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

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2009**

The board of directors (the “Board”) of Tencent Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three and nine months ended 30 September 2009. These interim results have been reviewed by PricewaterhouseCoopers, the auditors of the Company (the “Auditors”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2009

	Unaudited	Audited
	30 September	31 December
	2009	2008
<i>Note</i>	RMB'000	RMB'000
ASSETS		
Non-current assets		
Fixed assets	2,377,732	1,165,048
Construction in progress	64,372	875,897
Investment properties	7,548	64,981
Leasehold land and land use rights	35,484	36,046
Intangible assets	290,295	370,314
Investment in associates	391,465	302,712
Deferred income tax assets	288,119	334,164
Held-to-maturity investments	341,450	—
Available-for-sale financial assets	152,913	86,180
Prepayments, deposits and other receivables	<u>93,113</u>	<u>124,354</u>
	<u>4,042,491</u>	<u>3,359,696</u>
Current assets		
Inventories	1,091	5,483
Accounts receivable	3 1,434,983	983,459
Prepayments, deposits and other receivables	361,164	378,340
Financial assets held for trading	—	329,804
Held-to-maturity investments	—	68,346
Term deposits with initial term of over three months	4,115,240	1,662,501
Restricted cash	200,000	—
Cash and cash equivalents	<u>5,159,322</u>	<u>3,067,928</u>
	<u>11,271,800</u>	<u>6,495,861</u>
Total assets	<u>15,314,291</u>	<u>9,855,557</u>

	Unaudited	Audited
	30 September	31 December
	2009	2008
<i>Note</i>	RMB'000	RMB'000
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	196	195
Share premium	1,214,203	1,155,209
Shares held for share award scheme	(82,147)	(21,809)
Share-based compensation reserve	603,129	381,439
Other reserves	(431,340)	(433,038)
Retained earnings	<u>9,030,610</u>	<u>5,938,930</u>
	10,334,651	7,020,926
Minority interests in equity	<u>109,866</u>	<u>98,406</u>
Total equity	<u>10,444,517</u>	<u>7,119,332</u>
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	101,505	78,368
Long-term payables	<u>551,057</u>	<u>566,260</u>
	<u>652,562</u>	<u>644,628</u>
Current liabilities		
Accounts payable	5 664,431	244,647
Other payables and accruals	1,359,156	1,013,542
Short-term bank borrowing	202,322	—
Current income tax liabilities	205,146	47,307
Other tax liabilities	187,143	103,933
Deferred revenue	<u>1,599,014</u>	<u>682,168</u>
	<u>4,217,212</u>	<u>2,091,597</u>
Total liabilities	<u>4,869,774</u>	<u>2,736,225</u>
Total equity and liabilities	<u>15,314,291</u>	<u>9,855,557</u>
Net current assets	<u>7,054,588</u>	<u>4,404,264</u>
Total assets less current liabilities	<u>11,097,079</u>	<u>7,763,960</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2009**

	<i>Note</i>	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2009	2008	2009	2008
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
Internet value-added services		2,622,625	1,400,598	6,683,656	3,436,373
Mobile and telecommunications value-added services		446,152	372,498	1,355,700	999,100
Online advertising		293,558	249,068	683,165	616,438
Others		<u>6,573</u>	<u>2,310</u>	<u>29,175</u>	<u>5,252</u>
		3,368,908	2,024,474	8,751,696	5,057,163
Cost of revenues	7	<u>(1,024,086)</u>	<u>(645,748)</u>	<u>(2,744,613)</u>	<u>(1,487,282)</u>
Gross profit		2,344,822	1,378,726	6,007,083	3,569,881
Other gains/(losses), net	6	39,014	(6,902)	63,571	66,401
Selling and marketing expenses	7	<u>(160,671)</u>	<u>(184,730)</u>	<u>(373,363)</u>	<u>(370,876)</u>
General and administrative expenses	7	<u>(542,818)</u>	<u>(376,585)</u>	<u>(1,453,465)</u>	<u>(952,286)</u>
Operating profit	*	1,680,347	810,509	4,243,826	2,313,120
Finance costs	**	<u>(1,179)</u>	<u>(7,944)</u>	<u>(1,584)</u>	<u>(143,328)</u>
Share of profit/(loss) of associates		<u>3,840</u>	<u>(176)</u>	<u>12,664</u>	<u>(1,734)</u>
Profit before income tax		1,683,008	802,389	4,254,906	2,168,058
Income tax expense	8	<u>(249,808)</u>	<u>(57,099)</u>	<u>(566,348)</u>	<u>(228,557)</u>
Profit/total comprehensive income for the period		<u>1,433,200</u>	<u>745,290</u>	<u>3,688,558</u>	<u>1,939,501</u>

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2009	2008	2009	2008
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Attributable to:					
Equity holders of the Company		1,419,851	737,123	3,647,701	1,915,480
Minority interests		13,349	8,167	40,857	24,021
		<u>1,433,200</u>	<u>745,290</u>	<u>3,688,558</u>	<u>1,939,501</u>

**Earnings per share for profit
attributable to equity holders
of the Company during the
period (expressed in RMB per
share)**

- basic	9	<u>0.787</u>	<u>0.410</u>	<u>2.027</u>	<u>1.067</u>
- diluted	9	<u>0.767</u>	<u>0.400</u>	<u>1.980</u>	<u>1.040</u>

* After deduction of share-based compensation charge amounting to RMB117,839,000 for the three months ended 30 September 2009 (for the three months ended 30 September 2008: RMB44,593,000) and RMB221,077,000 for the nine months ended 30 September 2009 (for the nine months ended 30 September 2008: RMB112,086,000).

** Included foreign exchange losses of RMB1,179,000 for the three months ended 30 September 2009 (for the three months ended 30 September 2008: RMB7,944,000) and RMB1,584,000 for the nine months ended 30 September 2009 (for the nine months ended 30 September 2008: RMB143,328,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332
Total comprehensive income for the period	-	-	-	-	-	3,647,701	3,647,701	40,857	3,688,558
Employee share option schemes:									
- value of employee services	-	-	-	135,549	-	-	135,549	-	135,549
- proceeds from shares issued	1	133,564	-	-	-	-	133,565	-	133,565
Employee share award scheme:									
- value of employee services	-	-	-	86,141	-	-	86,141	-	86,141
- shares purchased for share award scheme	-	-	(60,338)	-	-	-	(60,338)	-	(60,338)
Repurchase and cancellation of shares	-	(74,570)	-	-	-	-	(74,570)	-	(74,570)
Profit appropriations to statutory reserves	-	-	-	-	1,417	(1,417)	-	-	-
Dividends relating to 2008 (Note 10)	-	-	-	-	-	(554,604)	(554,604)	(29,116)	(583,720)
Exercise of put option granted to minority shareholders	-	-	-	-	281	-	281	(281)	-
Balance at 30 September 2009	196	1,214,203	(82,147)	603,129	(431,340)	9,030,610	10,334,651	109,866	10,444,517
Balance at 1 January 2008	194	1,455,854	-	220,230	93,712	3,413,823	5,183,813	91,630	5,275,443
Total comprehensive income for the period	-	-	-	-	-	1,915,480	1,915,480	24,021	1,939,501
Employee share option schemes:									
- value of employee services	-	-	-	108,699	-	-	108,699	-	108,699
- proceeds from shares issued	1	69,412	-	-	-	-	69,413	-	69,413
Employee share award scheme:									
- value of employee services	-	-	-	3,857	-	-	3,857	-	3,857
- shares purchased for share award scheme	-	-	(10,218)	-	-	-	(10,218)	-	(10,218)
Repurchase and cancellation of shares	-	(219,849)	-	-	-	-	(219,849)	-	(219,849)
Dividend relating to 2007 (Note 10)	-	-	-	-	-	(257,803)	(257,803)	-	(257,803)
Recognition of the financial liabilities in respect of the put option granted to a minority shareholder	-	-	-	-	(375,000)	-	(375,000)	-	(375,000)
Other movements	-	-	-	-	-	-	-	2,672	2,672
Balance at 30 September 2008	195	1,305,417	(10,218)	332,786	(281,288)	5,071,500	6,418,392	118,323	6,536,715

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009**

	Unaudited	
	Nine months ended	
	30 September	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	5,741,801	2,087,175
Net cash flows used in investing activities	(3,267,216)	(2,253,821)
Net cash flows used in financing activities	<u>(382,741)</u>	<u>(401,494)</u>
Net increase/(decrease) in cash and cash equivalents	2,091,844	(568,140)
Cash and cash equivalents at beginning of period	3,067,928	2,948,757
Exchange losses on cash and cash equivalents	<u>(450)</u>	<u>(78,890)</u>
Cash and cash equivalents at end of period	<u>5,159,322</u>	<u>2,301,727</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	2,412,594	1,147,347
Short-term highly liquid investments with initial term of three months or less	<u>2,746,728</u>	<u>1,154,380</u>
	<u>5,159,322</u>	<u>2,301,727</u>

Notes:

1 General information, basis of preparation and presentation

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

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

The consolidated statement of financial position as at 30 September 2009, the related consolidated statement of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group are prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2008 (the “2008 Financial Statements”) as set out in the 2008 annual report of the Company dated 18 March 2009.

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 2008 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 financial assets held for trading.

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the financial year beginning on 1 January 2009, are relevant to the Group:

IAS 1 (Revised)	Presentation of Financial Statements
IFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
Amendment to IFRS 7	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes

The Group has applied the IAS 1 (revised), the IFRS 2 (Amendment) and the IFRS 8 and management considers they do not have a significant impact on the Interim Financial Information. Amendment to IFRS 7 is not relevant to the preparation of Interim Financial Information. The current accounting treatment adopted by the Group for customer loyalty programmes complies with the requirement of IFRIC 13.

2 Segment information

The Group has three reportable segments for the three and nine months ended 30 September 2009 and 2008:

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

Other operations of the Group mainly comprise provision of online payments and trademark licensing.

There were no inter-segment sales during the three and nine months ended 30 September 2009 and 2008.

The reportable segment revenues and segment gross profit/(loss) for the three and nine months ended 30 September 2009 and 2008, together with the reconciliation of the segment gross profit/(loss) to profit before income tax, are presented as follows:

	Unaudited				Total RMB'000
	Three months ended 30 September 2009				
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	
Segment revenues (revenues from external customers)	<u>2,622,625</u>	<u>446,152</u>	<u>293,558</u>	<u>6,573</u>	<u>3,368,908</u>
Gross profit/(loss)	<u>1,877,828</u>	<u>273,675</u>	<u>205,169</u>	<u>(11,850)</u>	2,344,822
Other gains, net					39,014
Selling and marketing expenses					(160,671)
General and administrative expenses					<u>(542,818)</u>
Operating profit					1,680,347
Finance costs					(1,179)
Share of profit of associates					<u>3,840</u>
Profit before income tax					<u>1,683,008</u>

	Unaudited				Total RMB'000
	Three months ended 30 September 2008				
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	
Segment revenues (revenues from external customers)	<u>1,400,598</u>	<u>372,498</u>	<u>249,068</u>	<u>2,310</u>	<u>2,024,474</u>
Gross profit/(loss)	<u>974,227</u>	<u>231,183</u>	<u>184,792</u>	<u>(11,476)</u>	1,378,726
Other losses, net					(6,902)
Selling and marketing expenses					(184,730)
General and administrative expenses					<u>(376,585)</u>
Operating profit					810,509
Finance costs					(7,944)
Share of loss of associates					<u>(176)</u>
Profit before income tax					<u>802,389</u>

	Unaudited				
	Nine months ended 30 September 2009				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added services			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues					
(revenues from external customers)	<u>6,683,656</u>	<u>1,355,700</u>	<u>683,165</u>	<u>29,175</u>	<u>8,751,696</u>
Gross profit/(loss)	<u>4,729,080</u>	<u>834,582</u>	<u>469,352</u>	<u>(25,931)</u>	6,007,083
Other gains, net					63,571
Selling and marketing expenses					(373,363)
General and administrative expenses					<u>(1,453,465)</u>
Operating profit					4,243,826
Finance costs					(1,584)
Share of profit of associates					<u>12,664</u>
Profit before income tax					<u>4,254,906</u>

	Unaudited				
	Nine months ended 30 September 2008				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added services			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues					
(revenues from external customers)	<u>3,436,373</u>	<u>999,100</u>	<u>616,438</u>	<u>5,252</u>	<u>5,057,163</u>
Gross profit/(loss)	<u>2,506,216</u>	<u>636,065</u>	<u>459,015</u>	<u>(31,415)</u>	3,569,881
Other gains, net					66,401
Selling and marketing expenses					(370,876)
General and administrative expenses					<u>(952,286)</u>
Operating profit					2,313,120
Finance costs					(143,328)
Share of loss of associates					<u>(1,734)</u>
Profit before income tax					<u>2,168,058</u>

3 Accounts receivable

	Unaudited	Audited
	30 September	31 December
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	765,084	550,813
31 days - 60 days	145,235	172,461
61 days - 90 days	165,225	67,593
Over 90 days but less than a year	<u>359,439</u>	<u>192,592</u>
	<u>1,434,983</u>	<u>983,459</u>

The receivable balances as at 30 September 2009 mainly represented the amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, and advertising customers located in the PRC.

The Group has no formal credit periods communicated to telecommunication operators but these customers usually settle the amounts due from them within a period of 30 to 120 days. Advertising customers usually have a credit period of 90 days after full execution of the contracted advertisement orders.

4 Share option and share award schemes

(a) Share option schemes

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

(i) *Pre-IPO Share Option Scheme (the "Pre-IPO Option Scheme")*

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

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

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

(iii) *Post-IPO Share Option Scheme II (the "Post-IPO Option Scheme II")*

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

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

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. The Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption. No share options had been granted under the Post-IPO Option Scheme III since its adoption to 30 September 2009.

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		Total No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD53.7274	13,056,657	13,056,657
Exercised	USD0.1085	(4,418,516)	HKD7.4667	(9,058,806)	HKD31.9042	(174,218)	(13,651,540)
Lapsed	USD0.1967	(40)	HKD8.5700	(972,733)	HKD48.6003	(1,918,318)	(2,891,091)
At 30 September 2008	USD0.0992	<u>4,330,306</u>	HKD10.3724	<u>40,164,543</u>	HKD41.1549	<u>28,399,797</u>	<u>72,894,646</u>
Currently exercisable as at 30 September 2008	USD0.0983	<u>4,029,616</u>	HKD9.0128	<u>11,803,454</u>	HKD32.3639	<u>636,456</u>	<u>16,469,526</u>
At 1 January 2009	USD0.0964	4,124,083	HKD10.4762	37,615,536	HKD41.2330	28,715,506	70,455,125
Granted	–	–	–	–	HKD84.5601	2,702,150	2,702,150
Exercised	USD0.1221	(1,798,295)	HKD8.3170	(10,574,427)	HKD41.7192	(1,484,694)	(13,857,416)
Lapsed	USD0.0497	(254,080)	HKD9.5685	(419,937)	HKD45.0372	(543,059)	(1,217,076)
At 30 September 2009	USD0.0798	<u>2,071,708</u>	HKD11.3482	<u>26,621,172</u>	HKD45.1217	<u>29,389,903</u>	<u>58,082,783</u>
Currently exercisable as at 30 September 2009	USD0.0798	<u>2,071,708</u>	HKD9.5228	<u>14,185,571</u>	HKD41.3276	<u>3,473,927</u>	<u>19,731,206</u>

During the nine months ended 30 September 2009, no share options (during the nine months ended 30 September 2008: Nil) were granted to any director of the Company.

(b) **Share award scheme**

On 13 December 2007, the Company adopted a share award scheme (the “Share Scheme”). The Board may, at its absolute discretion, select any eligible persons to participate in the Share Scheme.

Movements in the number of shares held for the Share Scheme and awarded shares for the nine months ended 30 September 2009 and 2008 are as follows:

	Shares held for the Share Scheme	Awarded shares
At 1 January 2008	—	—
Purchased	196,000	—
Allotted	1,016,050	—
Granted	<u>(1,079,730)</u>	<u>1,079,730</u>
At 30 September 2008	<u>132,320</u>	<u>1,079,730</u>
At 1 January 2009	132,160	1,349,450
Purchased (<i>Note (i)</i>)	707,200	—
Allotted	8,181,180	—
Granted	(8,888,450)	8,888,450
Cancelled (<i>Note (ii)</i>)	(132,080)	—
Vested	<u>—</u>	<u>(71,778)</u>
At 30 September 2009	<u>10</u>	<u>10,166,122</u>

Note:

- (i) During the nine months ended 30 September 2009, the Group acquired 707,200 shares through a trustee with a consideration of approximately HKD68,461,000 (equivalent to approximately RMB60,338,000).
- (ii) The grant of 132,080 awarded shares was not completed and these shares were subsequently cancelled.

During the nine months ended 30 September 2009, no awarded shares (during the nine months ended 30 September 2008: Nil) were granted to any director of the Company.

5 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 September 2009 <i>RMB'000</i>	Audited 31 December 2008 <i>RMB'000</i>
0 - 30 days	625,443	202,237
31 days - 60 days	18,158	25,225
61 days - 90 days	18,860	1,269
Over 90 days but less than a year	<u>1,970</u>	<u>15,916</u>
	<u>664,431</u>	<u>244,647</u>

6 Other gains/(losses), net

	Unaudited Three months ended 30 September 2009 2008 <i>RMB'000</i> <i>RMB'000</i>		Unaudited Nine months ended 30 September 2009 2008 <i>RMB'000</i> <i>RMB'000</i>	
Interest income	33,329	26,687	94,898	73,987
Impairment charge for available-for-sale financial assets	—	(18,673)	—	(18,673)
Fair value gains/(losses) on financial assets held for trading	—	(7,302)	11,929	(2,661)
Government subsidies	943	260	21,523	40,040
Donation to a charity fund established by the Group	—	(10,000)	(55,000)	(30,000)
Others	<u>4,742</u>	<u>2,126</u>	<u>(9,779)</u>	<u>3,708</u>
	<u>39,014</u>	<u>(6,902)</u>	<u>63,571</u>	<u>66,401</u>

7 Expenses by nature

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Employee benefit expenses (<i>Note</i>)	584,589	401,793	1,531,924	992,997
Mobile and telecom charges and bandwidth and server custody fees	382,687	315,823	1,134,116	794,559
Content costs and agency fees	414,739	167,059	988,258	303,258
Depreciation of fixed assets (<i>Note</i>)	104,672	71,696	286,107	184,964
Promotion and advertising expenses	83,213	118,340	178,856	193,628
Travelling and entertainment expenses	24,776	21,137	76,185	57,023
Operating lease rentals in respect of office buildings	22,412	21,771	71,226	65,692
Amortisation of intangible assets	31,269	31,894	100,462	61,866
VAT paid upon transfer of software within the Group	—	2,100	—	4,200
Other expenses	<u>79,218</u>	<u>55,450</u>	<u>204,307</u>	<u>152,257</u>
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<u>1,727,575</u>	<u>1,207,063</u>	<u>4,571,441</u>	<u>2,810,444</u>

Note:

Research and development expenses were RMB322,665,000 and RMB858,520,000 for the three and nine months ended 30 September 2009, respectively (for the three and nine months ended 30 September 2008: RMB212,397,000 and RMB509,768,000, respectively). The expenses included employee benefit expenses of RMB261,618,000 and depreciation of fixed assets of RMB53,831,000 for the three months ended 30 September 2009 (for the three months ended 30 September 2008: RMB167,480,000 and RMB40,588,000, respectively) and employee benefit expenses of RMB676,182,000 and depreciation of fixed assets of RMB163,188,000 for the nine months ended 30 September 2009 (for the nine months ended 30 September 2008: RMB397,815,000 and RMB101,770,000, respectively).

The Group did not capitalise any research and development expenses for the three and nine months ended 30 September 2009 (for the three and nine months ended 30 September 2008: Nil).

8 Income tax expense

Income tax expense is recognised based on management's best estimate of the income tax rate expected for the financial period.

(i) Cayman Islands and British Virgin Islands Profits Tax

The Group has not been subject to any taxation in these jurisdictions for the three and nine months ended 30 September 2009 and 2008.

(ii) Hong Kong Profits Tax

No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the three and nine months ended 30 September 2009 and 2008.

(iii) PRC Enterprise Income Tax ("EIT")

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

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 ("New EIT Law"), the new enterprise income tax rate for domestic and foreign enterprises is unified at 25%, effective 1 January 2008. In addition, the New EIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the New EIT 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 Enterprise 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.

In 2008, six subsidiaries namely Shenzhen Tencent Computer Systems Company Limited, Tencent Technology (Shenzhen) Company Limited, Shenzhen Domain Computer Network Company Limited, Tencent Cyber (Shenzhen) Company Limited, Tencent Technology (Beijing) Company Limited ("Tencent Beijing") and Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin"), applied for and were subsequently approved as High/New Technology Enterprises, and accordingly, they were subject to a lower enterprise income tax rate of 15% for the period from 2008 to 2010 according to the New EIT Law.

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from EIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, the provision for EIT was provided at a rate of 7.5% for the three and nine months ended 30 September 2009 (for the three and nine months ended 30 September 2008: 7.5%).

As approved by the relevant tax authority, Cyber Tianjin is exempt from EIT for two years commencing from the first year of profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years. 2008 was the first profit-making year of Cyber Tianjin, and no provision for EIT was provided for the three and nine months ended 30 September 2009.

The taxation charges of the Group for the three and nine months ended 30 September 2009 and 2008 were analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	207,188	58,107	497,166	303,441
Deferred tax	42,620	(1,008)	69,182	(74,884)
	<u>249,808</u>	<u>57,099</u>	<u>566,348</u>	<u>228,557</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 20% for the three and nine months ended 30 September 2009 (for the three and nine months ended 30 September 2008: 18%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	1,683,008	802,389	4,254,906	2,168,058
Add: Share of (profit)/loss of associates	(3,840)	176	(12,664)	1,734
	<u>1,679,168</u>	<u>802,565</u>	<u>4,242,242</u>	<u>2,169,792</u>
Tax calculated at a tax rate of 20% (for the three and nine months ended 30 September 2008: 18%)	335,834	144,462	848,449	390,563
Income not subject to tax	—	—	—	(3,097)
Effects of different tax rates available to different companies of the Group	(47,752)	5,885	(117,709)	11,140
Effects of tax holiday on assessable profit of subsidiaries	(114,000)	(101,821)	(312,832)	(185,466)
Expenses not deductible for tax purposes	30,276	7,465	69,580	22,204
Withholding tax on the earnings anticipated to be remitted by subsidiaries	30,000	—	30,000	—
Unrecognised deferred tax assets/(utilisation of previously unrecognised deferred tax assets)	15,450	1,108	48,860	(6,787)
Tax charge	<u>249,808</u>	<u>57,099</u>	<u>566,348</u>	<u>228,557</u>

9 Earnings per share

(a) Basic

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>1,419,851</u>	<u>737,123</u>	<u>3,647,701</u>	<u>1,915,480</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,804,134</u>	<u>1,797,409</u>	<u>1,799,888</u>	<u>1,794,728</u>
Basic EPS (RMB per share)	<u><u>0.787</u></u>	<u><u>0.410</u></u>	<u><u>2.027</u></u>	<u><u>1.067</u></u>

(b) **Diluted**

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>1,419,851</u>	<u>737,123</u>	<u>3,647,701</u>	<u>1,915,480</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,804,134	1,797,409	1,799,888	1,794,728
Adjustments for share options (thousand shares)	43,583	45,126	41,769	46,471
Adjustments for awarded shares (thousand shares)	<u>2,982</u>	<u>46</u>	<u>1,073</u>	<u>18</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,850,699</u>	<u>1,842,581</u>	<u>1,842,730</u>	<u>1,841,217</u>
Diluted EPS (RMB per share)	<u>0.767</u>	<u>0.400</u>	<u>1.980</u>	<u>1.040</u>

10 **Dividends**

A final dividend in respect of the year ended 31 December 2008 of HKD0.25 (2007: HKD0.16) per share and a special dividend of HKD0.10 per share to celebrate the 10th anniversary of the Group, were proposed pursuant to a resolution passed by the Board on 18 March 2009 and subsequently approved by shareholders in the annual general meeting held on 13 May 2009. Such dividends, totalling approximately HKD629,802,000 (equivalent to RMB554,604,000) (final dividend for 2007: HKD286,990,000 (equivalent to RMB257,803,000)), had been paid as at 30 September 2009.

The Board did not propose any interim dividends.

OPERATING INFORMATION

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

	For the 15-day period ended 30 September 2009 <i>(in millions)</i>	For the 15-day period ended 30 June 2009	Percentage change
Registered IM user accounts (at end of period)	1,057.0	990.0	6.77%
Active user accounts (at end of period)	484.9	448.0	8.24%
Peak simultaneous online user accounts (for the quarter)	75.5	61.3	23.16%
Average daily user hours	1,202.2	996.8	20.61%
Average daily messages ⁽¹⁾	6,081.6	6,147.6	(1.07)%
Fee-based Internet value-added services registered subscriptions (at end of period)	47.9	40.0	19.75%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period) ⁽²⁾	17.7	17.2	2.91%

(1) Average daily messages include messages exchanged between IM client software installed on PCs or mobile devices only and exclude messages exchanged with PCs or mobile devices through channels other than IM client software.

(2) Include registered subscriptions for services provided directly by us or through mobile operators.

The period saw continued growth in our IM platform, reflecting the positive seasonal impact of the summer school holidays and the continuing growth of the Internet market in China. While registered IM user accounts and active user accounts registered healthy growth during the quarter, there was a strong growth in peak simultaneous online user accounts and average daily user hours. This was primarily driven by the rising popularity of our SNS applications, which enhanced user activity and engagement of our IM service through cross-platform integration, as well as the increasing usage of our IM service through mobile devices. Despite the significant increase in average daily user hours, average daily messages for the last 15 days of

the third quarter of 2009 decreased slightly as a result of the commencement of school year in early September, which reduced the number of messages exchanged by students but had no material impact on their amount of time spent online.

The increase in registered subscriptions to our fee-based Internet value-added services during the quarter mainly reflected the growth in Qzone, QQ Membership and QQ Show. Registered subscriptions to our fee-based mobile and telecommunications value-added services also increased slightly due to growth in our bundled SMS packages.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Nine Months of 2009

The following table sets forth the comparative figures for the first nine months of 2009 and the first nine months of 2008:

	Unaudited	
	Nine months ended	
	30 September	30 September
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	8,751,696	5,057,163
Cost of revenues	<u>(2,744,613)</u>	<u>(1,487,282)</u>
Gross profit	6,007,083	3,569,881
Other gains, net	63,571	66,401
Selling and marketing expenses	(373,363)	(370,876)
General and administrative expenses	<u>(1,453,465)</u>	<u>(952,286)</u>
Operating profit	4,243,826	2,313,120
Finance costs	(1,584)	(143,328)
Share of profit/(loss) of associates	<u>12,664</u>	<u>(1,734)</u>
Profit before income tax	4,254,906	2,168,058
Income tax expense	<u>(566,348)</u>	<u>(228,557)</u>
Profit for the period	<u>3,688,558</u>	<u>1,939,501</u>
Attributable to:		
Equity holders of the Company	3,647,701	1,915,480
Minority interests	<u>40,857</u>	<u>24,021</u>

Revenues. Revenues increased by 73.1% to RMB8,751.7 million for the first nine months of 2009 from RMB5,057.2 million for the first nine months of 2008.

	Unaudited			
	Nine months ended			
	30 September 2009		30 September 2008	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	6,683,656	76.4%	3,436,373	68.0%
Mobile and telecommunications value-added services	1,355,700	15.5%	999,100	19.7%
Online advertising	683,165	7.8%	616,438	12.2%
Others	29,175	0.3%	5,252	0.1%
Total revenues	<u>8,751,696</u>	<u>100.0%</u>	<u>5,057,163</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 84.5% to RMB2,744.6 million for the first nine months of 2009 from RMB1,487.3 million for the first nine months of 2008.

	Unaudited			
	Nine months ended			
	30 September 2009		30 September 2008	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,954,576	29.2%	930,157	27.1%
Mobile and telecommunications value-added services	521,118	38.4%	363,035	36.3%
Online advertising	213,813	31.3%	157,423	25.5%
Others	55,106	188.9%	36,667	698.2%
Total cost of revenues	<u>2,744,613</u>		<u>1,487,282</u>	

Third Quarter of 2009

Unaudited consolidated revenues for the third quarter of 2009 were RMB3,368.9 million, an increase of 66.4% over the same period of 2008 and an increase of 17.0% from the second quarter of 2009.

Revenues from our Internet value-added services for the third quarter of 2009 were RMB2,622.6 million, an increase of 87.3% over the same period of 2008 and an increase of 21.6% from the second quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the third quarter of 2009 were RMB446.2 million, an increase of 19.8% over the same period of 2008 and a decrease of 5.1% from the second quarter of 2009.

Revenues from online advertising for the third quarter of 2009 were RMB293.6 million, an increase of 17.9% over the same period of 2008 and an increase of 20.8% from the second quarter of 2009.

Cost of revenues for the third quarter of 2009 were RMB1,024.1 million, an increase of 58.6% over the same period of 2008 and an increase of 9.6% from the second quarter of 2009.

Other gains, net of RMB39.0 million were recorded for the third quarter of 2009, compared to other losses, net of RMB6.9 million for the same period of 2008 and other gains, net of RMB25.3 million for the second quarter of 2009.

Selling and marketing expenses for the third quarter of 2009 were RMB160.7 million, a decrease of 13.0% over the same period of 2008 and an increase of 40.2% from the second quarter of 2009.

General and administrative expenses for the third quarter of 2009 were RMB542.8 million, an increase of 44.1% over the same period of 2008 and an increase of 19.1% from the second quarter of 2009.

Operating profit for the third quarter of 2009 was RMB1,680.3 million, representing an increase of 107.3% over the same period of 2008 and an increase of 20.1% from the second quarter of 2009. As a percentage of revenues, operating profit accounted for 49.9% for the third quarter of 2009, compared to 40.0% for the same period of 2008 and 48.6% for the second quarter of 2009.

Profit for the third quarter of 2009 was RMB1,433.2 million, representing an increase of 92.3% over the same period of 2008 and an increase of 19.3% from the second quarter of 2009. As a percentage of revenues, profit for the period accounted for 42.5% for the third quarter of 2009, compared to 36.8% for the same period of 2008 and 41.8% for the second quarter of 2009.

Profit attributable to equity holders of the Company for the third quarter of 2009 was RMB1,419.9 million, an increase of 92.6% over the same period of 2008 and an increase of 19.1% from the second quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2009 Compared to Second Quarter of 2009

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

	Unaudited	
	Three months ended	
	30 September	30 June
	2009	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	3,368,908	2,878,423
Cost of revenues	<u>(1,024,086)</u>	<u>(934,613)</u>
Gross profit	2,344,822	1,943,810
Other gains, net	39,014	25,328
Selling and marketing expenses	(160,671)	(114,587)
General and administrative expenses	<u>(542,818)</u>	<u>(455,629)</u>
Operating profit	1,680,347	1,398,922
Finance costs	(1,179)	(653)
Share of profit of associates	<u>3,840</u>	<u>3,452</u>
Profit before income tax	1,683,008	1,401,721
Income tax expense	<u>(249,808)</u>	<u>(199,973)</u>
Profit for the period	<u>1,433,200</u>	<u>1,201,748</u>
Attributable to:		
Equity holders of the Company	1,419,851	1,192,410
Minority interests	<u>13,349</u>	<u>9,338</u>

Revenues. Revenues increased by 17.0% to RMB3,368.9 million for the third quarter of 2009 from RMB2,878.4 million for the second quarter of 2009. The following table sets forth our revenues by line of business for the third quarter of 2009 and the second quarter of 2009:

	Unaudited			
	Three months ended			
	30 September 2009		30 June 2009	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	2,622,625	77.8%	2,156,468	74.9%
Mobile and telecommunications value-added services	446,152	13.3%	470,003	16.3%
Online advertising	293,558	8.7%	243,044	8.5%
Others	<u>6,573</u>	<u>0.2%</u>	<u>8,908</u>	<u>0.3%</u>
Total revenues	<u>3,368,908</u>	<u>100.0%</u>	<u>2,878,423</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 21.6% to RMB2,622.6 million for the third quarter of 2009 from RMB2,156.5 million for the second quarter of 2009. There was a significant growth in online gaming revenues, primarily driven by the positive seasonal impact of the summer school holidays which increased monetisation of our major games, including Cross Fire, Dungeon and Fighter (“DNF”), QQ Dancer and QQ Speed. The increase was partly offset by the decline in revenues from more mature MMOGs, including QQ Huaxia, QQ Fantasy and QQ Sanguo. Revenues from QQ Game was broadly stable as the growth of the product was affected by the increasing popularity of SNS-based casual gaming applications. Revenues from our community value-added services increased on the back of the growth in Qzone, QQ Show and QQ Membership. The increase was partially offset by the decline in QQ Pets. Qzone benefited from the increasing traction of new SNS applications which enhanced user activity and monetisation. QQ Show grew during the quarter as we introduced more trendy themes and enhancements in user experience and features. Revenues from QQ Membership increased, mainly attributable to growth in monthly subscription driven by enhanced functionalities and cross promotions with other Internet value-added services. Despite the positive seasonality, revenues from QQ Pets declined with the decrease in usage and monetisation due to its maturity and competition from other SNS-based casual gaming applications.

- Revenues from our mobile and telecommunications value-added services decreased by 5.1% to RMB446.2 million for the third quarter of 2009 from RMB470.0 million for the second quarter of 2009. The reduction was mainly due to the decrease in realisation rates and lower revenues from mobile voice value-added services, including the legacy colour ringback tone business.
- Revenues from online advertising increased by 20.8% to RMB293.6 million for the third quarter of 2009 from RMB243.0 million for the second quarter of 2009. The increase mainly reflected the positive seasonality and a gradual improvement in economic environment.

Cost of revenues. Cost of revenues increased by 9.6% to RMB1,024.1 million for the third quarter of 2009 from RMB934.6 million for the second quarter of 2009. This principally reflected increased sharing costs driven by revenue growth as well as increased staff costs due to the growth in headcount and stock-based compensation. As a percentage of revenues, cost of revenues decreased to 30.4% for the third quarter of 2009 from 32.5% for the second quarter of 2009. The following table sets forth our cost of revenues by line of business for the third quarter of 2009 and the second quarter of 2009:

	Unaudited			
	Three months ended			
	30 September 2009		30 June 2009	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	744,797	28.4%	665,155	30.8%
Mobile and telecommunications value-added services	172,477	38.7%	179,581	38.2%
Online advertising	88,389	30.1%	73,423	30.2%
Others	<u>18,423</u>	<u>280.3%</u>	<u>16,454</u>	184.7%
Total cost of revenues	<u>1,024,086</u>		<u>934,613</u>	

- Cost of revenues for our Internet value-added services increased by 12.0% to RMB744.8 million for the third quarter of 2009 from RMB665.2 million for the second quarter of 2009. This mainly reflected the increased sharing costs due to the growth in revenues from licensed games as well as increased staff costs.
- Cost of revenues for our mobile and telecommunications value-added services decreased by 4.0% to RMB172.5 million for the third quarter of 2009 from RMB179.6 million for the second quarter of 2009. The reduction primarily reflected the decrease in telecommunications operators' revenue share and sharing costs as a result of decreased revenues, partly offset by increased staff costs.
- Cost of revenues for online advertising increased by 20.4% to RMB88.4 million for the third quarter of 2009 from RMB73.4 million for the second quarter of 2009. This was mainly driven by the increase in sales commissions paid to advertising agencies as a result of the growth in revenues.

Other gains, net. Other gains, net increased by 54.0% to RMB39.0 million for the third quarter of 2009 from RMB25.3 million for the second quarter of 2009. The increase primarily reflected higher interest income and the decrease in donation made to the Tencent Charity Fund. This was partly offset by the decline in government subsidies received and fair value gains on financial assets held for trading.

Selling and marketing expenses. Selling and marketing expenses increased by 40.2% to RMB160.7 million for the third quarter of 2009 from RMB114.6 million for the second quarter of 2009. This was largely due to the increase in advertising and promotion spending as we accelerated our brand investments to further enhance our position as a mainstream media in China. In addition, there was an increase in the spending on promotion of our online games. Staff costs also increased along with the continued expansion of our business. As a percentage of revenues, selling and marketing expenses increased to 4.8% in the third quarter of 2009 from 4.0% in the second quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 19.1% to RMB542.8 million for the third quarter of 2009 from RMB455.6 million for the second quarter of 2009. This was primarily driven by increased staff costs as a result of the growth in headcount of our research and development team and other supporting departments as well as the increase in stock-based compensation. As a percentage of revenues, general and administrative expenses increased to 16.1% in the third quarter of 2009 from 15.8% in the second quarter of 2009.

Finance costs. Finance costs increased by 80.6% to RMB1.2 million for the third quarter of 2009 from RMB0.7 million for the second quarter of 2009. This was due to increased foreign exchange losses in relation to our US dollar-denominated cash and investments.

Income tax expense. Income tax expense increased by 24.9% to RMB249.8 million for the third quarter of 2009 from RMB200.0 million for the second quarter of 2009. The increase mainly reflected higher profit before tax as well as recognition of deferred tax liabilities totalling RMB30.0 million in relation to the estimated withholding tax for intra-group dividends expected to be paid by our PRC subsidiaries to their overseas parent companies. This was partly offset by absence of the incremental tax expense provided during the second quarter of 2009 upon the finalisation of enterprise income tax assessment for 2008.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 19.3% to RMB1,433.2 million for the third quarter of 2009 from RMB1,201.7 million for the second quarter of 2009. Profit margin was 42.5% for the third quarter of 2009 compared to 41.8% for the second quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 19.1% to RMB1,419.9 million for the third quarter of 2009 from RMB1,192.4 million for the second quarter of 2009.

Third Quarter of 2009 Compared to Third Quarter of 2008

The following table sets forth the comparative figures for the third quarter of 2009 and the third quarter of 2008:

	Unaudited	
	Three months ended	
	30 September	30 September
	2009	2008
	RMB'000	RMB'000
Revenues	3,368,908	2,024,474
Cost of revenues	(1,024,086)	(645,748)
Gross profit	2,344,822	1,378,726
Other gains/(losses), net	39,014	(6,902)
Selling and marketing expenses	(160,671)	(184,730)
General and administrative expenses	(542,818)	(376,585)
Operating profit	1,680,347	810,509
Finance costs	(1,179)	(7,944)
Share of profit/(loss) of associates	3,840	(176)
Profit before income tax	1,683,008	802,389
Income tax expense	(249,808)	(57,099)
Profit for the period	<u>1,433,200</u>	<u>745,290</u>
Attributable to:		
Equity holders of the Company	1,419,851	737,123
Minority interests	<u>13,349</u>	<u>8,167</u>

Revenues. Revenues increased by 66.4% to RMB3,368.9 million for the third quarter of 2009 from RMB2,024.5 million for the third quarter of 2008. The following table sets forth our revenues by line of business for the third quarter of 2009 and the third quarter of 2008:

	Unaudited			
	Three months ended			
	30 September 2009		30 September 2008	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	2,622,625	77.8%	1,400,598	69.2%
Mobile and telecommunications value-added services	446,152	13.3%	372,498	18.4%
Online advertising	293,558	8.7%	249,068	12.3%
Others	6,573	0.2%	2,310	0.1%
Total revenues	<u>3,368,908</u>	<u>100.0%</u>	<u>2,024,474</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 87.3% to RMB2,622.6 million for the third quarter of 2009 from RMB1,400.6 million for the third quarter of 2008. Our online gaming revenues increased strongly, mainly driven by the increase in popularity of games launched in 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, as well as the growth of QQ Game. The increase was partially offset by lower revenues from more mature MMOGs, such as QQ Sanguo, QQ Huaxia and QQ Fantasy. Revenues from our community value-added services increased significantly during the quarter, with the growth in Qzone, QQ Membership and QQ Show partly offset by the decline in QQ Pets. We recorded significant increase in revenues from Qzone as the launch of new SNS applications enhanced user engagement and activity. Revenues from QQ Membership benefited from the continued enrichment of value-added services and privileges which increased user loyalty and stickiness. We also recorded significant revenue growth in QQ Show on the back of the successful transition from item-based to subscription-based business model. Revenues from QQ Pets declined, mainly driven by the decrease in usage and monetisation as a result of its maturity and competition from other SNS-based casual gaming applications.
- Revenues from our mobile and telecommunications value-added services increased by 19.8% to RMB446.2 million for the third quarter of 2009 from RMB372.5 million for the third quarter of 2008. This mainly reflected the increase in revenues from our bundled SMS packages as we enhanced the functionalities of our products and services. In addition, we recorded increased

mobile gaming revenues riding on the growing popularity of mobile games. The increase was partly offset by the reduction in realisation rates in the third quarter of 2009 and the decline in revenues from mobile voice value-added services, including the legacy colour ringback tone business.

- Revenues from online advertising increased by 17.9% to RMB293.6 million for the third quarter of 2009 from RMB249.1 million for the third quarter of 2008. This primarily reflected the continued growth of our user base, the strengthening of our advertising platforms and sales organisation, as well as the enhancement in our brand position and media influence.

Cost of revenues. Cost of revenues increased by 58.6% to RMB1,024.1 million for the third quarter of 2009 from RMB645.7 million for the third quarter of 2008. This was mainly driven by the increase in sharing costs, staff costs, telecommunications operators' revenue share as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues decreased to 30.4% for the third quarter of 2009 from 31.9% for the third quarter of 2008. The following table sets forth our cost of revenues by line of business for the third quarter of 2009 and the third quarter of 2008:

	Unaudited			
	Three months ended			
	30 September 2009		30 September 2008	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	744,797	28.4%	426,371	30.4%
Mobile and telecommunications value-added services	172,477	38.7%	141,315	37.9%
Online advertising	88,389	30.1%	64,276	25.8%
Others	<u>18,423</u>	280.3%	<u>13,786</u>	596.8%
Total cost of revenues	<u>1,024,086</u>		<u>645,748</u>	

- Cost of revenues for our Internet value-added services increased by 74.7% to RMB744.8 million for the third quarter of 2009 from RMB426.4 million for the third quarter of 2008. This was primarily due to increased sharing costs associated with the strong growth in revenues from our licensed games launched in 2008, including DNF and Cross Fire. Telecommunications operators' revenue share, staff costs as well as bandwidth and server custody fees also increased mainly driven by our expanding business volume.

- Cost of revenues for our mobile and telecommunications value-added services increased by 22.1% to RMB172.5 million for the third quarter of 2009 from RMB141.3 million for the third quarter of 2008. This was largely driven by increased telecommunications operators' revenue share as a result of revenue growth. This also reflected the increase in staff costs.
- Cost of revenues for online advertising increased by 37.5% to RMB88.4 million for the third quarter of 2009 from RMB64.3 million for the third quarter of 2008. This primarily reflected the increase in sales commissions paid to advertising agencies as the volume of our advertising business grew.

Other gains/(losses), net. We recorded other gains, net of RMB39.0 million for the third quarter of 2009 compared to other losses, net of RMB6.9 million for the third quarter of 2008. The change reflected the decrease in donation made to the Tencent Charity Fund and the increase in interest income. In addition, fair value losses on financial assets held for trading and impairment loss of RMB18.7 million for one of our investees were recognised in the third quarter of 2008. Such items were not repeated in the third quarter of 2009.

Selling and marketing expenses. Selling and marketing expenses decreased by 13.0% to RMB160.7 million for the third quarter of 2009 from RMB184.7 million for the third quarter of 2008. The decrease was mainly driven by the reduction in promotion and advertising expenses as we incurred significant spending on the reporting of the Beijing Olympics in August 2008. This decrease was partially offset by increased staff costs due to the continued expansion of our business. As a percentage of revenues, selling and marketing expenses decreased to 4.8% in the third quarter of 2009 from 9.1% in the third quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 44.1% to RMB542.8 million for the third quarter of 2009 from RMB376.6 million for the third quarter of 2008. This primarily reflected increased staff costs as a result of the growth in headcount of our research and development team and other supporting departments as well as the increase in stock-based compensation. As a percentage of revenues, general and administrative expenses decreased to 16.1% in the third quarter of 2009 from 18.6% in the third quarter of 2008.

Finance costs. Finance costs decreased by 85.2% to RMB1.2 million for the third quarter of 2009 from RMB7.9 million for the third quarter of 2008. This was driven by the reduction in foreign exchange losses attributable to our US dollar-denominated cash and investments.

Income tax expense. We recorded income tax expense of RMB249.8 million for the third quarter of 2009 compared to RMB57.1 million for the third quarter of 2008. The increase mainly reflected higher profit before tax as well as recognition of deferred tax liabilities in relation to the estimated withholding tax for intra-group dividends expected to be paid by our PRC subsidiaries to their overseas parent companies. In addition, we recognised deferred tax assets relating to intra-group sales of technology and software in the third quarter of 2008, whereas such item was not repeated in this quarter.

Profit for the period. Profit for the period increased by 92.3% to RMB1,433.2 million for the third quarter of 2009 from RMB745.3 million for the third quarter of 2008. Profit margin was 42.5% for the third quarter of 2009 compared to 36.8% for the third quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 92.6% to RMB1,419.9 million for the third quarter of 2009 from RMB737.1 million for the third quarter of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2009 and 30 June 2009, we had the following major financial resources in the form of cash and investments:

	Unaudited	
	30 September	30 June
	2009	2009
	RMB'000	RMB'000
Cash and cash equivalents	5,159,322	4,061,022
Term deposits with initial term of over three months	4,115,240	3,380,260
Held-to-maturity investments	<u>341,450</u>	<u>341,595</u>
Total	<u>9,616,012</u>	<u>7,782,877</u>

Note: The above table excludes RMB200.0 million of restricted deposits pledged as part of a USD29.8 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amount at the maturity of the loan.

As at 30 September 2009, RMB1,168.2 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the fluctuation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, 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.

We had no other interest-bearing borrowings as at 30 September 2009.

Business Review and Outlook

In the third quarter of 2009, our Internet value-added services (“IVAS”) benefited from the strong seasonality of the summer school holidays, which increased monetisation of our popular games, as well as contributed to the growth of our community value-added services. For our mobile and telecommunications value-added services (“MVAS”), revenues declined on a quarter-on-quarter basis, primarily due to the reduction in realisation rates and the decreasing business volume of mobile voice value-added services. Our online advertising business grew on the back of the positive seasonality and a gradual improvement in economic environment. Looking ahead, the fourth quarter would present challenging seasonality for our IVAS and online advertising businesses. Visibility of our MVAS business would remain low as the industry value chain is still evolving.

IM Platform

Our core IM platform continued to expand, with active users and peak concurrent users (“PCU”) increasing to 484.9 million and 75.5 million respectively in the third quarter of 2009. The amount of time users spent on our IM services increased significantly during the quarter. This was driven by the popularity of our SNS applications which enhanced user engagement and activity through cross-platform integration, as well as increased usage of our IM services through mobile devices.

QQ.com

QQ.com consolidated its position as the leading Internet media in China, with continued enhancements in the content and user experience of different channels, as well as the comprehensive coverage of the 60th anniversary of National Day. During the quarter, we stepped up our advertising and promotional activities to strengthen the brand recognition and media influence of QQ.com. We are planning a brand enhancement campaign which will increase our marketing expenses significantly in the fourth quarter.

Internet value-added services

Our community value-added services delivered solid growth during the third quarter of 2009. QQ Membership grew as we carried out cross promotions with other IVAS during the summer season. However, continued growth of QQ Membership is becoming increasingly challenging because of its large base and already high penetration rate among the QQ users. We are intensifying our efforts to enhance the overall user value of the product by adding offline lifestyle services to the package. However, these efforts require long time to organize and their actual results remain to be explored. Active user accounts of Qzone increased by 33.7% on a

quarter-on-quarter basis to 305.3 million at the end of the third quarter. This was mainly driven by our new SNS applications, particularly SNS-based casual games, which were well received by our users. Xiaoyou, a real-name SNS service focused on students, continued to gain traction during the quarter as we benefited from the back-to-school season after summer vacation. QQ Show benefited from positive seasonality and our ongoing enrichment of content and user experience. For QQ Pets, usage and monetisation decreased during the quarter despite stronger seasonality due to its maturity and competition from other SNS-based casual gaming applications. We are working on a comprehensive upgrade of the product with more multiplayer functions and lower level of monetisation in order to revive the user base of the service.

In the third quarter, our online gaming business benefited from the strong seasonal impact of the summer holidays. Our advanced casual games, which performance are particularly sensitive to holidays, registered robust growth. While the PCU of Cross Fire increased to 1.6 million, QQ Dancer achieved over 1 million PCU during the quarter, making it our third online game reaching this milestone. In MMOG, the PCU of DNF exceeded 2 million during the quarter. We also launched Silk Road Hero, a web-based MMOG, and Hero Island, a niche market MMOG, to cover the various market segments within the online gaming market. During the third quarter, the PCU of QQ Game declined to 5.7 million as the number for the previous quarter was stimulated by short-term boost due to special marketing activities and in-game promotions. Its revenue was stable compared to the previous quarter. Going forward, QQ Game may face additional cannibalisation impact from SNS-based casual gaming applications. For upcoming game titles, we are currently fine-tuning the close beta of A.V.A., a first person shooting game. We also plan to launch Feng Shen Ji and Fantasy World, both of which are in-house developed MMOGs, in 2010.

Mobile and telecommunications value-added services

In the third quarter, revenues from our MVAS business was dampened by lowered realisation rates and decline in mobile voice value-added services, including the legacy colour ringback tone business. Monthly subscription to our bundled SMS packages grew slightly as we enhanced functionalities and user experience. We also experienced strong increase in the traffic on our wireless portal, further strengthening its leading position in China. While the proliferation of 3G will present new business opportunities over the longer term, visibility of the industry remains low as the value chain is still evolving.

Online advertising

Amid positive seasonal impact of the summer holidays and gradual improvement in the overall economic environment, our advertising revenues increased during the

quarter. However, sustainability of the recovery in the advertising market is still uncertain. Looking ahead, the fourth quarter would present weaker seasonality for the business. We also expect our search-based advertising revenues to reduce substantially due to amendments to service contract with our partner and the gradual transition into our self-developed search engine.

Other Information

Employee and Remuneration Policies

As at 30 September 2009, the Group had 7,277 employees (30 September 2008: 6,039), 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 they 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 granted to employees according to the assessment of individual performance.

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the three months ended 30 September 2009 was RMB585.0 million (for the three months ended 30 September 2008: RMB402.8 million).

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2009.

Audit Committee

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditors, has reviewed the Group's unaudited Interim Financial Information for the three and nine months ended 30 September 2009.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2008 annual report of the Company which was the position as at 31 December 2008, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three and nine months ended 30 September 2009, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

Appreciation

On behalf of the Board, I would like to thank all our employees for their efforts, dedication and commitment, all of which contributed to the growth of the Group, as well as our shareholders for their continuous support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 11 November 2009

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:

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

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