

**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)



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**2011**  
Interim Report

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The Board of Directors (the “Board”) of Tencent Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three and six months ended 30 June 2011. These interim results have been reviewed by PricewaterhouseCoopers, the auditor of the Company (the “Auditor”), 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.

## Consolidated Statement of Financial Position

As at 30 June 2011

		Unaudited	Audited
		30 June	31 December
		2011	2010
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	7	4,665,626	3,292,828
Construction in progress	7	127,795	386,943
Investment properties	7	22,100	37,229
Land use rights	7	227,532	229,890
Intangible assets	7	3,480,998	572,981
Investment in associates	8	2,783,735	1,070,633
Investment in jointly controlled entities	9	10,556	74,542
Deferred income tax assets	19	197,573	219,019
Available-for-sale financial assets	10	4,655,567	4,126,878
Prepayments, deposits and other assets	12	1,988,322	445,430
		<b>18,159,804</b>	<b>10,456,373</b>
<b>Current assets</b>			
Accounts receivable	11	2,255,439	1,715,412
Prepayments, deposits and other assets	12	1,605,071	487,872
Term deposits with initial term of over three months		13,189,618	11,725,743
Restricted cash		3,877,183	1,036,457
Cash and cash equivalents		7,963,090	10,408,257
		<b>28,890,401</b>	<b>25,373,741</b>
<b>Total assets</b>		<b>47,050,205</b>	<b>35,830,114</b>



## Consolidated Statement of Financial Position

As at 30 June 2011

		Unaudited	Audited
		30 June	31 December
	Note	2011	2010
		RMB'000	RMB'000
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital	13	198	198
Share premium	13	1,053,831	1,100,302
Shares held for share award scheme	13	(476,340)	(258,137)
Share-based compensation reserve	13	1,535,242	1,199,663
Other reserves		840,687	1,919,695
Retained earnings		22,166,555	17,795,225
		<u>25,120,173</u>	<u>21,756,946</u>
<b>Non-controlling interests</b>		<u>222,333</u>	<u>83,912</u>
<b>Total equity</b>		<u>25,342,506</u>	<u>21,840,858</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	19	945,833	967,211
Long-term payables	20	2,258,839	–
		<u>3,204,672</u>	<u>967,211</u>

## Consolidated Statement of Financial Position

As at 30 June 2011

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2011</b>	2010
	Note	<b>RMB'000</b>	RMB'000
<b>Current liabilities</b>			
Accounts payable	15	<b>2,028,941</b>	1,380,464
Other payables and accruals	16	<b>3,637,803</b>	2,997,808
Derivative financial instruments	17	<b>33,900</b>	17,964
Short-term borrowings	18	<b>8,150,065</b>	5,298,947
Current income tax liabilities		<b>506,474</b>	341,103
Other tax liabilities		<b>245,962</b>	225,188
Deferred revenue		<b>3,899,882</b>	2,760,571
		<hr/> <b>18,503,027</b> <hr/>	<hr/> 13,022,045 <hr/>
<b>Total liabilities</b>		<hr/> <b>21,707,699</b> <hr/>	<hr/> 13,989,256 <hr/>
<b>Total equity and liabilities</b>		<hr/> <b>47,050,205</b> <hr/>	<hr/> 35,830,114 <hr/>
<b>Net current assets</b>		<hr/> <b>10,387,374</b> <hr/>	<hr/> 12,351,696 <hr/>
<b>Total assets less current liabilities</b>		<hr/> <b>28,547,178</b> <hr/>	<hr/> 22,808,069 <hr/>

On behalf of the Board

**Ma Huateng**  
Director

**Zhang Zhidong**  
Director

The accompanying notes on pages 10 to 48 form an integral part of this Interim Financial Information.

## Consolidated Income Statement

For the three and six months ended 30 June 2011

	Note	Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2011	2010	2011	2010
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenues</b>					
Internet value-added services		<b>5,386,578</b>	3,581,976	<b>10,637,860</b>	6,969,353
Mobile and telecommunications value-added services		<b>793,839</b>	674,120	<b>1,571,631</b>	1,292,358
Online advertising		<b>512,312</b>	397,520	<b>793,206</b>	601,854
Others		<b>46,315</b>	15,564	<b>74,767</b>	31,675
		<b>6,739,044</b>	4,669,180	<b>13,077,464</b>	8,895,240
Cost of revenues	22	<b>(2,331,637)</b>	(1,482,939)	<b>(4,525,366)</b>	(2,811,294)
<b>Gross profit</b>		<b>4,407,407</b>	3,186,241	<b>8,552,098</b>	6,083,946
Interest income		<b>106,546</b>	54,005	<b>207,208</b>	111,196
Other gains/(losses), net	21	<b>2,809</b>	27,415	<b>341,878</b>	(7,860)
Selling and marketing expenses	22	<b>(369,491)</b>	(230,340)	<b>(669,944)</b>	(415,757)
General and administrative expenses	22	<b>(1,363,372)</b>	(665,961)	<b>(2,260,838)</b>	(1,251,727)
<b>Operating profit</b>		<b>2,783,899</b>	2,371,360	<b>6,170,402</b>	4,519,798
Finance income/(costs), net	23	<b>1,771</b>	(2,976)	<b>(2,098)</b>	(4,534)
Share of profit of associates	8	<b>23,454</b>	11,334	<b>61,308</b>	24,247
Share of losses of jointly controlled entities	9	<b>(60,689)</b>	–	<b>(64,986)</b>	–
<b>Profit before income tax</b>		<b>2,748,435</b>	2,379,718	<b>6,164,626</b>	4,539,511
Income tax expense	24	<b>(405,163)</b>	(448,525)	<b>(937,146)</b>	(805,900)
<b>Profit for the period</b>		<b>2,343,272</b>	1,931,193	<b>5,227,480</b>	3,733,611

## Consolidated Income Statement

For the three and six months ended 30 June 2011

	Note	Unaudited		Unaudited	
		2011	2010	2011	2010
		Three months ended	30 June	Six months ended	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Attributable to:</b>					
Equity holders of the Company		<b>2,349,246</b>	1,916,502	<b>5,219,620</b>	3,699,696
Non-controlling interests		<b>(5,974)</b>	14,691	<b>7,860</b>	33,915
		<b>2,343,272</b>	1,931,193	<b>5,227,480</b>	3,733,611
<b>Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)</b>					
– basic	25	<b>1.289</b>	1.054	<b>2.863</b>	2.039
– diluted	25	<b>1.260</b>	1.031	<b>2.800</b>	1.990

The accompanying notes on pages 10 to 48 form an integral part of this Interim Financial Information.

## Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2011

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

The accompanying notes on pages 10 to 48 form an integral part of this Interim Financial Information.

## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

Unaudited

	Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2011</b>	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	5,219,620	5,219,620	7,860	5,227,480
Other comprehensive income:									
– net losses from changes in fair value of available-for-sale financial assets	-	-	-	-	(418,156)	-	(418,156)	-	(418,156)
– currency translation differences	-	-	-	-	133	-	133	-	133
<b>Total comprehensive income for the period</b>	-	-	-	-	(418,023)	5,219,620	4,801,597	7,860	4,809,457
<b>Transactions with owners</b>									
Employee share option schemes:									
– value of employee services	-	-	-	93,102	-	-	93,102	-	93,102
– proceeds from shares issued	-	80,689	-	-	-	-	80,689	-	80,689
Employee share award scheme:									
– value of employee services	-	-	-	242,477	-	-	242,477	-	242,477
– shares purchased for share award scheme	-	-	(247,777)	-	-	-	(247,777)	-	(247,777)
– vesting of awarded shares	-	(29,574)	29,574	-	-	-	-	-	-
Repurchase and cancellation of shares	-	(97,586)	-	-	-	-	(97,586)	-	(97,586)
Dividends (Note 26)	-	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	-	-	-	-	10,000	(10,000)	-	-	-
Non-controlling interests arising from business combination (Note 27(a))	-	-	-	-	-	-	-	187,092	187,092
Recognition of financial liabilities in respect of the put option granted to non-controlling interests owners (Note 27(a))	-	-	-	-	(670,985)	-	(670,985)	-	(670,985)
<b>Total transactions with owners for the period</b>	-	(46,471)	(218,203)	335,579	(660,985)	(848,290)	(1,438,370)	130,561	(1,307,809)
<b>Balance at 30 June 2011</b>	198	1,053,831	(476,340)	1,535,242	840,687	22,166,555	25,120,173	222,333	25,342,506



## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

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

The accompanying notes on pages 10 to 48 form an integral part of this Interim Financial Information.

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

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

The accompanying notes on pages 10 to 48 form an integral part of this Interim Financial Information.



## Notes to the Interim Financial Information

### 1 GENERAL INFORMATION

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

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

This Interim Financial Information has not been audited.

#### Key events

On 18 February 2011, the Group acquired a majority equity interest in Riot Games, Inc. (“Riot Games”), a US-based independent developer and publisher of premium online games, for a cash consideration of USD231,465,000 (equivalent to approximately RMB1,524,632,000) together with other cash and non-cash consideration (the “Riot Games Acquisition”). Further details are provided in Note 27(a).

On 6 May 2011, the Group acquired 4.60% equity interest in Huayi Brothers Media Corporation (“Huayi”), a film producer listed on the Shenzhen Stock Exchange in the PRC, for a consideration of RMB444,933,000. The investment in Huayi has been accounted for as “available-for-sale financial assets” of the Group.

On 17 May 2011, the Group acquired 16.40% equity interest in eLong Incorporation (“eLong”), a company listed on NASDAQ, which is mainly engaged in the provision of online travel services the PRC, for a consideration of USD84,389,000 (equivalent to approximately RMB548,447,000). Because the Group has the ability to exercise significant influence over eLong with a representative on its board of directors, eLong has been accounted for as an associate of the Group.

In addition, during the six months ended 30 June 2011, the Group also acquired equity interest in other three companies for an aggregated consideration of approximately RMB964,039,000. These companies are engaged in the provision of securities investment solutions or e-commerce services and have been accounted for as associates of the Group. Further details are provided in Note 8.

## Notes to the Interim Financial Information

### 2 BASIS OF PREPARATION AND PRESENTATION

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 “IASB”).

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

### 3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2010 Financial Statements, which have been prepared in accordance with 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.

#### (a) Amended standards adopted by the Group

Amendment to IAS 34 ‘Interim Financial Reporting’ is effective for annual periods beginning on or after 1 January 2011. It focuses on the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements have been put in place to cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The amendment to IAS 34 only results in additional disclosures. The Group has applied this amendment from 1 January 2011. Please refer to Note 1 and Note 5 for the additional disclosures resulting from adopting the amendment.

## Notes to the Interim Financial Information

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Amendments and interpretations to existing standards effective from 2011 but not relevant to the Group

The following revised standard, 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                                   |

In addition, the third improvements to International Financial Reporting Standards (2010) issued in May 2010 by the IASB, except for the amendment to IAS 34 'Interim Financial Reporting' as disclosed above, are not currently relevant to the Group.

### 4 ESTIMATES

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2010 Financial Statements.

### 5 FINANCIAL RISK MANAGEMENT

#### 5.1 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), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2010 Financial Statements.

There were no changes in any risk management policies during the six months ended 30 June 2011.

## Notes to the Interim Financial Information

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### 5.2 Foreign exchange risk

Listed below are the Group's major non-RMB monetary assets and liabilities as at 30 June 2011, which are exposed to foreign exchange risk.

		<b>Unaudited</b>	Audited
	<b>Denomination</b>	<b>30 June</b>	31 December
	<b>currency</b>	<b>2011</b>	2010
		<b>RMB'000</b>	RMB'000
<b>Monetary assets</b>			
<i>Non-current assets</i>			
Receivables	USD	<b>1,294,320</b>	–
<i>Current assets</i>			
Receivables	USD	<b>335,075</b>	–
Receivables	HKD	<b>2,899</b>	–
Term deposits with initial term of over three months	USD	<b>2,338</b>	15,664
Term deposits with initial term of over three months	HKD	–	34,054
Cash and cash equivalents	USD	<b>2,578,798</b>	2,528,206
Cash and cash equivalents	HKD	<b>301,021</b>	231,608
Cash and cash equivalents	EUR	<b>101,579</b>	–
<b>Monetary liabilities</b>			
<i>Non-current liabilities</i>			
Long-term payables	USD	<b>2,258,839</b>	–
<i>Current liabilities</i>			
Payables	USD	<b>973,663</b>	502,427
Payables	HKD	<b>5,867</b>	–
Short-term borrowings	USD	<b>5,177,280</b>	3,973,620

During the three and six months ended 30 June 2011, the Group reported exchange gains of RMB14,903,000 and RMB27,719,000 (for the three and six months ended 30 June 2010: exchange gains of RMB2,474,000 and RMB916,000), respectively, as a result of appreciation of RMB. The gains were recorded in “Finance income/(costs), net” in the consolidated income statements for the three and six months ended 30 June 2011.

## Notes to the Interim Financial Information

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### 5.3 Capital risk management

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 consolidated statement of financial position, which is also equal to total assets less total liabilities.

As at 30 June 2011, the gearing ratio of the Group was 46% (31 December 2010: 39%).

#### 5.4 Fair value estimation

The Group’s main financial instruments carried at fair value are available-for-sale financial assets and derivative financial instruments, and the valuation method is the same as that applied in the 2010 Financial Statements.

During the three and six months ended 30 June 2011, the Group reported a net gain (net of tax) of RMB264,280,000 and a net loss (net of tax) of RMB418,156,000, respectively, for available-for-sale financial assets in other comprehensive income, which mainly resulted from the change in fair value of available-for-sale financial assets which have quoted prices (unadjusted) in active markets.

There were no reclassifications of financial assets during the three and six months ended 30 June 2011.

### 6 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 the following reportable segments for the three and six months ended 30 June 2011 and 2010:

- 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 trademark licensing, software development services and software sales.

## Notes to the Interim Financial Information

### 6 SEGMENT INFORMATION (continued)

The chief operating decision-makers assess the performance of the operating segments based on segment revenues 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 measurement 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/(losses), net, finance income/(costs), net and income tax expense are also not allocated to individual operating segment.

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

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

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

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



## Notes to the Interim Financial Information

## 6 SEGMENT INFORMATION (continued)

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

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

## Notes to the Interim Financial Information

### 6 SEGMENT INFORMATION (continued)

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

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. The revenues from external customers in the PRC for the three and six months ended 30 June 2011 were RMB6,706,925,000 and RMB12,996,547,000, respectively, (for the three and six months ended 30 June 2010: RMB4,663,410,000 and RMB8,888,116,000, respectively), and the revenues from external customers from other regions were RMB32,119,000 and RMB80,917,000, respectively (for the three and six months ended 30 June 2010: RMB5,770,000 and RMB7,124,000, respectively).

As at 30 June 2011, the total amount of non-current assets other than financial instruments and deferred income tax assets located in the PRC and other regions were RMB10,091,516,000 (31 December 2010: RMB5,282,748,000) and RMB3,215,148,000 (31 December 2010: RMB827,728,000), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the three and six months ended 30 June 2011.

## Notes to the Interim Financial Information

### 7 FIXED ASSETS, CONSTRUCTION IN PROGRESS, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Fixed assets	Construction	Investment	Land	Intangible
	RMB'000	in progress	properties	use rights	assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Net book amount at 1 January 2010</b>	2,517,202	105,771	68,025	35,296	268,713
Additions	565,792	107,925	247	198,318	60,343
Transfer	34,018	(34,018)	–	–	–
Disposals	(362)	–	–	–	–
Depreciation/amortisation	(294,592)	–	(659)	(1,366)	(63,095)
<b>Net book amount at 30 June 2010</b>	<u>2,822,058</u>	<u>179,678</u>	<u>67,613</u>	<u>232,248</u>	<u>265,961</u>
<b>Net book amount at 1 January 2011</b>	<b>3,292,828</b>	<b>386,943</b>	<b>37,229</b>	<b>229,890</b>	<b>572,981</b>
Additions	<b>1,380,752</b>	<b>198,149</b>	–	–	<b>539,376</b>
Business combinations (Note 27)	<b>14,781</b>	–	–	–	<b>2,644,502</b>
Transfer	<b>472,126</b>	<b>(457,297)</b>	<b>(14,829)</b>	–	–
Disposals	<b>(317)</b>	–	–	–	–
Depreciation/amortisation	<b>(494,544)</b>	–	<b>(300)</b>	<b>(2,358)</b>	<b>(275,861)</b>
<b>Net book amount at 30 June 2011</b>	<u><b>4,665,626</b></u>	<u><b>127,795</b></u>	<u><b>22,100</b></u>	<u><b>227,532</b></u>	<u><b>3,480,998</b></u>

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. Non-financial assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

There was no indication of impairment for non-financial assets during the three and six months ended 30 June 2011.

## Notes to the Interim Financial Information

### 8 INVESTMENT IN ASSOCIATES

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
At beginning of period	1,070,633	477,622
Acquisitions (Note (a), (b) and (c))	1,732,599	271,304
Transfer from available-for-sale financial assets	–	26,809
Additional investments in existing associates	56,697	–
Dividend received from an associate	(20,000)	–
Transfer to investment in a subsidiary (Note 27(a))	(117,502)	–
Share of profit of associates	61,308	24,247
	<u>2,783,735</u>	<u>799,982</u>
At end of period	<u>2,783,735</u>	<u>799,982</u>

#### Notes:

- (a) During the six months ended 30 June 2011, the Group acquired 16.40% equity interest in eLong for a consideration of approximately RMB548,447,000. The Group accounted for eLong as an associate although the Group held less than 20.00% 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. The Group was still in the process of assessment of purchase price allocation for this associate but has considered that it has no material impact on the Interim Financial Information.
- (b) During the six months ended 30 June 2011, the Group acquired 20.20% equity interest in a finance software company, which provides securities investment solutions to investors through its Internet platform, for a consideration of RMB380,000,000, and acquired 21.70% equity interest in an e-commerce company for a consideration of RMB302,459,000. Aggregate notional goodwill of RMB365,285,000 has been identified for the investments in these two associates. In addition, the Group also acquired 27.00% equity interest in another e-commerce company for a consideration of RMB281,580,000. The Group has not yet completed the purchase price allocation assessment for this associate but has considered that it has no material impact on the Interim Financial Information.
- (c) In addition to the above, the Group also acquired other nine associates for an aggregated consideration of RMB220,113,000 during the six months ended 30 June 2011. They are principally engaged in e-commerce and other Internet related business.

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

## Notes to the Interim Financial Information

### 9 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
At beginning of period	74,542	–
Additions	1,000	–
Share of losses of jointly controlled entities	(64,986)	–
	<u>10,556</u>	<u>–</u>
At end of period	<u><u>10,556</u></u>	<u><u>–</u></u>

### 10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Notes:

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

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

## Notes to the Interim Financial Information

### 11 ACCOUNTS RECEIVABLE

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

Accounts receivable was mainly denominated in RMB.

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

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

The directors of the Company have considered that the carrying amounts of the receivable balances approximated to their fair value as at 30 June 2011.

## Notes to the Interim Financial Information

### 12 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Included in non-current assets:		
Prepayment for land use rights	258,237	258,237
Prepayment for purchase of building	121,875	–
Prepayment for online game licences	313,890	187,193
Non-current portion of running royalty fees for online games	1,294,320	–
	<u>1,988,322</u>	<u>445,430</u>
Included in current assets:		
Current portion of running royalty fees for online games	449,187	85,755
Prepaid expenses	392,802	120,991
Rental deposits and other deposits	60,516	46,466
Interests receivable	129,524	89,435
Refundable value-added tax	155,672	45,764
Loans to associates and jointly controlled entities	190,788	–
Others	226,582	99,461
	<u>1,605,071</u>	<u>487,872</u>
	<u><u>3,593,393</u></u>	<u><u>933,302</u></u>

The directors of the Company have considered that the carrying amounts of the prepayments, deposits and other assets approximate to their fair value as at 30 June 2011.

Prepayments, deposits and other assets were neither past due nor impaired as at 30 June 2011. Their recoverability was assessed with reference made to the credit status of the recipients.

## Notes to the Interim Financial Information

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

As at 30 June 2011, the total authorised number of ordinary shares of the Company is 10,000,000,000 shares (31 December 2010: 10,000,000,000 shares) with par value of HKD0.0001 per share (31 December 2010: HKD0.0001 per share).

As at 30 June 2011, all issued shares were fully paid.

	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
<b>At 1 January 2010</b>	1,818,890,059	197	1,244,425	(123,767)	703,563	1,824,418
Employee share option schemes:						
– value of employee services	–	–	–	–	62,689	62,689
– number of shares issued and proceeds received	11,001,575	1	110,721	–	–	110,722
Employee share award scheme:						
– value of employee services	–	–	–	–	158,057	158,057
– shares purchased for share award scheme	–	–	–	(115,379)	–	(115,379)
– shares vested from share award scheme and transferred to the grantees	–	–	(3,032)	3,032	–	–
<b>At 30 June 2010</b>	<b>1,829,891,634</b>	<b>198</b>	<b>1,352,114</b>	<b>(236,114)</b>	<b>924,309</b>	<b>2,040,507</b>



## Notes to the Interim Financial Information

### 13 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (continued)

	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
<b>At 1 January 2011</b>	<b>1,835,730,235</b>	<b>198</b>	<b>1,100,302</b>	<b>(258,137)</b>	<b>1,199,663</b>	<b>2,042,026</b>
Employee share option schemes:						
– value of employee services	–	–	–	–	93,102	93,102
– number of shares issued and proceeds received	<b>3,980,713</b>	–	<b>80,689</b>	–	–	<b>80,689</b>
Employee share award scheme:						
– value of employee services	–	–	–	–	242,477	242,477
– shares purchased for share award scheme (Note)	–	–	–	(247,777)	–	(247,777)
– shares vested from share award scheme and transferred to the grantees	–	–	(29,574)	29,574	–	–
Repurchase and cancellation of shares	(611,300)	–	(97,586)	–	–	(97,586)
<b>At 30 June 2011</b>	<b>1,839,099,648</b>	<b>198</b>	<b>1,053,831</b>	<b>(476,340)</b>	<b>1,535,242</b>	<b>2,112,931</b>

Note:

During the six months ended 30 June 2011, an independent trustee (the “Trustee”) appointed for managing the share award scheme adopted by the Company (the “Share Award Scheme”) acquired 1,437,320 ordinary shares of the Company in the open market, and then the Group granted such shares to eligible persons (Note 14(b)). The total amount paid for the acquisition of the ordinary shares was HKD294,767,000 (equivalent to approximately RMB247,777,000) and had been deducted from shareholder’s equity.

As at 30 June 2011, the total number of issued ordinary shares of the Company was 1,839,099,648 shares (31 December 2010: 1,835,730,235 shares), which included 14,761,518 shares (Note 14(b)) (31 December 2010: 13,562,814 shares) held under the Share Award Scheme.

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS

#### (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.

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (a) Share option schemes (continued)

##### (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
<b>At 1 January 2010</b>	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	-	-	55,798,405
Granted	-	-	-	-	HKD158.5000	750,000	HKD158.5000	1,000,000	1,750,000
Exercised	USD0.0732	(1,068,900)	HKD9.5604	(8,964,204)	HKD40.9064	(968,471)	-	-	(11,001,575)
Lapsed	-	-	HKD17.9514	(210,202)	HKD55.1520	(148,226)	-	-	(358,428)
<b>At 30 June 2010</b>	USD0.0920	796,168	HKD12.5246	15,767,512	HKD48.2376	28,624,722	HKD158.5000	1,000,000	46,188,402
Currently exercisable as at 30 June 2010	USD0.0920	796,168	HKD10.5815	12,450,172	HKD39.1929	5,215,620	-	-	18,461,960
<b>At 1 January 2011</b>	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD194.4000	312,550	-	-	312,550
Exercised	USD0.0709	(464,420)	HKD12.7643	(1,866,215)	HKD43.6137	(1,650,078)	-	-	(3,980,713)
Lapsed	-	-	HKD4.4850	(33)	HKD58.0532	(96,556)	-	-	(96,589)
<b>At 30 June 2011</b>	USD0.1998	98,773	HKD12.8739	10,939,515	HKD57.2042	27,361,084	HKD158.5000	1,000,000	39,399,372
Currently exercisable as at 30 June 2011	USD0.1998	98,773	HKD11.6643	9,671,095	HKD41.1057	7,512,924	-	-	17,282,792

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

As a result of the options exercised during the six months ended 30 June 2011, 3,980,713 ordinary shares (during the six months ended 30 June 2010: 11,001,575 ordinary shares) were issued by the Company (Note 13). The weighted average price of the shares at the time these options were exercised was HKD202.01 (equivalent to approximately RMB169.46) per share (for the six months ended 30 June 2010: HKD159.30 (equivalent to approximately RMB139.56) per share).

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (a) Share option schemes (continued)

##### (2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2011 and 31 December 2010 are as follows:

Expiry Date	Range of exercise price	Numbers of share options	
		30 June 2011	31 December 2010
31 December 2011	USD0.0497	50,000	482,700
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	48,773	80,493
		<b>98,773</b>	563,193
10 years commencing from the adoption date of 24 March 2004	HKD3.6650-HKD8.3500	4,746,990	5,553,585
(Post-IPO Option Scheme I)	HKD11.5500-HKD25.2600	6,192,525	7,252,178
		<b>10,939,515</b>	12,805,763
7 years commencing from the date of grant of options	HKD31.7500-HKD43.5000	13,430,645	14,186,579
(Post-IPO Option Scheme II)	HKD45.5000-HKD90.3000	10,682,339	11,660,539
	HKD128.4000-HKD194.4000	3,248,100	2,948,050
		<b>27,361,084</b>	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
		<b>39,399,372</b>	43,164,124

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (a) Share option schemes (continued)

##### (3) Fair value of options

The directors have used the Black-Scholes option pricing model (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 six months ended 30 June 2011 was HKD88.99 per option (for the six months ended 30 June 2010: HKD79.58 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 is summarised as below.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
Weighted average share price at the grant date	<b>HKD194.40</b>	HKD158.30
Risk free rate	<b>2.31%</b>	2.35%-2.73%
Dividend yield	<b>0.36%</b>	0.63%
Expected volatility (Note)	<b>49.90%</b>	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 six months ended 30 June 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.

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (b) Share award scheme

The Share Award Scheme is managed by the Trustee and the vesting period of the awarded share is determined by the Board.

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

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

Notes:

- (i) The procedures associated with the share allotment had not been completed as at 30 June 2011.
- (ii) During the six months ended 30 June 2011, 35,000 awarded shares (during the six months ended 30 June 2010: Nil) were granted to independent non-executive directors of the Company.

## Notes to the Interim Financial Information

### 14 SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### (b) Share award scheme (continued)

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 six months ended 30 June 2011 was HKD208.32 per share (for the six months ended 30 June 2010: HKD159.99 per share). In addition, such awarded shares were divided into two to five tranches on an equal basis. The first tranche can be exercised 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) 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 30 June 2011, the Expected Retention Rate was assessed to be 91% (31 December 2010: 91%).

### 15 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

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

## Notes to the Interim Financial Information

### 16 OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2011	2010
	RMB'000	RMB'000
Staff costs and welfare accruals	1,169,948	1,337,627
Marketing and administrative expenses accruals	641,953	533,631
Prepayments received from customers and e-commerce business	1,110,032	841,095
Current portions of running royalty fees for online games	323,580	–
Others	392,290	285,455
	<u>3,637,803</u>	<u>2,997,808</u>

### 17 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited	Audited
	30 June	31 December
	2011	2010
	RMB'000	RMB'000
Foreign exchange forward contracts - held for trading	33,900	17,964
	<u>33,900</u>	<u>17,964</u>

The Group entered into a number of foreign exchange forward contracts with a total notional amount of USD800,000,000. The contracted amount of USD to be purchased was equal to the aggregate principal amounts of USD-denominated bank borrowings and bonds (details disclosed in Note 18(c) and Note 18(d)) expected to be repaid by the Group. 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.



## Notes to the Interim Financial Information

### 18 SHORT-TERM BORROWINGS

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

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

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

## Notes to the Interim Financial Information

### 18 SHORT-TERM BORROWINGS (continued)

Notes:

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

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

- (b) Bank borrowings of carrying amounts of RMB2,638,345,000 were secured by a pledge of bank deposits of RMB2,747,274,000.
- (c) Unsecured bank borrowings of carrying amount of RMB4,530,120,000 as at 30 June 2011 were also denominated in USD. The aggregate principal amount was USD700,000,000 and the interest rates were fixed at 1.20% to 2.32% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the borrowings upon the respective loan due dates. However, the Group arranged the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in "Other gains/(losses), net" in the consolidated income statement.
- (d) During the six months ended 30 June 2011, the Group issued USD denominated unsecured bonds at par value of USD100,000,000 (equivalent to approximately RMB647,160,000). The bonds bear a floating rate of LIBOR plus 0.25% per annum and will mature in March 2012.

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

## Notes to the Interim Financial Information

### 19 DEFERRED INCOME TAXES

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

	<b>Deferred income tax assets RMB'000</b>	<b>Deferred income tax liabilities RMB'000</b>	<b>Deferred income tax, net RMB'000</b>
<b>At 1 January 2010</b>	301,016	(369,983)	(68,967)
Charge to consolidated income statement	(28,308)	(111,534)	(139,842)
<b>At 30 June 2010</b>	<u>272,708</u>	<u>(481,517)</u>	<u>(208,809)</u>
<b>At 1 January 2011</b>	<b>219,019</b>	<b>(967,211)</b>	<b>(748,192)</b>
Charge to consolidated income statement	<b>(28,136)</b>	<b>(48,775)</b>	<b>(76,911)</b>
Credit to other comprehensive income	<b>6,690</b>	–	<b>6,690</b>
Temporary differences arising from a business combination (Note 27(a)(i))	–	<b>(269,793)</b>	<b>(269,793)</b>
Withholding tax paid in relation to the remittance of dividends from the PRC to foreign investors	–	<b>339,946</b>	<b>339,946</b>
<b>At 30 June 2011</b>	<u><b>197,573</b></u>	<u><b>(945,833)</b></u>	<u><b>(748,260)</b></u>

## Notes to the Interim Financial Information

### 20 LONG-TERM PAYABLES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Non-current portions of the present value of running royalty fees for online games	<b>1,294,320</b>	–
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a newly acquired subsidiary (Note 27 (a)(ii))	<b>670,985</b>	–
Purchase consideration payable for an acquisition (Note 27 (a)(i))	<b>284,106</b>	–
Others	<b>9,428</b>	–
	<b>2,258,839</b>	–

### 21 OTHER GAINS/(LOSSES), NET

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

## Notes to the Interim Financial Information

### 22 EXPENSES BY NATURE

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

Note:

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

## Notes to the Interim Financial Information

### 23 FINANCE INCOME/(COSTS), NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Exchange gains	14,903	2,474	27,719	916
Interest expenses	(13,132)	(5,450)	(29,817)	(5,450)
	<u>1,771</u>	<u>(2,976)</u>	<u>(2,098)</u>	<u>(4,534)</u>

### 24 TAX EXPENSE

#### (a) Income tax

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

(i) Cayman Islands and British Virgin Islands corporate tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the three and six months ended 30 June 2011 and 2010.

## Notes to the Interim Financial Information

### 24 TAX EXPENSE (continued)

#### (a) Income tax (continued)

##### (iii) PRC corporate income tax (the “CIT”)

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People’s Congress on 16 March 2007 (the “CIT Law”), the CIT for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the CIT Law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the “Circular to Implementation of the Transitional Preferential Policies for the Corporate Income Tax”. Pursuant to this circular, the transitional income tax rates for the Group’s subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rates shall be based on the above transitional income tax rates for the respective years.

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

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

## Notes to the Interim Financial Information

### 24 TAX EXPENSE (continued)

#### (a) Income tax (continued)

##### (iv) United States corporate tax

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

##### (v) PRC withholding tax on retained profits

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

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

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



## Notes to the Interim Financial Information

### 24 TAX EXPENSE (continued)

#### (a) Income tax (continued)

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

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	2,748,435	2,379,718	6,164,626	4,539,511
Share of profit of associates	(23,454)	(11,334)	(61,308)	(24,247)
Share of losses of jointly controlled entities	60,689	–	64,986	–
	<u>2,785,670</u>	<u>2,368,384</u>	<u>6,168,304</u>	<u>4,515,264</u>
Tax calculated at a tax rate of 24% (for the three and six months ended 30 June 2010: 22%)	668,561	521,044	1,480,393	993,358
Effects of different tax rates applicable to different subsidiaries of the Group	(227,458)	(61,617)	(533,220)	(165,428)
Effects of tax holiday on assessable profit of subsidiaries	(125,882)	(110,978)	(249,576)	(204,515)
Income not subject to tax	(1,900)	(5,258)	(11,663)	(5,258)
Expenses not deductible for tax purposes	79,318	31,692	113,879	49,916
Withholding tax on earnings expected to be remitted by PRC subsidiaries	50,000	80,000	141,500	115,000
Unrecognised deferred income tax assets/(Utilisation of previously unrecognised deferred income tax assets)	22,019	(6,358)	55,328	22,827
Adjustments in respect of prior year	(59,495)	–	(59,495)	–
Income tax expense	<u>405,163</u>	<u>448,525</u>	<u>937,146</u>	<u>805,900</u>

## Notes to the Interim Financial Information

### 24 TAX EXPENSE (continued)

#### (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

### 25 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 period.

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

## Notes to the Interim Financial Information

### 25 EARNINGS PER SHARE (continued)

#### (b) Diluted

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

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

## Notes to the Interim Financial Information

### 26 DIVIDEND

A final dividend in respect of the year ended 31 December 2010 of HKD0.55 per share (2009: HKD0.40 per share) was proposed pursuant to a resolution passed by the Board on 16 March 2011 and approved by shareholders at the annual general meeting of the Company held on 11 May 2011. Such dividend, totalling HKD1,010,294,000 (equivalent to approximately RMB838,290,000) (final dividend for 2009: HKD727,180,000 (equivalent to approximately RMB639,264,000)), had been paid as at 30 June 2011.

The Board did not propose any interim dividend for the six months ended 30 June 2011 (for the six months ended 30 June 2010: Nil).

### 27 BUSINESS COMBINATION

#### (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 stock options or special restricted stock units (“RSUs”) to its eligible employees (the “Eligible Persons”). As at the Closing Date, all share options and RSUs held by the Eligible Persons, both vested and unvested, amounted to a total of 2,040,456 shares in addition to the issued shares. In addition, according to the stock plan, 2,009,000 share options or RSUs may be further granted to the Eligible Persons as appropriate. After the Riot Games Acquisition, Riot Games was accounted for as a subsidiary of the Company. Riot Games continues to operate independently under the leadership of its founders and local management team.

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

## Notes to the Interim Financial Information

### 27 BUSINESS COMBINATION (continued)

#### (a) The Riot Games Acquisition (continued)

##### (i) Step-up business combination (continued)

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

	RMB'000
<b>Considerations:</b>	
Cash consideration paid/payable for additional equity interest in Riot Games	1,524,632
Deemed consideration arising from the grant of put option on Riot Games' existing share options	154,732
<b>Total considerations</b>	<b>1,679,364</b>
Fair value of the Previously Held Interest	576,539
Fair value of the Non-controlling Interest	187,092
	<u>2,442,995</u>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>	
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	(269,793)
<b>Total identifiable net assets</b>	<b>510,619</b>
Goodwill	1,932,376
	<u>2,442,995</u>
Acquisition-related costs (Note)	<u>54,400</u>

## Notes to the Interim Financial Information

### 27 BUSINESS COMBINATION (continued)

#### (a) The Riot Games Acquisition (continued)

##### (i) Step-up business combination (continued)

Note:

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

The Riot Games Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB459,037,000, being the difference between the fair value of the Previously Held Interest as at the Closing Date and its then carrying value of RMB117,502,000, was recorded as “Other gains/(losses), net” in the consolidated income statement for the six months ended 30 June 2011 (Note 21).

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

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

In connection with the Riot Games Acquisition, the Group offered, among others, certain share options and RSUs of Riot Games to certain 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 option 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.

## Notes to the Interim Financial Information

### 27 BUSINESS COMBINATION (continued)

#### (a) The Riot Games Acquisition (continued)

##### (ii) Other arrangements associated with the Riot Games Acquisition (continued)

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

The aforesaid cash bonus and stock-based compensation expense recorded as employee costs in the consolidated income statements for the three and six months ended 30 June 2011 were not material.

The grant of the put option 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) Acquisition of 100% equity interest in a mobile security software development company

During the six months ended 30 June 2011, the Group acquired 100% equity interest in a mobile security software development company.

Total consideration and the allocation of such consideration to the fair value of the net assets acquired and goodwill recognised as at the date of acquisition are as follows:

	RMB'000
Purchase consideration	42,800
Fair value of net assets acquired	2,477
Goodwill	40,323
	42,800

### 28 CONTINGENCIES

The Group had no material contingent liabilities as at 30 June 2011.

## Notes to the Interim Financial Information

### 29 COMMITMENTS

#### (a) Capital commitments

Capital commitments as at 30 June 2011 and 31 December 2010 are analysed as follows:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Contracted:		
Construction and purchase of buildings	<b>682,535</b>	211,558
Purchase of other fixed assets	<b>109,246</b>	135,165
Capital investment in investees	<b>698,163</b>	100,996
	<b>1,489,944</b>	447,719
Authorised but not contracted:		
Construction of buildings	<b>366,023</b>	373,277
Capital investment in an investee	<b>328,432</b>	385,000
	<b>694,455</b>	758,277
	<b>2,184,399</b>	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:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Contracted:		
Not later than one year	<b>294,043</b>	236,343
Later than one year but not later than five years	<b>796,508</b>	572,818
Later than five years	<b>70,947</b>	18,845
	<b>1,161,498</b>	828,006



## Notes to the Interim Financial Information

### 29 COMMITMENTS (continued)

#### (c) Other commitments

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Contracted:		
Not later than one year	<b>433,336</b>	1,064,792
Later than one year but not later than five years	<b>904,655</b>	1,981,543
	<b>1,337,991</b>	3,046,335

### 30 RELATED PARTIES TRANSACTIONS

Save as the share-based payment transactions disclosed in Note 14(b) and the loans made to associates and jointly controlled entities disclosed in Note 12, there were no other material related parties transactions during the three and six months ended 30 June 2011.

### 31 SUBSEQUENT EVENT

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

### 32 SEASONALITY

Certain Internet value-added services are subject to seasonal fluctuations as the users (especially students) are more active during winter holiday (the first quarter of the year) and summer holiday (mainly the third quarter of the year). Our online advertising business is also subject to seasonal fluctuations as advertisers usually reduce their advertising spending around the Chinese New Year holiday period (the first quarter of the year).

# Report on Review of Interim Financial Information

## TO THE BOARD OF DIRECTORS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

### INTRODUCTION

We have reviewed the interim financial information set out on pages 1 to 48, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2011 and the related consolidated income statement, the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 ‘Interim Financial Reporting’. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’. Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, “Review of interim financial information performed by the independent auditor of the entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not properly prepared, in all material respects, in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’.

#### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 10 August 2011

## 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:

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

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

## Financial Performance Highlights

### FIRST HALF OF 2011

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

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

## Financial Performance Highlights

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

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

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

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

## Financial Performance Highlights

### SECOND QUARTER OF 2011

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

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

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

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

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

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

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

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

## Financial Performance Highlights

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

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

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

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

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

# Management Discussion and Analysis

## SECOND QUARTER OF 2011 COMPARED TO FIRST QUARTER OF 2011

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

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



## Management Discussion and Analysis

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

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

- Revenues from our IVAS increased by 2.6% to RMB5,386.6 million for the second quarter of 2011 from RMB5,251.3 million for the first quarter of 2011. Despite weaker seasonality, online gaming revenues increased by 1.9% to RMB3,641.0 million. This was primarily driven by DNF which benefited from the launch of expansion packs during the quarter and, to a lesser extent, promotional activities. The increased monetisation of QQ Game and QQ Speed also contributed to the growth in online gaming revenues. Revenues from our community value-added services increased by 4.0% to RMB1,745.6 million. Qzone benefited from the growth in item-based revenues mainly driven by an increased number of third-party social applications offered on the platform. QQ Membership also experienced revenue growth with increased subscriptions mainly as a result of promotional activities and privileges related to our online games.
- Revenues from our MVAS increased by 2.1% to RMB793.8 million for the second quarter of 2011 from RMB777.8 million for the first quarter of 2011. This was mainly attributable to growth in mobile SNS and mobile games. Revenues from our bundled SMS packages were broadly stable. The growth of our MVAS revenues was lower than that of registered subscription as the new service cancellation policy introduced by China Mobile in early 2011 resulted in significantly lower realisation rates.
- Revenues from our online advertising business increased by 82.4% to RMB512.3 million for the second quarter of 2011 from RMB280.9 million for the first quarter of 2011. This mainly reflected favourable seasonality in the second quarter.

## Management Discussion and Analysis

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

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

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

## Management Discussion and Analysis

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

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

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

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

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

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

# Management Discussion and Analysis

## SECOND QUARTER OF 2011 COMPARED TO SECOND QUARTER OF 2010

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

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

## Management Discussion and Analysis

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

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

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

## Management Discussion and Analysis

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

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

- Cost of revenues for our IVAS increased by 62.6% to RMB1,788.2 million for the second quarter of 2011 from RMB1,100.0 million for the second quarter of 2010. This mainly reflected the growth in sharing costs as a result of increased revenues from our licensed games. Other costs also increased as our business scale grew.
- Cost of revenues for our MVAS increased by 33.2% to RMB322.5 million for the second quarter of 2011 from RMB242.1 million for the second quarter of 2010. This primarily reflected increased staff costs for the long-term growth of the business.
- Cost of revenues for our online advertising business increased by 43.6% to RMB168.6 million for the second quarter of 2011 from RMB117.4 million for the second quarter of 2010. This was mainly driven by sharing costs for our search business as traffic generated from our search distribution partners recorded a significant growth. This was also driven by increase in staff costs and sales commissions paid to advertising agencies.

## Management Discussion and Analysis

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

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

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

*Income tax expense.* We recorded income tax expense of RMB405.2 million for the second quarter of 2011 compared to RMB448.5 million for the second quarter of 2010. This primarily reflected a reversal of deferred tax liabilities arising from the Riot Games Acquisition, a reversal of income tax expenses as a result of the finalisation of our enterprise income tax assessment for 2010 and a decrease in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. This was partly offset by the increase in profit before tax.

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

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





## Management Discussion and Analysis

Unaudited six months ended 30 June 2010

	As reported	Adjustments			Non-GAAP
		Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	
(RMB in thousands, except percentages)					
Operating profit	4,519,798	220,571	–	19,012	4,759,381
Profit for the period	3,733,611	220,571	–	15,546	3,969,728
Profit attributable to equity holders of the Company	3,699,696	220,571	–	13,427	3,933,694
Operating margin	50.8%				53.5%
Net margin	42.0%				44.6%

Unaudited three months ended 30 June 2011

	As reported	Adjustments			Non-GAAP
		Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	
(RMB in thousands, except percentages)					
Operating profit	2,783,899	190,329	–	199,215	3,197,889
Profit for the period	2,343,272	190,329	–	136,440	2,694,487
Profit attributable to equity holders of the Company	2,349,246	187,252	–	127,641	2,686,757
Operating margin	41.3%				47.5%
Net margin	34.8%				40.0%

## Management Discussion and Analysis

Unaudited three months ended 31 March 2011

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

Unaudited three months ended 30 June 2010

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

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

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

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

Note:

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

As at 30 June 2011, RMB2,983.7 million of our financial resources (31 March 2011: RMB3,629.4 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

## Business Review and Outlook

In the second quarter of 2011, our platforms and revenues registered continued growth. The growth rates reduced alongside with the overall Internet market in China, which experienced a lower user base growth rate as its scale expanded. According to the CNNIC, China had 485.0 million Internet users at the end of June 2011. This represented a year-on-year growth of 15.5%, lower than the year-on-year growth rate of 24.3% for the same period of the previous year. The wireless Internet market showed a similar trend. At the end of June 2011, total wireless Internet users in China increased by 14.8% on a year-on-year basis to 317.7 million, a significant slowdown in growth rate compared to 78.0% in the same period of the previous year. Despite the slowdown in user growth rate, Internet usage among existing users continued to increase, and the ways through which Internet touches upon users' daily lives continued to proliferate.

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

We believe the pace of innovation in the Internet industry will continue to accelerate. To position ourselves for the emerging opportunities and threats in the Internet market, we have entered a new investment phase in which we put a strong focus on implementing our open platform strategy and new product development. Through a series of key initiatives including infrastructure enhancements, alliances and strategic investments, we are striving to build a healthy ecosystem which benefits users, applications developers, our platforms and the Internet industry as a whole. In addition, we will continue to make significant investments in existing products, and new strategic products including microblog, e-commerce, search, online security, online video and international expansion. The new investment phase will result in a significant cost increase in areas such as revenue sharing with partners, content acquisitions, research and development as well as marketing. As these investments will take time to generate return, our margins will inevitably be affected over the short to medium term. Nevertheless, we believe it is crucial for us to invest significantly for the future in the dynamic and competitive Internet market, and the investments will bear fruit in the long run.

## Business Review and Outlook

### IM PLATFORM

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

### QQ.COM

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

### IVAS

Our community VAS achieved a solid growth in the second quarter of 2011. For Qzone, active user accounts increased by 5.1% on a quarter-on-quarter basis to 530.7 million, on the back of organic growth and improved functionalities. Its revenue growth was driven by increased item sales resulting from a higher number of third-party applications available on the platform. In the first half of 2011, Qzone underwent a change in revenue mix with increasing contribution from item sales. We expect this trend to continue as we are working with more and more third-party developers in pursuing our open SNS platform strategy. Consequently, Qzone revenue would be subject to a higher level of fluctuation going forward. For Pengyou, active user accounts amounted to 129.3 million at the end of the second quarter of 2011, representing a sequential growth of 27.5%. Its market share increased as a result of enriched functionalities and enhanced user experience. Meanwhile, we continued to make good progress in building our microblog platform. Its registered user accounts increased by 59.4% quarter-on-quarter to 233.0 million at the end of the second quarter of 2011, with improvements in user activeness and interaction. This was a result of the enhancements in content and user experience, as well as increased marketing activities. For QQ Membership, the second quarter of 2011 saw a continued growth in subscription mainly driven by improved functionalities and privileges, as well as cross-platform promotions. On the other hand, QQ Show reached a plateau and we are focusing on expanding its user base through special promotions and free items.

## Business Review and Outlook

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

### MVAS

Our MVAS business increased slightly in the second quarter of 2011, reflecting the growth in mobile SNS and mobile games. Our bundled SMS packages were broadly stable in terms of revenues. The new service cancellation policy introduced by China Mobile in early 2011 has resulted in lower realisation rates and dampened the growth of our revenues. While we have already implemented mitigating measures, we expect the negative effect of this policy to linger in the foreseeable future. Despite the uncertainty in MVAS revenue, we are significantly increasing our investments in mobile Internet, including extending our existing Internet platforms to mobile devices, as well as developing new applications specifically for mobile users. Although these mobile platforms generally do not generate revenue at the moment, they are highly popular among users, and we believe business models will emerge in the future.

### ONLINE ADVERTISING

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

## Directors' Interests in Securities

As at 30 June 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)	194,892,880	10.60%
	Short position	Corporate (Note 1)	5,930,000	0.32%
Zhang Zhidong	Long position	Corporate (Note 2)	66,750,000	3.63%
Lau Chi Ping Martin	Long position	Personal	10,603,600 (Note 3)	0.58%
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%

Notes:

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 4,003,600 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 below 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 below under "Share Option Schemes".

## Directors' Interests in Securities

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 Award Scheme. Details of the share options and awarded shares granted to this director are set out below 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 Post-IPO Option Scheme I and the 15,000 awarded shares granted pursuant to the Share Award Scheme. Details of the share options and awarded shares granted to this directors are set out below under “Share Option Schemes” and “Share Award Scheme” respectively.

### (B) LONG POSITION IN THE SHARES OF 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 30 June 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 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. Movements of the options under the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III are detailed in Note 14 to the Interim Financial Information as included in this interim report.

As at 30 June 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:

Name of director	Date of grant	Exercise price (HKD)	Number of share options			As at 30 June 2011	Exercise Period
			As at 1 January 2011	Granted during the period	Exercised during the 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	

## Share Option Schemes

### Notes:

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 period.

## Share Award Scheme

On the Adoption Date, 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 as at the Adoption Date respectively.

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 six months ended 30 June 2011, a total of 1,972,570 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 six months ended 30 June 2011 are set out in Note 14 to the Interim Financial Information as included in this interim report.

## Share Award Scheme

As at 30 June 2011, there were a total of 35,000 outstanding Awarded Shares granted to the directors of the Company, details of which are as follow:

Name of director	Date of grant	Number of Awarded Shares				As at 30 June 2011	Vesting period
		As at 1 January 2011	Granted during the period	Vested during the 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		

## Information of Directors

Pursuant to rule 13.51B(1) of the Listing Rules, the amount of director's emoluments of each of the following director, except the two non-executive directors, has been changed during the period of this interim report and the detailed changes are shown under the biographical details of each director, if applicable, as follows:

**Ma Huateng**, age 39, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a member of the 5th Shenzhen Municipal People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer & its Application obtained in 1993 from Shenzhen University and more than 16 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which has interest in the shares of the Company. Mr Ma is entitled to an annual base salary of RMB4,245,800 in 2011 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary, bonus as set out in the service contract remained the same.

**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 Huateng, Chairman of the Board and Chief Executive Officer, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investment, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an Executive Director at Goldman Sachs (Asia) L.L.C's investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. He has over 14 years' experience in IPO, merger and acquisitions and management consulting. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. 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. Mr Lau is entitled to an annual base salary of USD480,740 in 2011 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary, bonus as set out in the service contract remained the same.

## Information of Directors

**Zhang Zhidong**, age 39, 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 14 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which has interest in the shares of the Company. Mr Zhang is entitled to an annual base salary of RMB2,971,800 in 2011 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary, bonus as set out in the service contract remained the same.

**Antonie Andries Roux**, age 53, has been a non-executive director since 10 December 2002. Mr Roux is currently Chief Executive Officer of Internet Operations for the MIH group companies, a position he has held since 2002. Mr Roux joined the Naspers group in 1979 and was a founding member of M-Net in 1985. In 1997, he was appointed Chief Executive Officer of M-Web South Africa. Currently, Mr Roux serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Roux has more than 32 years of experience in the telecommunications industry. Mr Roux as a non-executive director is not entitled to any director's fee or emoluments.

**Charles St Leger Searle**, age 47, 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 17 years of experience in the telecommunications and Internet industries. Mr Searle as a non-executive director is not entitled to any director's fee or emoluments.

**Li Dong Sheng**, age 55, has been an independent non-executive Director since April 2004. Mr Li is the Chairman and Chief Executive Officer 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 16 years of experience in the information technology field. Mr Li is entitled to a director's fee of HKD450,000 per annum for the year 2011, which is determined with reference to his duties and responsibilities with the Company.

## Information of Directors

**Iain Ferguson Bruce**, age 70, 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 46 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. Mr Bruce is entitled to a director's fee of HKD700,000 per annum for the year 2011, which is determined with reference to his duties and responsibilities with the Company.

**Ian Charles Stone**, age 60, has been an independent non-executive director since April 2004. Mr Stone is currently the Managing Director of International Projects for PCCW Limited and Chief Executive Officer of SITC in Saudi Arabia. Mr Stone has more than 40 years of experience in the telecom and mobile industries. He was the Chief Executive Officer of SmarTone between 1999 and 2001. Prior to joining SmarTone, he was Senior Adviser to First Pacific/PLDT of the First Pacific Group, Chief Operations Officer of Piltel, Managing Director of Pacific Link and Executive Director of Asialink, the regional telecom investment arm of First Pacific, respectively. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom. Mr Stone is entitled to a director's fee of HKD450,000 per annum for the year 2011, which is determined with reference to his duties and responsibilities with the Company.

## Substantial Shareholders

As at 30 June 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 of 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 OF THE COMPANY

Name of shareholder	Long/short position	Nature of interest	Number of shares held	Percentage of issued share capital
MIH China (BVI) Limited	Long position	Corporate (Note 1)	630,240,380	34.27%
Advance Data Services Limited	Long position	Corporate (Note 2)	194,892,880	10.60%
	Short position	Corporate (Note 2)	5,930,000	0.32%
ABSA Bank Limited	Long position	Corporate (Note 3)	185,000,000	10.06%

Notes:

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

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 30 June 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.



## Employee and Remuneration Policies

As at 30 June 2011, the Group had 12,904 employees (30 June 2010: 8,687), most of whom are based in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and the employees are remunerated based on industry practice.

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

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the six months ended 30 June 2011 was RMB2,214.1 million (for the six months ended 30 June 2010: RMB1,397.0 million).

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

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

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

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

## Audit Committee

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

## 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 of the Company have complied with such code of conduct throughout the accounting periods covered by this interim report.

## Compliance with the Code on Corporate Governance Practices

Code provision A.4.2 of the Code provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation, provided that the chairman of the Board shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. In compliance with the provisions in the Articles of Association, at the 2011 AGM, two directors retired and were re-elected and the re-election of Mr Li Dong Sheng, who was re-elected in 2008, was not considered at the 2011 AGM and his re-election will be considered at subsequent annual general meeting. Code provision A.4.2 regarding the retirement by rotation at least once every three years was deviated.

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

Save as disclosed above and those disclosed in the 2010 annual report of the Company, which was the position as at 31 December 2010, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the six months ended 30 June 2011, complied with the code provisions of the Code.

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

## Appreciation

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

By Order of the Board

**Ma Huateng**

Chairman

Hong Kong, 10 August 2011

## Definitions

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

<b>Term</b>	<b>Definition</b>
“2011 AGM”	the annual general meeting of the Company held on 11 May 2011
“Adoption Date”	13 December 2007
“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
“Board”	the board of directors of the Company
“CNNIC”	China Internet Network Information Center
“Code”	the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DNF”	Dungeon and Fighter
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong Special Administrative Region
“IFRS”	International Financial Reporting Standards
“IM”	Instant Messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MMOG(s)”	Massively Multiplayer Online Game(s)

## Definitions

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
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme I
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme
“Riot Games”	Riot Games, Inc.
“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games
“RMB”	the lawful currency of the PRC
“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 of the Company adopted by the Board on the Adoption Date
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“SMS”	Short Message Service
“SNS”	Social Networking Service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“USD”	the lawful currency of the United States of America
“VAS”	value-added services

# Tencent 騰訊

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