d) **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 subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%.

The income tax charges of the Group for the three and nine months ended 30 September 2010 and 2009 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	357,577	207,188	1,023,635	497,166
Deferred tax	154,436	42,620	294,278	69,182
	<u>512,013</u>	<u>249,808</u>	<u>1,317,913</u>	<u>566,348</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 22% for the three and nine months ended 30 September 2010 (for the three and nine months ended 30 September 2009: 20%), the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	2,680,329	1,683,008	7,219,840	4,254,906
Less: Share of profit of associates	<u>(10,985)</u>	<u>(3,840)</u>	<u>(35,232)</u>	<u>(12,664)</u>
	2,669,344	<u>1,679,168</u>	7,184,608	<u>4,242,242</u>
Tax calculated at a tax rate of 22% (for the three and nine months ended 30 September 2009: 20%)	587,256	335,834	1,580,614	848,449
Effects of different tax rates available to different companies of the Group	(77,448)	(47,752)	(242,876)	(117,709)
Effects of tax holiday on assessable profit of subsidiaries	(172,238)	(114,000)	(376,753)	(312,832)
Income not subject to tax	(5,791)	—	(11,049)	—
Expenses not deductible for tax purposes	28,907	30,276	78,823	69,580
Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries	142,000	30,000	257,000	30,000
Unrecognised deferred income tax assets	<u>9,327</u>	<u>15,450</u>	<u>32,154</u>	<u>48,860</u>
Tax charge	<u>512,013</u>	<u>249,808</u>	<u>1,317,913</u>	<u>566,348</u>

10 Earnings per share

(a) Basic

Basic earnings per share (“EPS”) is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
Profit attributable to equity holders of the Company for the period (RMB’000)	<u>2,153,111</u>	<u>1,419,851</u>	<u>5,852,807</u>	<u>3,647,701</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,817,586</u>	<u>1,804,134</u>	<u>1,815,736</u>	<u>1,799,888</u>
Basic EPS (RMB per share)	<u>1.185</u>	<u>0.787</u>	<u>3.223</u>	<u>2.027</u>

(b) Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing diluted EPS). No adjustment is made to earnings (numerator).

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
Profit attributable to equity holders of the Company for the period (RMB’000)	<u>2,153,111</u>	<u>1,419,851</u>	<u>5,852,807</u>	<u>3,647,701</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,817,586</u>	<u>1,804,134</u>	<u>1,815,736</u>	<u>1,799,888</u>
Adjustments for share options (thousand shares)	<u>32,743</u>	<u>43,583</u>	<u>36,095</u>	<u>41,769</u>
Adjustments for awarded shares (thousand shares)	<u>7,335</u>	<u>2,982</u>	<u>7,503</u>	<u>1,073</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,857,664</u>	<u>1,850,699</u>	<u>1,859,334</u>	<u>1,842,730</u>
Diluted EPS (RMB per share)	<u>1.159</u>	<u>0.767</u>	<u>3.148</u>	<u>1.980</u>

11 Dividend

A final dividend in respect of the year ended 31 December 2009 of HKD0.40 per share (2008: HKD0.25 per share and a special dividend of HKD0.10 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2010 and approved by shareholders in the annual general meeting on 12 May 2010. Such dividend, totalling approximately HKD727,180,000 (equivalent to RMB639,264,000) (total dividend for 2008: HKD629,802,000 (equivalent to RMB554,604,000)), had been paid as at 30 September 2010.

The Board did not propose any interim dividend.

12 Subsequent event

The Initial Public Offering (“IPO”) of Mail.ru Group Limited (“Mail.ru”), an investee of the Group accounted for as available-for-sale financial assets and formerly known as Digital Sky Technologies Limited, has been completed. After the IPO, the Group held 16,228,000 ordinary shares in Mail.ru, representing approximately 7.56% economic interest on a fully diluted basis. The offer price for the IPO was set at USD27.7 per global depositary receipt (“GDR”), with each GDR representing one ordinary share. Unconditional trading of the GDR on the London Stock Exchange is expected to commence on or about 11 November 2010. The Group’s interest in Mail.ru is subject to a 180-day lock-up period and the investment cost for the interest is approximately USD300 million.

OPERATING INFORMATION

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

	As at 30 September 2010	As at 30 June 2010	Percentage change
	<i>(in millions)</i>		
Active IM user accounts	636.6	612.5	3.9%
Peak simultaneous online IM user accounts (for the quarter)	118.7	109.4	8.5%
Average daily IM user hours (for the last 15 days of the quarter)	1,816.2	1,713.8	6.0%
Active Qzone user accounts	481.2	458.5	5.0%
Peak simultaneous online QQ Game user accounts (for the quarter)	6.4	6.2	3.2%
Fee-based Internet value-added services registered subscriptions	67.3	63.2	6.5%
Fee-based mobile and telecommunications value-added services registered subscriptions	25.3	24.1	5.0%

The active user accounts and peak simultaneous online user accounts of our core IM platform increased in the third quarter of 2010, mainly as a result of the positive seasonal impact of the summer school holidays and the growing usage of our IM service on mobile devices. User activeness also increased as evidenced by the growth of average daily user hours exceeding that of active user accounts. Active user base of Qzone grew during the quarter, mainly driven by enrichment in social network services (“SNS”) applications offered on the platform as well as enhancement in user experience. However, the quarter-on-quarter growth rate slowed down as the scale of user base increased. Peak simultaneous online user accounts of QQ Game increased as we focused on stimulating user growth via tournaments and cross-platform integration. Registered subscriptions to Internet value-added services increased mainly as a result of the growth in Qzone and QQ Membership. For our mobile and telecommunications value-added services, registered subscriptions increased primarily due to the organic growth of our bundled SMS packages.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Nine Months of 2010

The following table sets forth the comparative figures for the first nine months of 2010 and the first nine months of 2009:

	Unaudited	
	Nine months ended	
	30 September	30 September
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	14,121,868	8,751,696
Cost of revenues	<u>(4,487,838)</u>	<u>(2,744,613)</u>
Gross profit	9,634,030	6,007,083
Interest income	176,455	94,898
Other gains/(losses), net	14,619	(31,327)
Selling and marketing expenses	<u>(643,574)</u>	<u>(373,363)</u>
General and administrative expenses	<u>(1,995,819)</u>	<u>(1,453,465)</u>
Operating profit	7,185,711	4,243,826
Finance costs	<u>(1,103)</u>	<u>(1,584)</u>
Share of profit of associates	<u>35,232</u>	<u>12,664</u>
Profit before income tax	7,219,840	4,254,906
Income tax expense	<u>(1,317,913)</u>	<u>(566,348)</u>
Profit/Total comprehensive income for the period	<u><u>5,901,927</u></u>	<u><u>3,688,558</u></u>
Attributable to:		
Equity holders of the Company	5,852,807	3,647,701
Non-controlling interests	<u>49,120</u>	<u>40,857</u>
	<u><u>5,901,927</u></u>	<u><u>3,688,558</u></u>

Revenues. Revenues increased by 61.4% to RMB14,121.9 million for the first nine months of 2010 from RMB8,751.7 million for the first nine months of 2009.

	Unaudited			
	Nine months ended			
	30 September 2010		30 September 2009	
	% of total		% of total	
	Amount revenues		Amount revenues	
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	11,098,361	78.6%	6,683,656	76.4%
Mobile and telecommunications value-added services	1,987,415	14.1%	1,355,700	15.5%
Online advertising	984,396	7.0%	683,165	7.8%
Others	51,696	0.3%	29,175	0.3%
Total revenues	<u>14,121,868</u>	<u>100.0%</u>	<u>8,751,696</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 63.5% to RMB4,487.8 million for the first nine months of 2010 from RMB2,744.6 million for the first nine months of 2009.

	Unaudited			
	Nine months ended			
	30 September 2010		30 September 2009	
	% of		% of	
	segment		segment	
	Amount revenues		Amount revenues	
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	3,377,711	30.4%	1,954,576	29.2%
Mobile and telecommunications value-added services	731,402	36.8%	521,118	38.4%
Online advertising	303,215	30.8%	213,813	31.3%
Others	75,510	146.1%	55,106	188.9%
Total cost of revenues	<u>4,487,838</u>		<u>2,744,613</u>	

Third Quarter of 2010

Unaudited consolidated revenues for the third quarter of 2010 were RMB5,226.6 million, an increase of 55.1% over the same period in 2009 and an increase of 11.9% from the second quarter of 2010.

Revenues from our Internet value-added services for the third quarter of 2010 were RMB4,129.0 million, an increase of 57.4% over the same period in 2009 and an increase of 15.3% from the second quarter of 2010.

Revenues from our mobile and telecommunications value-added services for the third quarter of 2010 were RMB695.1 million, an increase of 55.8% over the same period in 2009 and an increase of 3.1% from the second quarter of 2010.

Revenues from our online advertising business for the third quarter of 2010 were RMB382.5 million, an increase of 30.3% over the same period in 2009 and a decrease of 3.8% from the second quarter of 2010.

Cost of revenues for the third quarter of 2010 was RMB1,676.5 million, an increase of 63.7% over the same period in 2009 and an increase of 13.1% from the second quarter of 2010.

Selling and marketing expenses for the third quarter of 2010 were RMB227.8 million, an increase of 41.8% over the same period in 2009 and a decrease of 1.1% from the second quarter of 2010.

General and administrative expenses for the third quarter of 2010 were RMB744.1 million, an increase of 37.1% over the same period in 2009 and an increase of 11.7% from the second quarter of 2010.

Operating profit for the third quarter of 2010 was RMB2,665.9 million, representing an increase of 58.7% over the same period in 2009 and an increase of 12.4% from the second quarter of 2010. As a percentage of revenues, operating profit represented 51.0% for the third quarter of 2010, compared to 49.9% for the same period of 2009 and 50.8% for the second quarter of 2010.

Profit for the third quarter of 2010 was RMB2,168.3 million, representing an increase of 51.3% over the same period in 2009 and an increase of 12.3% from the second quarter of 2010. As a percentage of revenues, profit for the period represented 41.5% for the third quarter of 2010, compared to 42.5% for the same period of 2009 and 41.4% for the second quarter of 2010.

Profit attributable to equity holders of the Company for the third quarter of 2010 was RMB2,153.1 million, an increase of 51.6% over the same period in 2009 and an increase of 12.3% from the second quarter of 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2010 Compared to Second Quarter of 2010

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

	Unaudited	
	Three months ended	
	30 September	30 June
	2010	2010
	RMB'000	RMB'000
Revenues	5,226,628	4,669,180
Cost of revenues	(1,676,544)	<u>(1,482,939)</u>
Gross profit	3,550,084	3,186,241
Interest income	65,259	54,005
Other gains, net	22,479	27,415
Selling and marketing expenses	(227,817)	(230,340)
General and administrative expenses	(744,092)	<u>(665,961)</u>
Operating profit	2,665,913	2,371,360
Finance income/(costs)	3,431	(2,976)
Share of profit of associates	10,985	<u>11,334</u>
Profit before income tax	2,680,329	2,379,718
Income tax expense	(512,013)	<u>(448,525)</u>
Profit/Total comprehensive income for the period	<u>2,168,316</u>	<u>1,931,193</u>
Attributable to:		
Equity holders of the Company	2,153,111	1,916,502
Non-controlling interests	15,205	<u>14,691</u>
	<u>2,168,316</u>	<u>1,931,193</u>

Revenues. Revenues increased by 11.9% to RMB5,226.6 million for the third quarter of 2010 from RMB4,669.2 million for the second quarter of 2010. The following table sets forth our revenues by line of business for the third quarter of 2010 and the second quarter of 2010:

	Unaudited			
	Three months ended			
	30 September 2010		30 June 2010	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	4,129,008	79.0%	3,581,976	76.7%
Mobile and telecommunications value-added services	695,057	13.3%	674,120	14.4%
Online advertising	382,542	7.3%	397,520	8.5%
Others	20,021	0.4%	15,564	0.4%
Total revenues	<u>5,226,628</u>	<u>100.0%</u>	<u>4,669,180</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 15.3% to RMB4,129.0 million for the third quarter of 2010 from RMB3,582.0 million for the second quarter of 2010. Online gaming revenues increased by 19.3% to RMB2,557.2 million, mainly reflecting the positive impact of the summer school holidays during which monetisation of Cross Fire and other major online games increased. The increase in online gaming revenues was also driven by revenue contribution from our recently launched MMOGs and the growth of QQ Game. Revenues from our community value-added services increased by 9.2% to RMB1,571.8 million, mainly as a result of the growth in Qzone and QQ Membership. The increase in revenues from Qzone was primarily attributable to rising popularity of our SNS applications, as well as our promotional activities focusing on annual subscription, privileges and item sales. QQ Membership benefited from the summer school holidays and registered growth in subscriber base.
- Revenues from our mobile and telecommunications value-added services increased by 3.1% to RMB695.1 million for the third quarter of 2010 from RMB674.1 million for the second quarter of 2010. This mainly reflected growth in revenues from mobile social games and mobile games.

- Revenues from our online advertising business decreased by 3.8% to RMB382.5 million for the third quarter of 2010 from RMB397.5 million for the second quarter of 2010. The decline mainly reflected the closing of the World Cup in July 2010. In the previous quarter, we benefited from the advertising opportunities generated from this major event.

Cost of revenues. Cost of revenues increased by 13.1% to RMB1,676.5 million for the third quarter of 2010 from RMB1,482.9 million for the second quarter of 2010. This mainly reflected an increase in sharing costs, staff costs and telecommunications operators' revenue share. As a percentage of revenues, cost of revenues increased to 32.1% for the third quarter of 2010 from 31.8% for the second quarter of 2010. The following table sets forth our cost of revenues by line of business for the third quarter of 2010 and the second quarter of 2010:

	Unaudited			
	Three months ended			
	30 September 2010		30 June 2010	
	Amount	% of	Amount	% of
	revenues	segment	revenues	segment
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,264,751	30.6%	1,100,032	30.7%
Mobile and telecommunications value-added services	267,962	38.6%	242,094	35.9%
Online advertising	114,844	30.0%	117,428	29.5%
Others	<u>28,987</u>	144.8%	<u>23,385</u>	150.3%
Total cost of revenues	<u>1,676,544</u>		<u>1,482,939</u>	

- Cost of revenues for our Internet value-added services increased by 15.0% to RMB1,264.8 million for the third quarter of 2010 from RMB1,100.0 million for the second quarter of 2010. This was mainly attributable to the growth of sharing costs driven by higher revenues from our licensed games. Other costs also increased due to our expanded business scale.
- Cost of revenues for our mobile and telecommunications value-added services increased by 10.7% to RMB268.0 million for the third quarter of 2010 from RMB242.1 million for the second quarter of 2010. This primarily reflected increase in staff costs and telecommunications operators' revenue share.

- Cost of revenues for our online advertising business decreased by 2.2% to RMB114.8 million for the third quarter of 2010 from RMB117.4 million for the second quarter of 2010. This mainly reflected decrease in sales commissions paid to advertising agencies as a result of the decline in advertising revenues, partly offset by higher staff costs.

Other gains, net. Other gains, net decreased by 18.0% to RMB22.5 million for the third quarter of 2010 from RMB27.4 million for the second quarter of 2010. This was mainly due to the donation of RMB30.0 million made to the Tencent Charity Fund during the third quarter, whereas no donation was made in the previous quarter, partially offset by an increase in government subsidies.

Selling and marketing expenses. Selling and marketing expenses decreased slightly by 1.1% to RMB227.8 million for the third quarter of 2010 from RMB230.3 million for the second quarter of 2010. This primarily reflected a decrease in brand advertising expenses mainly as a result of the closing of the World Cup in July 2010, partly offset by an increase in promotional expenses for our online games. As a percentage of revenues, selling and marketing expenses decreased to 4.4% for the third quarter of 2010 from 4.9% for the second quarter of 2010.

General and administrative expenses. General and administrative expenses increased by 11.7% to RMB744.1 million for the third quarter of 2010 from RMB666.0 million for the second quarter of 2010. This was primarily due to the increased research and development expenses as a result of the growth in headcount of our research and development team. Staff costs for other areas and administrative expenses also increased as our business scale expanded. As a percentage of revenues, general and administrative expenses decreased to 14.2% for the third quarter of 2010 from 14.3% for the second quarter of 2010.

Income tax expense. Income tax expense increased by 14.2% to RMB512.0 million for the third quarter of 2010 from RMB448.5 million for the second quarter of 2010. The increase primarily reflected higher profit before tax and an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the period. Profit for the period increased by 12.3% to RMB2,168.3 million for the third quarter of 2010 from RMB1,931.2 million for the second quarter of 2010. Net margin was 41.5% for the third quarter of 2010 compared to 41.4% for the second quarter of 2010.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 12.3% to RMB2,153.1 million for the third quarter of 2010 from RMB1,916.5 million for the second quarter of 2010.

Third Quarter of 2010 Compared to Third Quarter of 2009

The following table sets forth the comparative figures for the third quarter of 2010 and the third quarter of 2009:

	Unaudited	
	Three months ended	
	30 September	30 September
	2010	2009
	RMB'000	RMB'000
Revenues	5,226,628	3,368,908
Cost of revenues	(1,676,544)	<u>(1,024,086)</u>
Gross profit	3,550,084	2,344,822
Interest income	65,259	33,329
Other gains, net	22,479	5,685
Selling and marketing expenses	(227,817)	(160,671)
General and administrative expenses	(744,092)	<u>(542,818)</u>
Operating profit	2,665,913	1,680,347
Finance income/(costs)	3,431	(1,179)
Share of profit of associates	10,985	<u>3,840</u>
Profit before income tax	2,680,329	1,683,008
Income tax expense	(512,013)	<u>(249,808)</u>
Profit/Total comprehensive income for the period	<u>2,168,316</u>	<u>1,433,200</u>
Attributable to:		
Equity holders of the Company	2,153,111	1,419,851
Non-controlling interests	15,205	<u>13,349</u>
	<u>2,168,316</u>	<u>1,433,200</u>

Revenues. Revenues increased by 55.1% to RMB5,226.6 million for the third quarter of 2010 from RMB3,368.9 million for the third quarter of 2009. The following table sets forth our revenues by line of business for the third quarter of 2010 and the third quarter of 2009:

	Unaudited			
	Three months ended			
	30 September 2010		30 September 2009	
	% of total		% of total	
	Amount revenues		Amount revenues	
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	4,129,008	79.0%	2,622,625	77.8%
Mobile and telecommunications value-added services	695,057	13.3%	446,152	13.3%
Online advertising	382,542	7.3%	293,558	8.7%
Others	<u>20,021</u>	<u>0.4%</u>	<u>6,573</u>	<u>0.2%</u>
Total revenues	<u>5,226,628</u>	<u>100.0%</u>	<u>3,368,908</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 57.4% to RMB4,129.0 million for the third quarter of 2010 from RMB2,622.6 million for the third quarter of 2009. Our online gaming revenues increased by 67.3% to RMB2,557.2 million, mainly driven by the growth of our major advanced casual games and MMOGs. The increase was also attributable to revenue contribution from our recently launched MMOGs and the growth of QQ Game. It was partially offset by decline in revenues from more mature MMOGs. Revenues from our community value-added services increased by 43.7% to RMB1,571.8 million, mainly reflecting the growth of Qzone, QQ Membership and QQ Show. Revenues from Qzone increased as our SNS applications enhanced user activity and engagement, resulting in significant growth in monthly subscriptions. QQ Membership experienced growth in subscribers as we improved user loyalty and stickiness by enhancing online and offline privileges as well as value-added functions. Growth in revenues from QQ Show was mainly due to increase in monthly subscriptions driven by enhanced content, features and user value.
- Revenues from our mobile and telecommunications value-added services increased by 55.8% to RMB695.1 million for the third quarter of 2010 from RMB446.2 million for the third quarter of 2009. This primarily reflected increased revenues from our bundled SMS packages driven by enhancement in

privileges and user experience, as well as growth in revenues from mobile social games. The increase was partly offset by decline in revenues from WAP services due to the suspension of WAP billing by China Mobile since 30 November 2009.

- Revenues from our online advertising business increased by 30.3% to RMB382.5 million for the third quarter of 2010 from RMB293.6 million for the third quarter of 2009. The increase mainly reflected the growth of our user base, enhanced market recognition of the strengths of our Internet platforms among advertisers, and our focus on leveraging the World Cup and the World Expo to generate business opportunities. This was partly offset by reduction in search-based advertising revenues as we transitioned into our self-developed search engine at the end of the third quarter of last year.

Cost of revenues. Cost of revenues increased by 63.7% to RMB1,676.5 million for the third quarter of 2010 from RMB1,024.1 million for the third quarter of 2009. This primarily reflected an increase in sharing costs, telecommunications operators' revenue share and staff costs. As a percentage of revenues, cost of revenues increased to 32.1% for the third quarter of 2010 from 30.4% for the third quarter of 2009. The following table sets forth our cost of revenues by line of business for the third quarter of 2010 and the third quarter of 2009:

	Unaudited			
	Three months ended			
	30 September 2010		30 September 2009	
	Amount	% of	Amount	% of
	revenues	segment	revenues	segment
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,264,751	30.6%	744,797	28.4%
Mobile and telecommunications value-added services	267,962	38.6%	172,477	38.7%
Online advertising	114,844	30.0%	88,389	30.1%
Others	28,987	144.8%	18,423	280.3%
Total cost of revenues	<u>1,676,544</u>		<u>1,024,086</u>	

- Cost of revenues for our Internet value-added services increased by 69.8% to RMB1,264.8 million for the third quarter of 2010 from RMB744.8 million for the third quarter of 2009. This primarily reflected increased sharing costs as a result of the growth in revenues from our licensed games. Other costs also increased as our business volume expanded.

- Cost of revenues for our mobile and telecommunications value-added services increased by 55.4% to RMB268.0 million for the third quarter of 2010 from RMB172.5 million for the third quarter of 2009. This was mainly driven by an increase in telecommunications operators' revenue share due to the growth in revenues and an increase in staff costs.
- Cost of revenues for our online advertising business increased by 29.9% to RMB114.8 million for the third quarter of 2010 from RMB88.4 million for the third quarter of 2009. This mainly reflected the increase in sales commissions paid to advertising agencies and staff costs as a result of our business growth.

Other gains, net. Other gains, net increased by 295.4% to RMB22.5 million for the third quarter of 2010 from RMB5.7 million for the third quarter of 2009. This mainly reflected an increase in government subsidies, partly offset by the donation of RMB30.0 million made to the Tencent Charity Fund in the third quarter of 2010.

Selling and marketing expenses. Selling and marketing expenses increased by 41.8% to RMB227.8 million for the third quarter of 2010 from RMB160.7 million for the third quarter of 2009. This mainly reflected an increase in our brand investments, including advertising campaigns for the World Cup and the World Expo, and the promotion of our online games. Staff costs also increased as our business expanded. As a percentage of revenues, selling and marketing expenses decreased to 4.4% for the third quarter of 2010 from 4.8% for the third quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 37.1% to RMB744.1 million for the third quarter of 2010 from RMB542.8 million for the third quarter of 2009. This was primarily due to the increased research and development expenses as a result of the growth in headcount of our research and development team. Staff costs for other areas also increased as our business scale grew. As a percentage of revenues, general and administrative expenses decreased to 14.2% for the third quarter of 2010 from 16.1% for the third quarter of 2009.

Income tax expense. We recorded income tax expense of RMB512.0 million for the third quarter of 2010 compared to RMB249.8 million for the third quarter of 2009. The change primarily reflected growth in profit before tax and an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. It also reflected higher tax rates for certain subsidiaries.

Profit for the period. Profit for the period increased by 51.3% to RMB2,168.3 million for the third quarter of 2010 from RMB1,433.2 million for the third quarter of 2009. Net margin was 41.5% for the third quarter of 2010 compared to 42.5% for the third quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 51.6% to RMB2,153.1 million for the third quarter of 2010 from RMB1,419.9 million for the third quarter of 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2010 and 30 June 2010, we had the following major financial resources in the form of cash and investments:

	Unaudited	
	30 September	30 June
	2010	2010
	RMB'000	RMB'000
Cash and cash equivalents	7,712,112	6,486,312
Term deposits with initial term of over three months	<u>9,714,422</u>	<u>7,422,082</u>
Total financial resources	17,426,534	13,908,394
Less: Unsecured short-term bank borrowings	<u>(2,847,353)</u>	<u>(1,561,907)</u>
Net financial resources	<u>14,579,181</u>	<u>12,346,487</u>

Note: The above table excludes short-term bank borrowing arrangements with an aggregate principle amount of USD148.6 million and restricted deposits of RMB1,014.5 million pledged as part of these arrangements, as such deposits are scheduled to offset the borrowed amount at the maturity of the loans.

As at 30 September 2010, RMB1,228.0 million of our financial assets were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

BUSINESS REVIEW AND OUTLOOK

In the third quarter of 2010, our Internet value-added services (“IVAS”) benefited from the positive seasonality of the summer school holidays and registered continued increase in revenues, mainly as a result of the increased monetisation of Cross Fire and other major online games, as well as the growth of our community value-added services. However, as the revenue base has become larger, the year-on-year growth rate of the IVAS business slowed down. Our mobile and telecommunications value-added services (“MVAS”) registered revenue growth on the back of the

increased popularity of our mobile social games and mobile games. Our advertising business experienced a decline in revenues primarily due to the closing of the World Cup in July 2010. In the previous quarter, we benefited significantly from the advertising opportunities generated from this major event. Looking ahead, the fourth quarter of 2010 is expected to be a weaker season for our IVAS and online advertising business. Our MVAS business is still operating in an uncertain regulatory environment and intensifying market competition.

On 29 October 2010, our QQ services encountered an attack by a program, which we believe to be a malware, called “Kou Kou Bodyguard”. The malware was created by Qihoo 360 (“360”), which also operates the most popular Internet security software, 360 Security Guard, in the PRC. The malware encouraged users to install it by offering functions such as blocking advertising in our QQ client. However, when installed, it could also make modifications to our QQ client software, including redirecting our QQ Security Center to the webpage of 360’s own products and replacing it with the malware, thus compromising the security of our users. In addition, based on our analysis, the malware also contains four hidden functions or “backdoors”, which could further threaten the security of our users by disabling the upgrade of our QQ client, copying the client and its information, disabling QQ client functions by blocking the program or process initiated from the QQ client and directing all browsing activities to 360’s own browser. After discovering this malware, we immediately reported the matter to relevant government authorities. However, the ensuing investigation took time, while the malware spread quickly with 360’s strong promotional support. In a matter of six days, more than 20 million QQ accounts had been affected by the malware according to our estimation. On 3 November 2010, we believed that 360 had attempted to speed up the spread of the malware by bundling the malware into 360 Security Guard. Given such circumstances, we believed that we had no other choice but to take decisive action to prevent a large number of our users from being affected by the malware. On the same day, we thus informed our users that, until 360 has ceased such attacks, QQ services would not be operating on computers with relevant software created by 360. This was an emergency measure to protect our users by preventing the fast spread of the malware. The decision caused many users, who had installed both our QQ client and 360 Security Guard, to be unable to log on to our QQ services, which in turn drew the attention of government authorities. Under the direction from relevant government authorities, 360 announced the withdrawal of the malware on the following day. Consequently, QQ services were resumed on machines which were not affected by the malware. After the resumption of normal services, user numbers returned to normal levels. However, we are still evaluating the longer term impact of this incident on our business.

We believe the whole incident was a deliberate and illegal attack and has set up a precedent against the lawful and ethical practice of the PRC Internet industry, as evidenced by the fact that an Internet security software company developed a malware targeting and affecting an application software. We intend to seek appropriate legal remedies from 360 accordingly. In addition, we have already filed a lawsuit against 360 in October 2010 for unfair business practices relating to a separate software product and related publicity campaign that involved unfounded claims that we had been improperly collecting confidential information of our users.

Due to the urgency and time constraints in the events described above, we did not communicate fully with our users, causing significant inconvenience to some of them. Going forward, we plan to focus more on the development of the security of QQ software and expand our safety products co-operation with security software developers in the industry for better protection of our users. In addition, we intend to repair our corporate image and improve our relationship and communications with our users. We believe these initiatives would benefit us in the long run.

IM Platform

User base of our core IM platform expanded during the quarter. Riding on the positive seasonal impact of the summer school holidays and the growing number of mobile Internet users in China, active user accounts and peak concurrent user accounts (“PCU”) increased to 636.6 million and 118.7 million respectively. User activeness also grew as the usage of our IM services on mobile devices increased.

QQ.com

QQ.com experienced growth in traffic and user stickiness in the third quarter, as we improved the content and user experience of our key channels, as well as leveraged the World Cup and the World Expo to enhance our media influence. We plan to build on the positive impact we made in these major events to further enhance the position of QQ.com as a mainstream media platform in China. We will also continue to enhance our content and operations, as well as to achieve stronger integration between QQ.com and other platforms of Tencent.

Internet value-added services

Our community value-added services registered growth during the quarter. QQ Membership benefited from the summer school holidays and registered increase in user base. During the quarter, we continued to focus on increasing user loyalty and stickiness through bundling of online privileges and functionalities. We also enhanced offline lifestyle privileges via partnership with external providers. Recent trials include group buying and travel. For SNS, the active user base of Qzone increased by 5.0% to 481.2 million at the end of the third quarter, mainly driven by enrichment in social applications offered on the platform as well as improvement in user experience. We are targeting the social needs of different user groups by upgrading Xiaoyou to Pengyou, which is a larger social platform designed to serve both university students and the white-collar communities. We are also focusing on a social infrastructure upgrade and an open platform roll-out. On the other hand, QQ Show registered revenue growth during the quarter as we expanded our user base through free trials and enhanced user experience.

Our online gaming business benefited from the positive seasonal impact of the summer school holidays. For advanced casual games, usage and monetisation increased, mainly due to the expansion packs and marketing activities launched during the quarter. Monetisation of our MMOGs also improved as we introduced new games and new content for existing titles during the summer holidays. During the quarter, although we introduced expansion packs for Dungeon and Fighter, its PCU declined mainly due to bot-fighting. For QQ Game, PCU increased to 6.4 million in the third quarter as we focused on stimulating user growth via tournaments and cross-platform integration. Qi Xiong Zheng Ba, a web-based MMOG, was introduced to the market in August 2010 and its initial performance exceeded our expectation. On the other hand, while there was no additional regulation introduced during the quarter, we expect a more stringent regulatory environment for the online gaming industry going forward. Nevertheless, we believe that this should foster a healthier operating market over the longer term.

Mobile and telecommunications value-added services

The quarter-on-quarter growth of the business was mainly attributable to the increase in revenues from 2.5G-based mobile social games and mobile games as we enriched our content, improved user experience and launched promotional activities during the summer holidays. While the regulation that requires service providers to conduct double confirmation plus reminder services for monthly subscriptions and item sales started to affect our revenues negatively in the third quarter, the extent of the full impact remains to be seen. To position ourselves for the growth opportunities in the mobile Internet world, we continued to extend our PC-based services to wireless platform and to customise the applications for a larger variety of terminal devices.

Online advertising

Our online advertising revenues declined on a quarter-on-quarter basis, mainly due to the closing of the World Cup in July 2010. In the previous quarter, the business benefited significantly from this major event as our top advertisers allocated a larger portion of their budget to advertising opportunities related to the World Cup. Our search advertising business is still in a transitional phase and its revenues was limited by our traffic and nascent search advertising technology. Looking ahead, we will focus on fine-tuning our pricing strategy and inventory bundling to enhance returns on investments for our advertisers. We will also continue to invest in our brand, as well as enhance our sales organisation and operation.

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 September 2010, the Group had 10,260 employees (30 September 2009: 7,277), most of whom are based in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on need 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 three months ended 30 September 2010 was RMB842.7 million (for the three months ended 30 September 2009: RMB585.0 million).

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

During the three months ended 30 September 2010, the Company repurchased 2,624,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD354.8 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

<i>Month of purchase in the three months ended</i>	<i>No. of shares purchased</i>	<i>Purchase consideration per share</i>		<i>Aggregate consideration paid</i>
		<i>Highest price paid</i>	<i>Lowest price paid</i>	
<i>30 September 2010</i>		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
July	2,624,000	138.50	129.90	354,764,000

Save as disclosed above and in the "Financial Information" section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2010.

Audit Committee

The Audit Committee, which comprises two independent non-executive directors and one non-executive director, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditors, has reviewed the Group's unaudited Interim Financial Information for the three and nine months ended 30 September 2010.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2009 annual report and the 2010 interim report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three and nine months ended 30 September 2010, complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

APPRECIATION

On behalf of the Board, I would like to thank our employees for their valuable contributions and remarkable efforts, which enabled the Group to gain a better position in a competitive market full of challenges and uncertainties, as well as the support of the stakeholders for their continuing trust and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 10 November 2010

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:

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

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.