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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 MONTHS ENDED 31 MARCH 2011**

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2011. These interim results have been reviewed by the Auditor in accordance with the 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.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

| | | Unaudited | Audited |
|---|-------------|--------------------------|--------------------------|
| | | 31 March | 31 December |
| | | 2011 | 2010 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Fixed assets | | 4,095,980 | 3,292,828 |
| Construction in progress | | 17,682 | 386,943 |
| Investment properties | | 37,043 | 37,229 |
| Land use rights | | 228,711 | 229,890 |
| Intangible assets | | 3,097,395 | 572,981 |
| Investment in associates | | 1,713,489 | 1,070,633 |
| Investment in jointly controlled entities | | 71,245 | 74,542 |
| Deferred income tax assets | | 204,495 | 219,019 |
| Available-for-sale financial assets | 3 | 3,635,123 | 4,126,878 |
| Prepayments, deposits and other assets | | 490,926 | 445,430 |
| | | <u>13,592,089</u> | <u>10,456,373</u> |
| Current assets | | | |
| Accounts receivable | 4 | 2,070,013 | 1,715,412 |
| Prepayments, deposits and other assets | | 682,210 | 487,872 |
| Term deposits with initial term of over three months | | 12,170,143 | 11,725,743 |
| Restricted cash | 7 | 2,330,410 | 1,036,457 |
| Cash and cash equivalents | | 10,882,954 | 10,408,257 |
| | | <u>28,135,730</u> | <u>25,373,741</u> |
| Total assets | | <u>41,727,819</u> | <u>35,830,114</u> |

| | | Unaudited 31 March 2011 RMB'000 | Audited 31 December 2010 RMB'000 |
|--|---|--|---|
| EQUITY | | | |
| Equity attributable to the Company's equity holders | | | |
| Share capital | | 198 | 198 |
| Share premium | | 1,049,294 | 1,100,302 |
| Shares held for share award scheme | | (346,988) | (258,137) |
| Share-based compensation reserve | | 1,343,923 | 1,199,663 |
| Other reserves | | 566,481 | 1,919,695 |
| Retained earnings | | <u>20,665,599</u> | <u>17,795,225</u> |
| | | 23,278,507 | 21,756,946 |
| Non-controlling interests | | <u>284,838</u> | <u>83,912</u> |
| Total equity | | <u>23,563,345</u> | <u>21,840,858</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 858,315 | 967,211 |
| Long-term payables | | <u>980,214</u> | <u>—</u> |
| | | <u>1,838,529</u> | <u>967,211</u> |
| Current liabilities | | | |
| Accounts payable | 6 | 2,046,669 | 1,380,464 |
| Other payables and accruals | | 2,844,696 | 2,997,808 |
| Derivative financial instruments | 7 | 39,338 | 17,964 |
| Short-term borrowings | 7 | 7,131,801 | 5,298,947 |
| Current income tax liabilities | | 452,768 | 341,103 |
| Other tax liabilities | | 346,115 | 225,188 |
| Deferred revenue | | <u>3,464,558</u> | <u>2,760,571</u> |
| | | <u>16,325,945</u> | <u>13,022,045</u> |
| Total liabilities | | <u>18,164,474</u> | <u>13,989,256</u> |
| Total equity and liabilities | | <u>41,727,819</u> | <u>35,830,114</u> |
| Net current assets | | <u>11,809,785</u> | <u>12,351,696</u> |
| Total assets less current liabilities | | <u>25,401,874</u> | <u>22,808,069</u> |

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

| | | Unaudited | |
|--|-------------|---------------------------|-------------------------|
| | | Three months ended | |
| | | 31 March | |
| | | 2011 | 2010 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| Revenues | | | |
| Internet value-added services | | 5,251,282 | 3,387,377 |
| Mobile and telecommunications value-added services | | 777,792 | 618,238 |
| Online advertising | | 280,894 | 204,334 |
| Others | | 28,452 | 16,111 |
| | | 6,338,420 | 4,226,060 |
| Cost of revenues | 9 | (2,193,729) | (1,328,355) |
| Gross profit | | 4,144,691 | 2,897,705 |
| Interest income | | 100,662 | 57,191 |
| Other gains/(losses), net | 8 | 339,069 | (35,275) |
| Selling and marketing expenses | 9 | (300,453) | (185,417) |
| General and administrative expenses | 9 | (897,466) | (585,766) |
| Operating profit | | 3,386,503 | 2,148,438 |
| Finance costs, net | | (3,869) | (1,558) |
| Share of profit of associates | | 37,854 | 12,913 |
| Share of loss of jointly controlled entities | | (4,297) | — |
| Profit before income tax | | 3,416,191 | 2,159,793 |
| Income tax expense | 10 | (531,983) | (357,375) |
| Profit for the period | | <u>2,884,208</u> | <u>1,802,418</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 2,870,374 | 1,783,194 |
| Non-controlling interests | | 13,834 | 19,224 |
| | | <u>2,884,208</u> | <u>1,802,418</u> |

| | | Unaudited | |
|---|----|---------------------------|----------------|
| | | Three months ended | |
| | | 31 March | |
| | | 2011 | 2010 |
| | | RMB'000 | RMB'000 |
| | | <i>Note</i> | |
| Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share) | | | |
| - basic | 11 | <u>1.575</u> | <u>0.984</u> |
| - diluted | 11 | <u>1.540</u> | <u>0.959</u> |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

| | Unaudited | |
|---|---------------------------|-----------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the period | <u>2,884,208</u> | <u>1,802,418</u> |
| Other comprehensive income: | | |
| Net loss from changes in fair value of available-for-sale financial assets | (682,436) | — |
| Currency translation differences | <u>207</u> | <u>—</u> |
| Other comprehensive income for the period, net of tax | <u>(682,229)</u> | <u>—</u> |
| Total comprehensive income for the period | <u>2,201,979</u> | <u>1,802,418</u> |
| Attributable to: | | |
| Equity holders of the Company | 2,188,145 | 1,783,194 |
| Non-controlling interests | <u>13,834</u> | <u>19,224</u> |
| Total comprehensive income for the period | <u>2,201,979</u> | <u>1,802,418</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2011

| | Unaudited | | | | | | | | |
|---|---|-------------------------|---------------------------------------|--|-----------------------|--------------------------|--------------------------|----------------------------------|--------------------------|
| | Attributable to equity holders of the Company | | | | | | | | |
| | Share capital | Share premium | Shares held for award scheme | Share-based compensation reserve | Other reserves | Retained earnings | Total | Non- controlling interests | Total equity |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Balance at 1 January 2011 | <u>198</u> | <u>1,100,302</u> | <u>(258,137)</u> | <u>1,199,663</u> | <u>1,919,695</u> | <u>17,795,225</u> | <u>21,756,946</u> | <u>83,912</u> | <u>21,840,858</u> |
| Comprehensive income | | | | | | | | | |
| Profit for the period | - | - | - | - | - | 2,870,374 | 2,870,374 | 13,834 | 2,884,208 |
| Other comprehensive income: | | | | | | | | | |
| - net loss from changes in fair value of available-for-sale financial assets | - | - | - | - | (682,436) | - | (682,436) | - | (682,436) |
| - currency translation differences | - | - | - | - | 207 | - | 207 | - | 207 |
| Total comprehensive income for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(682,229)</u> | <u>2,870,374</u> | <u>2,188,145</u> | <u>13,834</u> | <u>2,201,979</u> |
| Transactions with owners | | | | | | | | | |
| Employee share option schemes: | | | | | | | | | |
| - value of employee services | - | - | - | 44,717 | - | - | 44,717 | - | 44,717 |
| - proceeds from shares issued | - | 25,449 | - | - | - | - | 25,449 | - | 25,449 |
| Employee share award scheme: | | | | | | | | | |
| - value of employee services | - | - | - | 99,543 | - | - | 99,543 | - | 99,543 |
| - shares purchased for share award scheme | - | - | (101,598) | - | - | - | (101,598) | - | (101,598) |
| - vesting of awarded shares | - | (12,747) | 12,747 | - | - | - | - | - | - |
| Repurchase and cancellation of shares | - | (63,710) | - | - | - | - | (63,710) | - | (63,710) |
| Non-controlling interests arising from business combination (Note 13) | - | - | - | - | - | - | - | 187,092 | 187,092 |
| Recognition of the financial liabilities in respect of the put option granted to non-controlling interests owners | - | - | - | - | (670,985) | - | (670,985) | - | (670,985) |
| Total transactions with owners for the period | <u>-</u> | <u>(51,008)</u> | <u>(88,851)</u> | <u>144,260</u> | <u>(670,985)</u> | <u>-</u> | <u>(666,584)</u> | <u>187,092</u> | <u>(479,492)</u> |
| Balance at 31 March 2011 | <u><u>198</u></u> | <u><u>1,049,294</u></u> | <u><u>(346,988)</u></u> | <u><u>1,343,923</u></u> | <u><u>566,481</u></u> | <u><u>20,665,599</u></u> | <u><u>23,278,507</u></u> | <u><u>284,838</u></u> | <u><u>23,563,345</u></u> |

Unaudited

| Attributable to equity holders of the Company | | | | | | | | | |
|---|----------------|----------------|------------------------------------|----------------------------------|----------------|-------------------|----------------|---------------------------|----------------|
| | Share capital | Share premium | Shares held for share award scheme | Share-based compensation reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Balance at 1 January 2010 | 197 | 1,244,425 | (123,767) | 703,563 | (166,364) | 10,520,453 | 12,178,507 | 120,146 | 12,298,653 |
| Profit/Total comprehensive income for the period | — | — | — | — | — | 1,783,194 | 1,783,194 | 19,224 | 1,802,418 |
| Transactions with owners | | | | | | | | | |
| Employee share option schemes: | | | | | | | | | |
| - value of employee services | — | — | — | 30,299 | — | — | 30,299 | — | 30,299 |
| - proceeds from shares issued | — | 40,078 | — | — | — | — | 40,078 | — | 40,078 |
| Employee share award scheme: | | | | | | | | | |
| - value of employee services | — | — | — | 70,761 | — | — | 70,761 | — | 70,761 |
| - shares purchased for share award scheme | — | — | (32,891) | — | — | — | (32,891) | — | (32,891) |
| - vesting of awarded shares | — | (994) | 994 | — | — | — | — | — | — |
| Profit appropriations to statutory reserves | — | — | — | — | 6,083 | (6,083) | — | — | — |
| Dividends | — | — | — | — | — | — | — | (26,693) | (26,693) |
| Exercise of put option granted to non-controlling interests owners | — | — | — | — | 5 | — | 5 | (5) | — |
| Reversal of the financial liabilities in respect of the put options granted to non-controlling interests owners | — | — | — | — | 94,246 | — | 94,246 | — | 94,246 |
| Total transactions with owners for the period | — | 39,084 | (31,897) | 101,060 | 100,334 | (6,083) | 202,498 | (26,698) | 175,800 |
| Balance at 31 March 2010 | 197 | 1,283,509 | (155,664) | 804,623 | (66,030) | 12,297,564 | 14,164,199 | 112,672 | 14,276,871 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

| | Unaudited | |
|--|---------------------------|-----------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash flows generated from operating activities | 3,165,208 | 2,548,719 |
| Net cash flows used in investing activities | (4,346,913) | (2,562,351) |
| Net cash flows generated from financing activities | <u>1,692,995</u> | <u>766,620</u> |
| Net increase in cash and cash equivalents | 511,290 | 752,988 |
| Cash and cash equivalents at beginning of period | 10,408,257 | 6,043,696 |
| Exchange losses on cash and cash equivalents | <u>(36,593)</u> | <u>(718)</u> |
| Cash and cash equivalents at end of period | <u>10,882,954</u> | <u>6,795,966</u> |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | 7,294,552 | 3,677,476 |
| Term deposits and highly liquid investments with initial term within three months | <u>3,588,402</u> | <u>3,118,490</u> |
| | <u>10,882,954</u> | <u>6,795,966</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 since 16 June 2004.

The Company is an investment holding company. The Group are principally engaged in the provision of IVAS, MVAS and online advertising services to users in the PRC.

The consolidated statement of financial position as at 31 March 2011, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three 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 11 May 2011.

The Interim Financial Information is prepared in accordance with 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 2010 (the “2010 Financial Statements”) as set out in the 2010 annual report of the Company dated 16 March 2011.

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 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.

2 Segment information

The Group has the following reportable segments for the three months ended 31 March 2011 and 2010:

- IVAS;
- MVAS;
- Online advertising; and
- Others.

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

There were no inter-segment sales during the three months ended 31 March 2011 and 2010. The revenues from external customers reported to the executive directors are measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the executive directors for the reportable segments for the three months ended 31 March 2011 and 2010 is as follows:

| | Unaudited | | | | |
|--|--|---|---|---------------------------|--------------------------|
| | Three months ended 31 March 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>5,251,282</u> | <u>777,792</u> | <u>280,894</u> | <u>28,452</u> | <u>6,338,420</u> |
| Gross profit/(loss) | <u>3,509,134</u> | <u>480,292</u> | <u>162,790</u> | <u>(7,525)</u> | <u>4,144,691</u> |
| Depreciation | 133,932 | 11,178 | 10,619 | 4,449 | 160,178 |
| Amortisation | 3,012 | – | – | – | 3,012 |
| Share of profit of associates | 37,142 | 712 | – | – | 37,854 |
| Share of loss of jointly controlled entities | <u>(4,297)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(4,297)</u> |

| Unaudited | | | | | |
|--|--|---|----------------------------------|-------------------|------------------|
| Three months ended 31 March 2010 | | | | | |
| | 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>3,387,377</u> | <u>618,238</u> | <u>204,334</u> | <u>16,111</u> | <u>4,226,060</u> |
| Gross profit/(loss) | <u>2,374,449</u> | <u>396,892</u> | <u>133,391</u> | <u>(7,027)</u> | <u>2,897,705</u> |
| Depreciation | 67,574 | 6,487 | 3,548 | 2,654 | 80,263 |
| Amortisation | 17,292 | — | — | — | 17,292 |
| Share of profit of associates | <u>9,706</u> | <u>3,207</u> | <u>—</u> | <u>—</u> | <u>12,913</u> |

3 **Available-for-sale financial assets**

| Unaudited | | |
|---|-------------------------|-----------------|
| Three months ended | | |
| 31 March | | |
| | 2011 RMB'000 | 2010 RMB'000 |
| At beginning of period | 4,126,878 | 153,462 |
| Additions (Note (a)) | 190,681 | 20,569 |
| Net losses recognised in other comprehensive income | <u>(682,436)</u> | <u>—</u> |
| At end of period | <u>3,635,123</u> | <u>174,031</u> |
| Market value of listed securities (Note (b)) | <u>3,186,598</u> | <u>—</u> |

Note:

- (a) During the three months ended 31 March 2011, the Group acquired equity interests in four companies ranging from 2.0% to 14.3%. They are principally engaged in investments and mobile game operations and all based in the PRC.

- (b) As at 31 March 2011, the Group held 16,228,000 ordinary shares in Mail.ru, a company listed on the London Stock Exchange, representing approximately 7.78% economic interest in the company on a fully diluted basis. The Group's interest in Mail.ru is still subject to a 180-day lock-up period commencing from November 2010.
- (c) As at 31 March 2011, in addition to the above investments, the available-for-sale financial assets also included equity interests ranging from 8.3% to 19.9% in four online game companies and two Internet companies operating in Southeast Asia and the PRC.

As at 31 March 2011, there were certain call options embedded in these available-for-sale financial assets. The directors 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 financial statements.

4 Accounts receivable

| | Unaudited | Audited |
|-------------------------------------|-------------------------|------------------|
| | 31 March | 31 December |
| | 2011 | 2010 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 - 30 days | 1,014,200 | 931,438 |
| 31 - 60 days | 519,740 | 331,922 |
| 61 - 90 days | 213,089 | 143,785 |
| Over 90 days but less than one year | <u>322,984</u> | <u>308,267</u> |
| | <u>2,070,013</u> | <u>1,715,412</u> |

Receivable balances as at 31 March 2011 mainly represented amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

While there are no contractual requirements for 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.

5 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

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

(ii) Post-IPO Option Scheme I

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

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

| | Pre-IPO | | Post-IPO | | Post-IPO | | Post-IPO | | Total |
|---|---------------|------------------|-----------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Option Scheme | | Option Scheme I | | Option Scheme II | | Option Scheme III | | |
| | Average | No. of | Average | No. of | Average | No. of | Average | No. of | No. of |
| | exercise | options | exercise | options | exercise | options | exercise | options | options |
| | price | | price | | price | | price | | |
| At 1 January 2010 | 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 | USD0.0552 | (864,040) | HKD8.5503 | (3,437,942) | HKD47.1867 | (334,226) | - | - | (4,636,208) |
| Lapsed | - | - | HKD17.9597 | (209,602) | HKD57.6328 | (93,046) | - | - | (302,648) |
| At 31 March 2010 | USD0.1036 | <u>1,001,028</u> | HKD11.9185 | <u>21,294,374</u> | HKD48.0125 | <u>29,314,147</u> | HKD158.5000 | <u>1,000,000</u> | <u>52,609,549</u> |
| Currently exercisable as at 31 March 2010 | USD0.1036 | <u>1,001,028</u> | HKD10.1496 | <u>17,180,704</u> | HKD42.2947 | <u>3,660,779</u> | - | - | <u>21,842,511</u> |
| At 1 January 2011 | USD0.0935 | 563,193 | HKD12.8579 | 12,805,763 | HKD54.9391 | 28,795,168 | HKD158.5000 | 1,000,000 | 43,164,124 |
| Granted | - | - | - | - | HKD194.4000 | 312,550 | - | - | 312,550 |
| Exercised | USD0.2387 | (33,560) | HKD12.1641 | (904,077) | HKD47.1206 | (403,240) | - | - | (1,340,877) |
| Lapsed | - | - | - | - | HKD42.9168 | (31,170) | - | - | (31,170) |
| At 31 March 2011 | USD0.0843 | <u>529,633</u> | HKD12.9106 | <u>11,901,686</u> | HKD56.5823 | <u>28,673,308</u> | HKD158.5000 | <u>1,000,000</u> | <u>42,104,627</u> |
| Currently exercisable as at 31 March 2011 | USD0.0843 | <u>529,633</u> | HKD11.1958 | <u>10,165,266</u> | HKD41.7929 | <u>6,726,619</u> | - | - | <u>17,421,518</u> |

During the three months ended 31 March 2011, no share options (during the three months ended 31 March 2010: 1,000,000 options) were granted to executive directors of the Company.

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Scheme and awarded shares for the three months ended 31 March 2011 and 2010 are as follows:

| | Shares held for the Share Scheme | Awarded shares |
|--|---|---------------------------|
| At 1 January 2010 | 10 | 10,411,424 |
| Purchased | 232,700 | – |
| Granted | (232,700) | 232,700 |
| Vested | <u>–</u> | <u>(48,235)</u> |
| At 31 March 2010 | <u>10</u> | <u>10,595,889</u> |
| Currently exercisable as at 31 March 2010 | | <u>199,751</u> |
| At 1 January 2011 | 80 | 13,562,734 |
| Purchased | 618,960 | – |
| Granted | (618,960) | 618,960 |
| Vested | <u>–</u> | <u>(100,907)</u> |
| At 31 March 2011 | <u>80</u> | <u>14,080,787</u> |
| Currently exercisable as at 31 March 2011 | | <u>70,757</u> |

Note:

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

During the three months ended 31 March 2011, an independent trustee appointed for managing the share award scheme acquired 618,960 ordinary shares of the Company in the open market. The total amount paid was HKD120,313,000 (equivalent to approximately RMB101,598,000) and had been deducted from shareholder's equity.

6 Accounts payable

Accounts payable and their ageing analysis are as follows:

| | Unaudited | Audited |
|-------------------------------------|-------------------------|------------------|
| | 31 March | 31 December |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| 0 - 30 days | 1,292,015 | 975,869 |
| 31 - 60 days | 444,399 | 242,547 |
| 61 - 90 days | 110,896 | 68,632 |
| Over 90 days but less than one year | <u>199,359</u> | <u>93,416</u> |
| | <u>2,046,669</u> | <u>1,380,464</u> |

7 Short-term borrowings

| | Unaudited | Audited |
|--|-------------------------|------------------|
| | 31 March | 31 December |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Bank borrowings accounted for as RMB borrowings (Note (a)) | | |
| -Secured (Note (b)) | 2,207,881 | 990,887 |
| -Unsecured | <u>334,440</u> | <u>334,440</u> |
| | 2,542,321 | 1,325,327 |
| USD bank borrowings | | |
| -Unsecured (Note (c)) | 3,933,840 | 3,973,620 |
| Bonds | | |
| -Unsecured (Note (d)) | <u>655,640</u> | <u>—</u> |
| | <u>7,131,801</u> | <u>5,298,947</u> |

Note:

- (a) These bank borrowings were denominated in USD according to the loan agreements executed with the lending banks. The aggregate principal amount was USD390,814,000 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 increased 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) These bank borrowings were secured by a pledge of bank deposits of RMB2,309,265,000.
- (c) These unsecured bank borrowings as at 31 March 2011 were also denominated in USD. The aggregate principal amount was USD600,000,000 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 both the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains/(losses), net” in the consolidated income statement.
- (d) During the three months ended 31 March 2011, the Group issued USD denominated unsecured bonds to a bank at par value of USD100,000,000 (equivalent to approximately RMB655,640,000). 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 31 March 2011.

8 Other gains/(losses), net

| | Unaudited | |
|---|---------------------------|------------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Gains on deemed disposal of an associate | 459,037 | — |
| Government subsidies | 5,289 | 663 |
| Losses from derivative financial instruments | (21,374) | — |
| Donation to a charity fund established by the Group | (100,000) | (40,000) |
| Others | (3,883) | 4,062 |
| | <u>339,069</u> | <u>(35,275)</u> |

9 Expenses by nature

| | Unaudited | |
|--|--------------------|------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Employee benefit expenses (Note) | 960,250 | 645,048 |
| Mobile and telecom charges and bandwidth and server custody fees | 591,323 | 475,123 |
| Content costs and agency fees | 1,133,729 | 557,874 |
| Depreciation of fixed assets (Note) | 220,545 | 134,831 |
| Promotion and advertising expenses | 206,187 | 104,557 |
| Travelling and entertainment expenses | 29,169 | 22,136 |
| Operating lease rentals in respect of office buildings | 59,011 | 19,052 |
| Amortisation of intangible assets | 53,210 | 32,911 |
| Other expenses | <u>138,224</u> | <u>108,006</u> |
| Total cost of revenues, selling and marketing expenses and general and administrative expenses | <u>3,391,648</u> | <u>2,099,538</u> |

Note:

Research and development expenses were RMB513,187,000 for the three months ended 31 March 2011 (for the three months ended 31 March 2010: RMB351,276,000) which included employee benefit expenses of RMB439,569,000 and depreciation of fixed assets of RMB53,203,000 (for the three months ended 31 March 2010: RMB285,566,000 and RMB48,669,000, respectively).

10 Income tax expense

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

(a) Cayman Islands and British Virgin Islands profits tax

The Group has not been subject to any taxation in these jurisdictions for the three months ended 31 March 2011 and 2010.

(b) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the three months ended 31 March 2011 and 2010.

(c) **PRC CIT**

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT 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 rate 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 31 March 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 months ended 31 March 2011.

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

(d) **United States corporate tax**

No United States corporate tax has been provided as the Group had no taxable income arising in United States for the three months ended 31 March 2011 and 2010.

(e) **PRC withholding tax on retained profits**

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

The income tax expenses of the Group for the three months ended 31 March 2011 and 2010 are analysed as follows:

| | Unaudited | |
|-----------------|---------------------------|----------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| PRC current tax | 427,674 | 309,975 |
| Deferred tax | <u>104,309</u> | <u>47,400</u> |
| | <u>531,983</u> | <u>357,375</u> |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 24% for the three months ended 31 March 2011 (for the three months ended 31 March 2010: 22%), the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

| | Unaudited | |
|---|---------------------------|------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before income tax | 3,416,191 | 2,159,793 |
| Less: Share of profit of associates | (37,854) | (12,913) |
| Add: Share of loss of jointly controlled entities | <u>4,297</u> | <u>—</u> |
| | <u>3,382,634</u> | <u>2,146,880</u> |
| Tax calculated at a tax rate of 24% (for the three months ended 31 March 2010: 22%) | 811,832 | 472,314 |
| Effects of different tax rates available to different companies of the Group | (305,762) | (103,811) |
| Effects of tax holiday on assessable profit of subsidiaries | (123,694) | (93,537) |
| Income not subject to tax | (9,763) | — |
| Expenses not deductible for tax purposes | 34,561 | 18,224 |
| Withholding tax on earnings expected to be remitted by PRC subsidiaries | 91,500 | 35,000 |
| Unrecognised deferred income tax assets | <u>33,309</u> | <u>29,185</u> |
| Income tax expense | <u>531,983</u> | <u>357,375</u> |

11 EPS

(a) Basic

Basic EPS are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Unaudited | |
|---|----------------------------|---------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| Profit attributable to equity holders of the Company for the period (RMB'000) | <u>2,870,374</u> | <u>1,783,194</u> |
| Weighted average number of ordinary shares in issue (thousand shares) | <u>1,822,726</u> | <u>1,811,882</u> |
| Basic EPS (RMB per share) | <u><u>1.575</u></u> | <u><u>0.984</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 diluted EPS). No adjustment is made to earnings (numerator).

| | Unaudited | |
|---|----------------------------|---------------------|
| | Three months ended | |
| | 31 March | |
| | 2011 | 2010 |
| Profit attributable to equity holders of the Company for the period (RMB'000) | <u>2,870,374</u> | <u>1,783,194</u> |
| Weighted average number of ordinary shares in issue (thousand shares) | <u>1,822,726</u> | 1,811,882 |
| Adjustments for share options (thousand shares) | <u>31,556</u> | 40,615 |
| Adjustments for awarded shares (thousand shares) | <u>9,420</u> | <u>6,169</u> |
| Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares) | <u>1,863,702</u> | <u>1,858,666</u> |
| Diluted EPS (RMB per share) | <u><u>1.540</u></u> | <u><u>0.959</u></u> |

12 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 subject to the approval of shareholders in the annual general meeting held on 11 May 2011. Such proposed dividend has neither been shown as an appropriation nor reflected as dividend payable in the Interim Financial Information, but will be accounted for in shareholders' equity as an appropriation of retained earnings during the period in which the distribution is approved.

The Board did not propose any interim dividend.

13 Business Combination

(a) The Riot Games Acquisition

(i) Step-up business combination

In February 2011, the Group acquired an additional 70.44% equity interest in Riot Games, a US-based independent developer and publisher of premium online games, from its existing shareholders including the founders of Riot Games (the "Founders"), for a cash consideration of USD231,465,000 (equivalent to approximately RMB1,524,632,000) together with other cash and non-cash consideration as 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. Upon the closing of the Riot Games Acquisition, the equity interest of Riot Games held by the Group and the Founders were 92.78% and 7.22%, respectively. Riot Games became a subsidiary of the Company as a result of the acquisition. The transaction was closed on 18 February 2011.

As at the date of approval of this Interim Financial Information, the Group had not yet finalised the assessment on the respective fair value of the net identifiable assets/liabilities and contingent liabilities associated with the Riot Games Acquisition and the resultant goodwill, if any. In addition, the Group chose to record the non-controlling equity interest (the "Non-controlling Interest") at fair value at the acquisition date for the Riot Games Acquisition. Therefore, the difference of RMB2,455,479,000 between the carrying value of net assets acquired, as reported in the accounting books of Riot Games, and the sum of the fair value of consideration paid/payable, the fair value of the Previously Held Interest at the acquisition date and the fair value of the Non-controlling Interest at the acquisition date, was recorded in intangible assets.

The Riot Games Acquisition was treated as a step-up business combination. As a result, RMB459,037,000, being the difference between the fair value of the Previously Held Interest as at the date of acquisition and its then carrying value of RMB117,502,000 was recorded in "Other gains/(losses), net" in the consolidated income statement.

(ii) **Other arrangement**

Riot Games operates an employee share ownership plan. In connection with the Riot Games Acquisition, the Group offered, among others, cash bonus, shares options and special restricted stock units (“RSU”) of Riot Games to the Founders and certain key employees. The Founders and employees are also granted put options so that the Founders are entitled to sell their retained equity interests in Riot Games, and both the Founders and employees are entitled to sell their vested option shares and RSU granted to them to the Group, subject to certain conditions. These put options will be exercisable for a 10-year period following the closing date of the Riot Games Acquisition.

(b) **Acquisition of 100% equity interest in a mobile security company**

During the three months ended 31 March 2011, the Group acquired 100% equity interest in a mobile security company for a consideration of RMB42,800,000. As a result, RMB40,323,000, being the excess of the consideration over the fair value of the net assets acquired, was recorded in intangible assets as goodwill.

OPERATING INFORMATION

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

| | As at 31 March 2011 | As at 31 December 2010 | Percentage change |
|---|------------------------------------|------------------------------|----------------------|
| | <i>(in millions)</i> | | |
| Active IM user accounts | 674.3 | 647.6 | 4.1% |
| Peak simultaneous online IM user accounts (for the quarter) | 137.2 | 127.5 | 7.6% |
| Average daily IM user hours (for the last 16 days of the quarter) | 2,035.7 | 1,885.9 | 7.9% |
| Active Qzone user accounts | 504.8 | 492.0 | 2.6% |
| Peak simultaneous online QQ Game user accounts (for the quarter) | 7.7 | 6.8 | 13.2% |
| Fee-based IVAS registered subscriptions | 72.3 | 65.7 | 10.0% |
| Fee-based MVAS registered subscriptions | 27.2 | 24.6 | 10.6% |

The first quarter of 2011 saw a solid growth in the active user base of our core IM platform, reflecting the positive seasonal impact of the Chinese New Year holidays and winter break for students. However, the growth rate was lower than the same period last year, as the growth of Internet users as a whole slowed and the growth rate of Qzone's active user accounts also declined. For Qzone, its active user accounts increased slightly during the quarter as a result of organic growth. However, its growth rate declined as compared with the same period last year, primarily reflecting a reduced number of users maintaining multiple accounts to play QQ Farm and QQ Ranch as these social games become more mature. Peak simultaneous online user accounts of QQ Game reached a historical high on the back of increased user activeness mainly driven by launch of new play modes for major games, enhanced cross-platform integration and, to a lesser extent, positive impact of holidays. Growth in registered subscription to our IVAS resumed, primarily driven by positive seasonality and the recovery from the significant security attack that we encountered in the previous quarter. While QQ Membership and QQ Show experienced solid growth in subscriber base, paid subscription of Qzone increased only slightly due to the maturity of QQ Farm and QQ Ranch, as well as our increased focus on platform building rather than monetisation. Registered subscriptions to our MVAS increased following the decline in the previous quarter, primarily driven by the growth in our bundled SMS packages as a result of promotional activities launched during the holiday period.

FINANCIAL PERFORMANCE HIGHLIGHTS

Unaudited consolidated revenues for the first quarter of 2011 were RMB6,338.4 million, an increase of 50.0% over the same period in 2010 and an increase of 14.7% from the fourth quarter of 2010.

Revenues from our IVAS for the first quarter of 2011 were RMB5,251.3 million, an increase of 55.0% over the same period in 2010 and an increase of 19.8% from the fourth quarter of 2010.

Revenues from our MVAS for the first quarter of 2011 were RMB777.8 million, an increase of 25.8% over the same period in 2010 and an increase of 6.8% from the fourth quarter of 2010.

Revenues from our online advertising business for the first quarter of 2011 were RMB280.9 million, an increase of 37.5% over the same period in 2010 and a decrease of 27.6% from the fourth quarter of 2010.

Cost of revenues for the first quarter of 2011 was RMB2,193.7 million, an increase of 65.1% over the same period in 2010 and an increase of 19.7% from the fourth quarter of 2010.

Selling and marketing expenses for the first quarter of 2011 were RMB300.5 million, an increase of 62.0% over the same period in 2010 and a decrease of 0.4% from the fourth quarter of 2010.

General and administrative expenses for the first quarter of 2011 were RMB897.5 million, an increase of 53.2% over the same period in 2010 and an increase of 6.8% from the fourth quarter of 2010.

Operating profit for the first quarter of 2011 was RMB3,386.5 million, representing an increase of 57.6% over the same period in 2010 and an increase of 27.7% from the fourth quarter of 2010. This included the recognition of a deemed disposal gain of RMB459.0 million as a result of the Riot Games Acquisition in the first quarter of 2011. As a percentage of revenues, operating profit represented 53.4% for the first quarter of 2011, compared to 50.8% for the same period of 2010 and 48.0% for the fourth quarter of 2010.

Non-GAAP operating profit* for the first quarter of 2011 was RMB3,119.9 million, representing an increase of 38.1% over the same period in 2010 and an increase of 11.0% from the fourth quarter of 2010. As a percentage of revenues, non-GAAP operating profit represented 49.2% for the first quarter of 2011, compared to 53.5% for the same period of 2010 and 50.9% for the fourth quarter of 2010.

Profit for the first quarter of 2011 was RMB2,884.2 million, representing an increase of 60.0% over the same period in 2010 and an increase of 30.3% from the fourth quarter of 2010. As a percentage of revenues, profit for the period represented 45.5% for the first quarter of 2011, compared to 42.7% for the same period of 2010 and 40.1% for the fourth quarter of 2010.

Non-GAAP profit* for the first quarter of 2011 was RMB2,601.6 million, representing an increase of 36.1% over the same period in 2010 and an increase of 9.8% from the fourth quarter of 2010. As a percentage of revenues, non-GAAP profit for the period represented 41.0% for the first quarter of 2011, compared to 45.2% for the same period of 2010 and 42.9% for the fourth quarter of 2010.

Profit attributable to equity holders of the Company for the first quarter of 2011 was RMB2,870.4 million, an increase of 61.0% over the same period in 2010 and an increase of 30.4% from the fourth quarter of 2010.

Non-GAAP profit attributable to equity holders of the Company* for the first quarter of 2011 was RMB2,584.7 million, an increase of 36.8% over the same period in 2010 and an increase of 9.7% from the fourth quarter of 2010.

* The Group has decided to present certain non-GAAP financial measures in our results announcement. For more details on the reasons for presenting these measures, please see “Non-GAAP Financial Measures” section below.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2011 Compared to Fourth Quarter of 2010

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

| | Unaudited | |
|---|---------------------------|--------------------|
| | Three months ended | |
| | 31 March | 31 December |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Revenues | 6,338,420 | 5,524,163 |
| Cost of revenues | <u>(2,193,729)</u> | <u>(1,832,362)</u> |
| Gross profit | 4,144,691 | 3,691,801 |
| Interest income | 100,662 | 79,467 |
| Other gains, net | 339,069 | 23,437 |
| Selling and marketing expenses | (300,453) | (301,796) |
| General and administrative expenses | <u>(897,466)</u> | <u>(840,407)</u> |
| Operating profit | 3,386,503 | 2,652,502 |
| Finance (costs)/income, net | (3,869) | 265 |
| Share of profit of associates | 37,854 | 37,127 |
| Share of (loss)/profit of jointly controlled entities | <u>(4,297)</u> | <u>3,399</u> |
| Profit before income tax | 3,416,191 | 2,693,293 |
| Income tax expense | <u>(531,983)</u> | <u>(480,011)</u> |
| Profit for the period | <u>2,884,208</u> | <u>2,213,282</u> |
| Attributable to: | | |
| Equity holders of the Company | 2,870,374 | 2,200,818 |
| Non-controlling interests | <u>13,834</u> | <u>12,464</u> |
| | <u>2,884,208</u> | <u>2,213,282</u> |
| Non-GAAP profit attributable to equity holders of the Company | <u>2,584,720</u> | <u>2,356,624</u> |

Revenues. Revenues increased by 14.7% to RMB6,338.4 million for the first quarter of 2011 from RMB5,524.2 million for the fourth quarter of 2010. The following table sets forth our revenues by line of business for the first quarter of 2011 and the fourth quarter of 2010:

| | Unaudited | | | |
|--------------------|---|--------------------------------|-------------------------|--------------------------------|
| | Three months ended | | | |
| | 31 March 2011 | | 31 December 2010 | |
| | Amount | % of total revenues | Amount | % of total revenues |
| | <i>(RMB in thousands, except percentages)</i> | | | |
| IVAS | 5,251,282 | 82.8% | 4,383,940 | 79.4% |
| MVAS | 777,792 | 12.3% | 728,516 | 13.2% |
| Online advertising | 280,894 | 4.4% | 388,126 | 7.0% |
| Others | <u>28,452</u> | <u>0.5%</u> | <u>23,581</u> | <u>0.4%</u> |
| Total revenues | <u>6,338,420</u> | <u>100.0%</u> | <u>5,524,163</u> | <u>100.0%</u> |

- Revenues from our IVAS increased by 19.8% to RMB5,251.3 million for the first quarter of 2011 from RMB4,383.9 million for the fourth quarter of 2010. Online gaming revenues increased by 28.2% to RMB3,572.7 million, primarily reflecting increased monetisation of our major online games during the Chinese New Year holidays and winter break for students. Cross Fire registered strong revenue growth in the quarter and underpinned the growth in online gaming revenues. Growth in DNF and Qi Xiong Zheng Ba, as well as contribution from World of West, a hardcore 3D fantasy MMOG launched in the first quarter of the year, also contributed to the increase in online gaming revenues. For our community value-added services, revenues increased by 5.1% to RMB1,678.6 million. Qzone benefited from growth in item-based revenues driven by an increased number of third-party social applications offered on the platform. Revenues from QQ Membership increased primarily as a result of enhanced privileges and valued-added functions as well as positive seasonality. As for QQ Show, revenues were broadly stable compared to the previous quarter.
- Revenues from our MVAS increased by 6.8% to RMB777.8 million for the first quarter of 2011 from RMB728.5 million for the fourth quarter of 2010. This primarily reflected growth in revenues from our bundled SMS packages as a result of promotional activities launched during the holiday period, as well as an increase in revenues from mobile SNS and mobile games. On the other hand, the regulation of requiring service providers to conduct double confirmation plus reminder services for monthly subscription and item sales continued to impact our MVAS revenues.

- Revenues from our online advertising business decreased by 27.6% to RMB280.9 million for the first quarter of 2011 from RMB388.1 million for the fourth quarter of 2010. This primarily reflected weaker seasonality due to reduced activities of advertisers around the Chinese New Year holidays.

Cost of revenues. Cost of revenues increased by 19.7% to RMB2,193.7 million for the first quarter of 2011 from RMB1,832.4 million for the fourth quarter of 2010. This mainly reflected an increase in sharing costs, bandwidth and server custody fees, as well as staff costs. As a percentage of revenues, cost of revenues increased to 34.6% for the first quarter of 2011 from 33.2% for the fourth quarter of 2010. The following table sets forth our cost of revenues by line of business for the first quarter of 2011 and the fourth quarter of 2010:

| | Unaudited | | | |
|------------------------|---|-----------------|-------------------------|-----------------|
| | Three months ended | | | |
| | 31 March 2011 | | 31 December 2010 | |
| | % of | | % of | |
| | segment | | segment | |
| | Amount | revenues | Amount | revenues |
| | <i>(RMB in thousands, except percentages)</i> | | | |
| IVAS | 1,742,148 | 33.2% | 1,384,724 | 31.6% |
| MVAS | 297,500 | 38.2% | 279,456 | 38.4% |
| Online advertising | 118,104 | 42.0% | 138,087 | 35.6% |
| Others | <u>35,977</u> | 126.4% | <u>30,095</u> | 127.6% |
| Total cost of revenues | <u>2,193,729</u> | | <u>1,832,362</u> | |

- Cost of revenues for our IVAS increased by 25.8% to RMB1,742.1 million for the first quarter of 2011 from RMB1,384.7 million for the fourth quarter of 2010. This primarily reflected an increase in sharing costs due to growth in revenues from our licensed games.
- Cost of revenues for our MVAS increased by 6.5% to RMB297.5 million for the first quarter of 2011 from RMB279.5 million for the fourth quarter of 2010. This was mainly driven by the growth in sharing costs and telecommunications operators' revenue share as a result of increased revenues. Staff costs also increased as our business scale grew.

- Cost of revenues for our online advertising business decreased by 14.5% to RMB118.1 million for the first quarter of 2011 from RMB138.1 million for the fourth quarter of 2010. This was mainly driven by the decline in revenues.

Other gains, net. Other gains, net of RMB339.1 million were recorded for the first quarter of 2011, compared to RMB23.4 million for the fourth quarter of 2010. The change primarily reflected the recognition of a deemed disposal gain of RMB459.0 million as a result of the Riot Games Acquisition in the first quarter of 2011. This was partly offset by a donation of RMB100.0 million made to the Tencent Charity Fund in the first quarter of 2011, whereas no donation was made in the previous quarter, as well as a decrease in government subsidies.

Selling and marketing expenses. Selling and marketing expenses decreased slightly by 0.4% to RMB300.5 million for the first quarter of 2011 from RMB301.8 million for the fourth quarter of 2010. Staff costs decreased mainly as a result of reduction in commission paid to sales staff in line with the decline in online advertising revenues. Advertising and promotional expenses increased primarily driven by launch of advertising campaigns focused on our corporate brand and microblog. As a percentage of revenues, selling and marketing expenses decreased to 4.7% for the first quarter of 2011 from 5.5% for the fourth quarter of 2010.

General and administrative expenses. General and administrative expenses increased by 6.8% to RMB897.5 million for the first quarter of 2011 from RMB840.4 million for the fourth quarter of 2010. This mainly reflected an increase in expenses resulting from the Riot Games Acquisition, including amortisation of intangible assets acquired. It also reflected an increase in research and development expenses mainly attributable to the expansion of our research and development team. As a percentage of revenues, general and administrative expenses decreased to 14.2% for the first quarter of 2011 from 15.2% for the fourth quarter of 2010.

Income tax expense. Income tax expense increased by 10.8% to RMB532.0 million for the first quarter of 2011 from RMB480.0 million for the fourth quarter of 2010. The increase mainly reflected higher profit before tax and non-recurrence of the reversal of income tax expense recognised in the fourth quarter of 2010 in respect of a lower income tax rate for a subsidiary. This was partly offset by 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 increased by 30.3% to RMB2,884.2 million for the first quarter of 2011 from RMB2,213.3 million for the fourth quarter of 2010. Net margin was 45.5% for the first quarter of 2011 compared to 40.1% for the fourth quarter of 2010. Non-GAAP profit for the period increased by 9.8% to RMB2,601.6 million for the first quarter of 2011 from RMB2,369.2 million for the fourth quarter of 2010. Non-GAAP net margin was 41.0% for the first quarter of 2011 compared to 42.9% for the fourth quarter of 2010.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 30.4% to RMB2,870.4 million for the first quarter of 2011 from RMB2,200.8 million for the fourth quarter of 2010. Non-GAAP profit attributable to equity holders of the Company increased by 9.7% to RMB2,584.7 million for the first quarter of 2011 from RMB2,356.6 million for the fourth quarter of 2010.

First Quarter of 2011 Compared to First Quarter of 2010

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

| | Unaudited | |
|---|---------------------------|--------------------|
| | Three months ended | |
| | 31 March | 31 March |
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Revenues | 6,338,420 | 4,226,060 |
| Cost of revenues | (2,193,729) | <u>(1,328,355)</u> |
| Gross profit | 4,144,691 | 2,897,705 |
| Interest income | 100,662 | 57,191 |
| Other gains/(losses), net | 339,069 | (35,275) |
| Selling and marketing expenses | (300,453) | (185,417) |
| General and administrative expenses | (897,466) | <u>(585,766)</u> |
| Operating profit | 3,386,503 | 2,148,438 |
| Finance costs, net | (3,869) | (1,558) |
| Share of profit of associates | 37,854 | 12,913 |
| Share of loss of jointly controlled entities | (4,297) | <u>—</u> |
| Profit before income tax | 3,416,191 | 2,159,793 |
| Income tax expense | (531,983) | <u>(357,375)</u> |
| Profit for the period | <u>2,884,208</u> | <u>1,802,418</u> |
| Attributable to: | | |
| Equity holders of the Company | 2,870,374 | 1,783,194 |
| Non-controlling interests | 13,834 | <u>19,224</u> |
| | <u>2,884,208</u> | <u>1,802,418</u> |
| Non-GAAP profit attributable to equity holders of the Company | <u>2,584,720</u> | <u>1,889,885</u> |

Revenues. Revenues increased by 50.0% to RMB6,338.4 million for the first quarter of 2011 from RMB4,226.1 million for the first quarter of 2010. The following table sets forth our revenues by line of business for the first quarter of 2011 and the first quarter of 2010:

| | Unaudited | | | |
|--------------------|---|----------------------------|----------------------|----------------------------|
| | Three months ended | | | |
| | 31 March 2011 | | 31 March 2010 | |
| | Amount | % of total revenues | Amount | % of total revenues |
| | <i>(RMB in thousands, except percentages)</i> | | | |
| IVAS | 5,251,282 | 82.8% | 3,387,377 | 80.2% |
| MVAS | 777,792 | 12.3% | 618,238 | 14.6% |
| Online advertising | 280,894 | 4.4% | 204,334 | 4.8% |
| Others | <u>28,452</u> | <u>0.5%</u> | <u>16,111</u> | <u>0.4%</u> |
| Total revenues | <u>6,338,420</u> | <u>100.0%</u> | <u>4,226,060</u> | <u>100.0%</u> |

- Revenues from our IVAS increased by 55.0% to RMB5,251.3 million for the first quarter of 2011 from RMB3,387.4 million for the first quarter of 2010. Online gaming revenues grew by 76.6% to RMB3,572.7 million. This was mainly driven by the growth in Cross Fire and other major advanced casual games and MMOGs, as well as revenue contribution from the online games launched in 2010 and the first quarter of 2011, including Qi Xiong Zheng Ba and World of West. QQ Game also registered solid growth. Revenues from our community value-added services increased by 23.1% to RMB1,678.6 million, mainly attributable to growth in Qzone and QQ Membership. The increase in revenues from Qzone was primarily driven by social applications, which enhanced user activity and stimulated growth of monthly subscription. QQ Membership experienced increase in revenues mainly driven by its expanded subscriber base on the back of improved online and offline privileges as well as value-added functions. Revenues from QQ Show also increased along with growth in subscribers.
- Revenues from our MVAS increased by 25.8% to RMB777.8 million for the first quarter of 2011 from RMB618.2 million for the first quarter of 2010. This mainly reflected increased revenues from our bundled SMS packages as a result of enhanced user experience and privileges, as well as growth in revenues from mobile SNS and mobile games.

- Revenues from our online advertising business increased by 37.5% to RMB280.9 million for the first quarter of 2011 from RMB204.3 million for the first quarter of 2010. This was mainly attributable to the growth in advertising revenues from IM client and portal on the back of our growing client base. Revenues from search-based advertising also increased.

Cost of revenues. Cost of revenues increased by 65.1% to RMB2,193.7 million for the first quarter of 2011 from RMB1,328.4 million for the first quarter of 2010. This mainly reflected an increase in sharing costs, staff costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 34.6% for the first quarter of 2011 from 31.4% for the first quarter of 2010. The following table sets forth our cost of revenues by line of business for the first quarter of 2011 and the first quarter of 2010:

| | Unaudited | | | |
|-------------------------------|---|--------------------------------------|-------------------------|--------------------------------------|
| | Three months ended | | | |
| | 31 March 2011 | | 31 March 2010 | |
| | Amount | % of segment revenues | Amount | % of segment revenues |
| | <i>(RMB in thousands, except percentages)</i> | | | |
| IVAS | 1,742,148 | 33.2% | 1,012,928 | 29.9% |
| MVAS | 297,500 | 38.2% | 221,346 | 35.8% |
| Online advertising | 118,104 | 42.0% | 70,943 | 34.7% |
| Others | <u>35,977</u> | 126.4% | <u>23,138</u> | 143.6% |
| Total cost of revenues | <u>2,193,729</u> | | <u>1,328,355</u> | |

- Cost of revenues for our IVAS increased by 72.0% to RMB1,742.1 million for the first quarter of 2011 from RMB1,012.9 million for the first quarter of 2010. This primarily reflected increase in sharing costs driven by growth in revenues from our licensed games. Other costs also increased due to our expanded business scale.
- Cost of revenues for our MVAS increased by 34.4% to RMB297.5 million for the first quarter of 2011 from RMB221.3 million for the first quarter of 2010. This was mainly driven by an increase in staff costs and telecommunications operators' revenue share.

- Cost of revenues for our online advertising business increased by 66.5% to RMB118.1 million for the first quarter of 2011 from RMB70.9 million for the first quarter of 2010. This mainly reflected an increase in sales commissions paid to advertising agencies and higher staff costs as a result of our business growth. Sharing costs for our search business also increased due to growth in traffic generated from our search distribution partners.

Other gains/(losses), net. We recorded other gains, net of RMB339.1 million for the first quarter of 2011, compared to other losses, net of RMB35.3 million for the first quarter of 2010. This primarily reflected the recognition of a deemed disposal gain of RMB459.0 million as a result of the Riot Games Acquisition in the first quarter of 2011. This was partly offset by an increase in donations made to the Tencent Charity Fund from RMB40.0 million for the first quarter of 2010 to RMB100.0 million for the first quarter of 2011. In addition, we recorded 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 first quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses increased by 62.0% to RMB300.5 million for the first quarter of 2011 from RMB185.4 million for first quarter of 2010. This mainly reflected an increase in advertising and promotional spending on our corporate brand and products such as microblog and online games. As a percentage of revenues, selling and marketing expenses increased slightly to 4.7% for the first quarter of 2011 from 4.4% for the first quarter of 2010.

General and administrative expenses. General and administrative expenses increased by 53.2% to RMB897.5 million for the first quarter of 2011 from RMB585.8 million for the first quarter of 2010. This primarily reflected increased research and development expenses mainly as a result of the expansion of our research and development team and an increase in expenses resulting from the Riot Games Acquisition, including amortisation of intangible assets acquired. It also reflected an increase in staff costs in other areas for supporting our business growth. As a percentage of revenues, general and administrative expenses increased slightly to 14.2% for the first quarter of 2011 from 13.9% for the first quarter of 2010.

Income tax expense. We recorded income tax expense of RMB532.0 million for the first quarter of 2011 compared to RMB357.4 million for the first quarter of 2010. This was mainly due to increased profit before tax as well as an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the period. Profit for the period increased by 60.0% to RMB2,884.2 million for the first quarter of 2011 from RMB1,802.4 million for the first quarter of 2010. Net margin was 45.5% for the first quarter of 2011 compared to 42.7% for the first quarter of 2010. Non-GAAP profit for the period increased by 36.1% to RMB2,601.6 million for the first quarter of 2011 from RMB1,911.1 million for the first quarter of 2010. Non-GAAP net margin was 41.0% for the first quarter of 2011 compared to 45.2% for the first quarter of 2010.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 61.0% to RMB2,870.4 million for the first quarter of 2011 from RMB1,783.2 million for the first quarter of 2010. Non-GAAP profit attributable to equity holders of the Company increased by 36.8% to RMB2,584.7 million for the first quarter of 2011 from RMB1,889.9 million for the first quarter of 2010.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin and non-GAAP profit attributable to equity holders of the Company, have been presented in this announcement. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first quarter of 2011, the fourth quarter of 2010 and the first quarter of 2010 to the nearest measures prepared in accordance with IFRS:

| Unaudited three months ended 31 March 2011 | | | | | | |
|--|--------------------------|--|--|---|----------|-----------|
| Adjustments | | | | | | |
| As reported | Share-based compensation | Gain on 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 | Non-GAAP | |
| <i>(RMB in thousands, except percentages)</i> | | | | | | |
| 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% |

Note:

The figures above include the impact of the Riot Games Acquisition which was closed on 18 February 2011.

Unaudited three months ended 31 December 2010

| | Adjustments | | | | | Non-GAAP |
|--|---|--------------------------|---|--|---|-----------|
| | As reported | 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 | |
| | <i>(RMB in thousands, except percentages)</i> | | | | | |
| Operating profit | 2,652,502 | 144,159 | — | 13,167 | — | 2,809,828 |
| Profit for the period | 2,213,282 | 144,159 | — | 11,726 | — | 2,369,167 |
| Profit attributable to equity holders of the Company | 2,200,818 | 144,159 | — | 11,647 | — | 2,356,624 |
| Operating margin | 48.0% | | | | | 50.9% |
| Net margin | 40.1% | | | | | 42.9% |

Unaudited three months ended 31 March 2010

| | Adjustments | | | | | Non-GAAP |
|--|---|--------------------------|---|--|---|-----------|
| | As reported | 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 | |
| | <i>(RMB in thousands, except percentages)</i> | | | | | |
| Operating profit | 2,148,438 | 100,972 | — | 9,513 | — | 2,258,923 |
| Profit for the period | 1,802,418 | 100,972 | — | 7,759 | — | 1,911,149 |
| Profit attributable to equity holders of the Company | 1,783,194 | 100,972 | — | 5,719 | — | 1,889,885 |
| Operating margin | 50.8% | | | | | 53.5% |
| Net margin | 42.7% | | | | | 45.2% |

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2011 and 31 December 2010, we had the following major financial resources in the form of cash and investments:

| | Unaudited 31 March 2011 RMB'000 | Audited 31 December 2010 <i>RMB'000</i> |
|--|--|--|
| Cash and cash equivalents | 10,882,954 | 10,408,257 |
| Term deposits with initial term of over three months | <u>12,170,143</u> | <u>11,725,743</u> |
| Total financial resources | 23,053,097 | 22,134,000 |
| Unsecured short-term borrowings | <u>(4,923,920)</u> | <u>(4,308,060)</u> |
| Net financial resources | <u>18,129,177</u> | <u>17,825,940</u> |

Note:

The above table excludes short-term borrowing arrangements with an aggregate principle amount of USD340.8 million as at 31 March 2011 (31 December 2010: USD148.6 million) and restricted cash deposits of RMB2,309.3 million as at 31 March 2011 (31 December 2010: RMB1,014.5 million) pledged as part of these arrangements, as such deposits are scheduled to offset the borrowed amount at the maturity of the loans.

As at 31 March 2011, RMB3,629.4 million of our financial assets (31 December 2010: RMB2,809.5 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 first quarter of 2011, our IVAS business benefited from increased monetisation of our major online games during the Chinese New Year holidays and winter break for students. Our community value-added services also registered growth. For MVAS, the business expanded further on the back of growth in our bundled SMS packages, mobile SNS and mobile games. Our online advertising business experienced sequential decline in revenues, reflecting weaker seasonality in the first quarter driven by reduced activities of advertisers around the Chinese New Year holidays. For the second quarter of 2011, we expect weaker seasonality for IVAS mainly due to school examinations and fewer school holidays. This negative seasonality may be more severe than previous years as a higher percentage of our revenues is based on item sale and such item-based revenues are more prone to seasonal fluctuation than subscription-based revenues. With an uncertain regulatory environment and impact of new policies, visibility of our MVAS business would remain low. Our online advertising business is expected to benefit from stronger seasonality in the second quarter. As we previously indicated, we have entered into a new investment phase, during which we will make significant investments in our existing platforms and new strategic initiatives. We will continue to increase our strategic investments in areas that include microblog, e-commerce, search, online security, online video and international expansion.

IM Platform

Our IM platform benefited from positive seasonality and increasing penetration of mobile Internet in China. At the end of the first quarter of 2011, active user accounts reached 674.3 million, representing a quarter-on-quarter growth of 4.1%. PCU for the quarter grew by 7.6% to 137.2 million. Looking ahead, we expect the growth of our IM platform to slow down with the growing scale of Internet users in China as well as the reducing number of users maintaining multiple accounts to play our social games QQ Farm and QQ Ranch, as these games become more mature.

QQ.com

In the first quarter of 2011, QQ.com continued to register healthy growth in traffic, consolidating its position as the leading Internet portal in China. During the quarter, we continued to improve the content quality and user experience of QQ.com. In addition, we focused on developing deeper integration with our microblog so as to unleash cross-platform synergies.

IVAS

Our community value-added services registered growth in the first quarter of 2011 on the back of positive seasonality and recovery in the growth of subscribers following the significant security attack that we encountered in the previous quarter. For Qzone, active user accounts grew by 2.6% on a quarter-on-quarter basis to 504.8 million at the end of the quarter. However, the year-on-year growth rate decreased, mainly reflecting the growing scale of its user base as well as the maturity of QQ Farm and QQ Ranch which resulted in a reduced number of users maintaining multiple accounts. Qzone also registered growth in item-based revenues in the quarter as more third-party applications were available on the platform. Pengyou, the largest real-name SNS platform for university students and white collar communities in China, experienced continued growth with active user accounts increasing sequentially by 19.9% to 101.4 million at the end of the quarter. For our microblog, registered user accounts have exceeded 160 million. We are focusing on growing our user base and increasing user activeness through introducing more celebrity microblogs and enriching premium content. We have also launched significant marketing programs to promote the brand awareness of our microblog. As for QQ Membership, the first quarter of 2011 saw solid growth in subscription base as we enriched functionalities, broadened lifestyle privileges and focused on cross-platform promotions. QQ Show was helped by special promotions during the Chinese New Year holidays and registered modest growth.

In the first quarter of 2011, our online gaming business benefited from increased monetisation of our major advanced casual games and MMOGs during the holiday periods. Riding on the introduction of new play modes, Cross Fire registered significant growth in PCU and revenues during the quarter. New content and in-game promotions for DNF were also launched to increase usage and stickiness. For QQ Game, PCU reached a historical high level of 7.7 million, mainly driven by launch of new play modes for major games, enhanced cross-platform integration and, to a lesser extent, positive impact of holidays. In addition, we continued to implement our strategy of diversifying our game portfolio through identifying attractive yet differentiated genres. Qi Xiong Zheng Ba, a major title in the web game sector, continued to register growth in user base and revenues during the quarter. Meanwhile, Roco Kingdom has become a leading online game in the children segment with its PCU increasing to 400,000. We are aiming to launch more titles along this strategy of differentiation.

MVAS

Our bundled SMS packages, mobile SNS and mobile games experienced solid growth in the first quarter of 2011. Our WAP portal continued to register significant traffic increase as we enhanced content and user experience. Looking ahead, we will continue to extend our PC-based services, including SNS and microblog, to different wireless platforms and customise our applications for a larger variety of terminal devices. On regulatory front, a new service cancellation policy, which is an extension to the “double confirmation plus reminder” rule, has been introduced. We expect that the resultant negative impact would affect the business in the next few quarters.

Online advertising

Due to weaker seasonality in the first quarter, our online advertising business experienced sequential decline in revenues. Compared to the same period of last year, the business registered solid growth, riding on our expanded client base, enhanced media influence and improved awareness of the strengths of our platforms. During the quarter, we launched a major corporate brand advertising campaign to enhance our corporate image, which is expected to benefit our advertising business over the longer term. We are also stepping up our investments in bandwidth and content acquisition to position ourselves for the opportunities in video advertising. User base of QQ Live has registered healthy growth with PCU for the first quarter of 2011 reaching 4.5 million, representing a quarter-on-quarter growth of 21.6%. In March 2011, a web-based version of QQ Live was launched to offer a more convenient channel for users to access our video content. With our significant traffic on multiple platforms, we believe our investments in building our content, branding, technology and advertising team will bear fruit for our advertising business over the long run.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 March 2011, the Group had 11,429 employees (31 March 2010: 7,845), 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 awarded to employees according to the assessment of individual performance.

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the three months ended 31 March 2011 was RMB960.4 million (for the three months ended 31 March 2010: RMB645.5 million).

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

During the three months ended 31 March 2011, the Company repurchased 400,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD75.4 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

| Month of purchase in the three months ended 31 March 2011 | No. of shares purchased | Purchase consideration per share | | Aggregate consideration paid |
|--|--------------------------------|---|--------------------------|-------------------------------------|
| | | Highest price paid | Lowest price paid | |
| | | <i>HKD</i> | <i>HKD</i> | <i>HKD</i> |
| March | <u>400,000</u> | 189.70 | 187.50 | <u>75,351,200</u> |
| Total | <u>400,000</u> | | | <u>75,351,200</u> |

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 three months ended 31 March 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 months ended 31 March 2011.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2010 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three months ended 31 March 2011, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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

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, 11 May 2011

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. The forward-looking statements may prove to be incorrect and may not be realised in future. Underlying the 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.

DEFINITIONS

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

| Term | Definition |
|-------------------|--|
| “Audit Committee” | the audit committee of the Company |
| “Auditor” | PricewaterhouseCoopers, the auditor of the Company |
| “Board” | the board of directors of the Company |
| “CIT” | corporate income tax |
| “Company” | Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange |
| “DNF” | Dungeon and Fighter |
| “EPS” | earnings per share |
| “GAAP” | Generally Accepted Accounting Principles |
| “Group” | the Company and its subsidiaries |
| “HKD” | the lawful currency of Hong Kong Special Administrative Region |
| “IAS” | International Accounting Standard |
| “IFRS” | International Financial Reporting Standards |
| “IM” | instant messaging |
| “IPO” | initial public offering |
| “IVAS” | Internet value-added services |
| “LIBOR” | the London Interbank Offered Rate |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mail.ru” | Mail.ru Group Limited |
| “MMOG(s)” | massively multiplayer online game(s) |

| | |
|------------------------------|--|
| “MVAS” | mobile and telecommunications value-added services |
| “PCU” | peak concurrent user accounts |
| “Pre-IPO Option Scheme” | the Pre-IPO Share Option Scheme |
| “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 |
| “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 |
| “SMS” | short message service |
| “SNS” | social networking service |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “US” or “United States” | the United States of America |
| “USD” | the lawful currency of the United States of America |
| “WAP” | Wireless Application Protocol |