Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰 訊 控 股 有 限 公 司

於 開 曼 群 島 註 冊 成 立 的 有 限 公 司

(Stock Code 股 份 代 號 ：700)

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Interim Report 2009

中 期 報 告

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Interim Report

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 six months ended 30 June 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.

Consolidated Statement of Financial Position

As at 30 June 2009

	Note	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	1,703,614	1,165,048
Construction in progress	6	554,982	875,897
Investment properties	6	32,034	64,981
Leasehold land and land use rights	6	35,671	36,046
Intangible assets	6	316,682	370,314
Investment in associates	7	324,429	302,712
Deferred income tax assets	19	302,599	334,164
Held-to-maturity investments	8	341,595	–
Available-for-sale financial assets		89,087	86,180
Prepayments, deposits and other receivables	10	93,129	124,354
		3,793,822	3,359,696
Current assets			
Inventories		1,378	5,483
Accounts receivable	9	1,194,668	983,459
Prepayments, deposits and other receivables	10	410,800	378,340
Financial assets held for trading	8	–	329,804
Held-to-maturity investments	8	–	68,346
Term deposits with initial term of over three months	11	3,380,260	1,662,501
Cash and cash equivalents	12	4,061,022	3,067,928
		9,048,128	6,495,861
Total assets		12,841,950	9,855,557

Consolidated Statement of Financial Position (Continued)

As at 30 June 2009

	Note	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	13	196	195
Share premium	13	1,163,452	1,155,209
Shares held for share award scheme	13	(46,232)	(21,809)
Share-based compensation reserve	13	485,139	381,439
Other reserves		(431,621)	(433,038)
Retained earnings		7,610,759	5,938,930
		8,781,693	7,020,926
Minority interests in equity		102,894	98,406
Total equity		8,884,587	7,119,332
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	73,365	78,368
Long-term payables	17	553,429	566,260
		626,794	644,628
Current liabilities			
Accounts payable	15	637,101	244,647
Other payables and accruals	16	1,115,966	1,013,542
Current income tax liabilities		148,274	47,307
Other tax liabilities		112,566	103,933
Deferred revenue	18	1,316,662	682,168
		3,330,569	2,091,597
Total liabilities		3,957,363	2,736,225
Total equity and liabilities		12,841,950	9,855,557
Net current assets		5,717,559	4,404,264
Total assets less current liabilities		9,511,381	7,763,960

On behalf of the board of directors of the Company

Ma Huateng
Director

Zhang Zhidong
Director

The accompanying notes on pages 6 to 52 form an integral part of this Interim Financial Information.

Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2009

	Note	Unaudited Three months ended 30 June 2009 RMB'000	Unaudited Three months ended 30 June 2008 RMB'000	Unaudited Six months ended 30 June 2009 RMB'000	Unaudited Six months ended 30 June 2008 RMB'000
Revenues					
Internet value-added services		**2,156,468**	1,037,042	**4,061,031**	2,035,775
Mobile and telecommunications value-added services		**470,003**	338,311	**909,548**	626,602
Online advertising		**243,044**	222,790	**389,607**	367,370
Others		**8,908**	1,635	**22,602**	2,942
		2,878,423	1,599,778	**5,382,788**	3,032,689
Cost of revenues	21	**(934,613)**	(453,069)	**(1,720,527)**	(841,534)
Gross profit		**1,943,810**	1,146,709	**3,662,261**	2,191,155
Other gains, net	20	**25,328**	25,855	**24,557**	73,303
Selling and marketing expenses	21	**(114,587)**	(100,212)	**(212,692)**	(186,146)
General and administrative expenses	21	**(455,629)**	(307,059)	**(910,647)**	(575,701)
Operating profit		**1,398,922**	765,293	**2,563,479**	1,502,611
Finance costs	22	**(653)**	(40,918)	**(405)**	(135,384)
Share of profit/(losses) of associates		**3,452**	(1,558)	**8,824**	(1,558)
Profit before income tax		**1,401,721**	722,817	**2,571,898**	1,365,669
Income tax expense	23	**(199,973)**	(70,618)	**(316,540)**	(171,458)
Profit/Total comprehensive income for the period		**1,201,748**	652,199	**2,255,358**	1,194,211
Attributable to:					
Equity holders of the Company		**1,192,410**	643,979	**2,227,850**	1,178,357
Minority interests		**9,338**	8,220	**27,508**	15,854
		1,201,748	652,199	**2,255,358**	1,194,211
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)					
- basic	24	**0.662**	0.359	**1.239**	0.657
- diluted	24	**0.647**	0.349	**1.213**	0.639

The accompanying notes on pages 6 to 52 form an integral part of this Interim Financial Information.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 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	-	-	-	-	-	2,227,850	2,227,850	27,508	2,255,358
Employee share option schemes:									
- value of employee services	-	-	-	86,674	-	-	86,674	-	86,674
- proceeds from shares issued	1	82,813	-	-	-	-	82,814	-	82,814
Employee share award scheme:									
- value of employee services	-	-	-	17,026	-	-	17,026	-	17,026
- shares purchased for share award scheme	-	-	(24,423)	-	-	-	(24,423)	-	(24,423)
Repurchase and cancellation of shares	-	(74,570)	-	-	-	-	(74,570)	-	(74,570)
Profit appropriations to statutory reserves	-	-	-	-	1,417	(1,417)	-	-	-
Dividend relating to 2008 (Note 25)	-	-	-	-	-	(554,604)	(554,604)	(23,020)	(577,624)
Balance at 30 June 2009	196	1,163,452	(46,232)	485,139	(431,621)	7,610,759	8,781,693	102,894	8,884,587
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	-	-	-	-	-	1,178,357	1,178,357	15,854	1,194,211
Employee share option schemes:									
- value of employee services	-	-	-	67,277	-	-	67,277	-	67,277
- proceeds from shares issued	1	51,558	-	-	-	-	51,559	-	51,559
Employee share award scheme:									
- value of employee services	-	-	-	464	-	-	464	-	464
- shares purchased for share award scheme	-	-	(10,218)	-	-	-	(10,218)	-	(10,218)
Repurchase and cancellation of shares	-	(105,126)	-	-	-	-	(105,126)	-	(105,126)
Dividend relating to 2007 (Note 25)	-	-	-	-	-	(257,803)	(257,803)	-	(257,803)
Other movement	-	-	-	-	-	-	-	172	172
Balance at 30 June 2008	195	1,402,286	(10,218)	287,971	93,712	4,334,377	6,108,323	107,656	6,215,979

The accompanying notes on pages 6 to 52 form an integral part of this Interim Financial Information.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Unaudited Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Net cash flows generated from operating activities	**3,531,851**	1,045,053
Net cash flows used in investing activities	**(1,944,788)**	(1,333,843)
Net cash flows used in financing activities	**(593,803)**	(321,588)
Net increase/(decrease) in cash and cash equivalents	**993,260**	(610,378)
Cash and cash equivalents at beginning of period	**3,067,928**	2,948,757
Exchange losses on cash and cash equivalents	**(166)**	(74,961)
Cash and cash equivalents at end of period	**4,061,022**	2,263,418
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**1,742,385**	1,331,143
Short-term highly liquid investments with initial term of three months or less	**2,318,637**	932,275
	4,061,022	2,263,418

The accompanying notes on pages 6 to 52 form an integral part of this Interim Financial Information.

Notes to the Interim Financial Information

1 General information

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

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

The consolidated statement of financial position as at 30 June 2009, the related consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information") of the Group have been approved by the Board on 12 August 2009.

2 Basis of preparation and presentation

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

3 Significant accounting policies

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 is 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.

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

Assessment and adoption of new standards, amendments and interpretations

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.

(a) IAS 1 (Revised), "Presentation of Financial Statements". It prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present statements of performance position at the end of the current period and comparative period.

The Group has applied this revised standard from 1 January 2009. The Interim Financial Information has been prepared under the revised representation requirements.

3 Significant accounting policies (Continued)

Assessment and adoption of new standards, amendments and interpretations (Continued)

(b) IFRS 2 (Amendment), "Share-based Payment Vesting Conditions and Cancellations". It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services; that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognized over the remaining of the vesting period is recognized immediately.

The Group has applied this amendment from 1 January 2009 and management considers that this amendment does not have a significant impact on the Interim Financial Information.

(c) Amendment to IFRS 7, "Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments". It requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for understanding the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

This amendment is not relevant to the preparation of the Interim Financial Information. The Group is currently assessing the impact of the amendment on disclosures in its consolidated financial statements for the year ending 31 December 2009.

3 Significant accounting policies (Continued)

Assessment and adoption of new standards, amendments and interpretations (Continued)

(d) IFRS 8, "Operating Segments". IFRS 8 replaces IAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purpose. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segments and to assess their performance.

The Group has applied this standard from 1 January 2009. As the business segments reported by the Group in accordance with the requirements of IAS 14 are the same as the operating segments provided to chief operating decision-makers, there are no changes to the operating segments and their respective results on the adoption of IFRS 8.

(e) IFRIC 13, "Customer Loyalty Programmes". It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customers is allocated between the components of the arrangement using fair values.

The current accounting treatment adopted by the Group for customer loyalty programs complies with the requirements of IFRIC 13.

The following new amendments and interpretations to existing standards, which have been published and are mandatory for the financial year beginning on 1 January 2009, are not currently relevant to the Group:

IAS 23 (Amendment)	Borrowing Costs
IAS 32 and IAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
IFRIC 15	Agreements for Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

4 Capital risk management

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

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

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

The gearing ratios as at 30 June 2009 and 31 December 2008 were as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Total liabilities	3,957,363	2,736,225
Total assets	12,841,950	9,855,557
Gearing ratio	31%	28%

5 Segment information

The chief operating decision-makers are mainly composed of executive directors. The chief operating decision-makers review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has three reportable segments for the three and six months ended 30 June 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.

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

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

Other information, together with segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that in the Interim Financial Information.

During the six months ended 30 June 2009, the change in total assets of each reportable segment was not material to the Group.

5 Segment information (Continued)

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

	Unaudited				
	Three months ended 30 June 2009				
	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)	2,156,468	470,003	243,044	8,908	2,878,423
Gross profit/(loss)	1,491,313	290,422	169,621	(7,546)	1,943,810
Other gains, net					25,328
Selling and marketing expenses					(114,587)
General and administrative expenses					(455,629)
Operating profit					1,398,922
Finance costs					(653)
Share of profit of associates					3,452
Profit before income tax					1,401,721

5 Segment information (Continued)

	Unaudited Three months ended 30 June 2008				
	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)	1,037,042	338,311	222,790	1,635	1,599,778
Gross profit/(loss)	767,798	220,550	169,134	(10,773)	1,146,709
Other gains, net					25,855
Selling and marketing expenses					(100,212)
General and administrative expenses					(307,059)
Operating profit					765,293
Finance costs					(40,918)
Share of losses of associates					(1,558)
Profit before income tax					722,817

5 Segment information (Continued)

	Unaudited Six months ended 30 June 2009				
	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)	4,061,031	909,548	389,607	22,602	5,382,788
Gross profit/(loss)	2,851,252	560,907	264,183	(14,081)	3,662,261
Other gains, net					24,557
Selling and marketing expenses					(212,692)
General and administrative expenses					(910,647)
Operating profit					2,563,479
Finance costs					(405)
Share of profit of associates					8,824
Profit before income tax					2,571,898

5 Segment information (Continued)

	Unaudited Six months ended 30 June 2008				
	Internet value-added services RMB'000	Mobile and telecommu-nications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Segment revenues (revenues from external customers)	2,035,775	626,602	367,370	2,942	3,032,689
Gross profit/(loss)	1,531,989	404,882	274,223	(19,939)	2,191,155
Other gains, net					73,303
Selling and marketing expenses					(186,146)
General and administrative expenses					(575,701)
Operating profit					1,502,611
Finance costs					(135,384)
Share of losses of associates					(1,558)
Profit before income tax					1,365,669

6 Capital expenditure

	Unaudited				
	Fixed assets RMB'000	Construction in progress RMB'000	Investment properties RMB'000 (Note)	Leasehold land and land use rights RMB'000	Intangible assets RMB'000
Net book amount at 1 January 2009	1,165,048	875,897	64,981	36,046	370,314
Additions	190,636	180,351	–	–	17,215
Transfer	533,857	(501,266)	(32,591)	–	–
Disposals	(4,492)	–	–	–	(1,654)
Depreciation/ Amortization charge	(181,435)	–	(356)	(375)	(69,193)
Net book amount at 30 June 2009	1,703,614	554,982	32,034	35,671	316,682

Note:

During the six months ended 30 June 2009, investment properties of approximately RMB32,591,000 were transferred to fixed assets since the relevant units in the office building have been occupied by the Group for its own business expansion needs.

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

There was no indication of impairment for non-financial assets as at 30 June 2009.

7 Investment in associates

	Unaudited 30 June 2009 RMB'000	Unaudited 30 June 2008 RMB'000
At beginning of period	302,712	–
Addition	12,893	333,974
Share of profit/(losses) of associates	8,824	(1,558)
At end of period	324,429	332,416

The addition in investment in associates for the six months ended 30 June 2009, mainly represented the further investment in a venture capital fund in Asia (excluding the PRC) in order to maintain the equity interest percentage held.

As at 30 June 2009, the investment in associates mainly represented 20.02% equity interest in an online game company and 25% equity interest in the venture capital fund in Asia (excluding the PRC).

8 Held-to-maturity investments/Financial assets held for trading

A USD Constant Maturity Treasury Linked Bond with a principal amount of USD10,000,000, which was classified as held-to-maturity investments, matured during the six months ended 30 June 2009.

Meanwhile, the term sheet of a USD principle protected note, which was previously classified as financial assets held for trading, was restructured. After the restructure, the note will offer interest at fixed annual rate and mature in 2013. As management intends to hold the note to maturity, it was re-classified as held-to-maturity investments during the six months ended 30 June 2009.

No impairment provision was required for the held-to-maturity investments held on 30 June 2009.

9 Accounts receivable

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
0 - 30 days	**747,284**	550,813
31 days - 60 days	**118,750**	172,461
61 days - 90 days	**93,348**	67,593
Over 90 days but less than a year	**235,286**	192,592
	1,194,668	983,459

All accounts receivable is denominated in RMB.

The receivable balances as at 30 June 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.

The directors of the Company consider that the carrying amount of the receivable balances approximated its fair value as at 30 June 2009.

10 Prepayments, deposits and other receivables

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Included in non-current assets:		
Loan to a related party (Note)	54,700	73,094
Non-current portion of running royalty fees for online games	38,429	51,260
	93,129	124,354
Included in current assets:		
Current portion of running royalty fees for online games	107,425	143,305
Refundable value-added tax	57,183	52,877
Prepaid expenses	58,629	24,636
Advances to suppliers	61,351	40,380
Rental deposits and other deposits	19,792	22,345
Interest receivables	32,396	33,598
Others	74,024	61,199
	410,800	378,340
	503,929	502,694

Note:

The amount represented the outstanding balance of a loan due by Shenzhen Shijiaqi Investment Company Limited ("Shijiaqi"), a limited liability company incorporated in the PRC and wholly owned by Mr Zhang Yan, a director of a non wholly owned subsidiary of the Company, Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain"). The loan was originally made to Mr Zhang Yan for his acquisition of 15.6% equity interest in Shenzhen Domain in 2008. During the six months ended 30 June 2009, Mr Zhang Yan transferred all his equity interests in Shenzhen Domain, together with the above loan, to Shijiaqi. The loan is repayable over a period of three years from 2008, bearing interest at an annual rate of 7.47%, and is secured by the aforesaid 15.6% equity interest held by Shijiaqi.

The carrying amounts of the prepayments, deposits and other receivables approximated their fair values.

11 Term deposits with initial term of over three months

As at 30 June 2009, term deposits with initial term of over three months of approximately RMB175,445,000 were denominated in USD (31 December 2008: RMB68,196,000).

12 Cash and cash equivalents

As at 30 June 2009, cash and cash equivalents of approximately RMB551,716,000 (31 December 2008: RMB1,061,560,000) and RMB105,428,000 (31 December 2008: RMB61,655,000) were denominated in USD and HKD, respectively.

13 Share capital, share premium, shares held for share award scheme and share-based compensation reserve

As at 30 June 2009 and 31 December 2008, the total authorised number of ordinary shares was 10,000,000,000 shares with par value of HKD 0.0001 per share.

As at 30 June 2009, all issued shares were fully paid.

Group	Number of ordinary shares	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	1,788,574,647	194	1,455,854	–	220,230	1,676,278
Employee share option schemes:						
– value of employee services	–	–	–	–	67,277	67,277
– number of shares issued and proceeds received	10,948,191	1	51,558	–	–	51,559
Employee share award scheme						
– value of employee services	–	–	–	–	464	464
– shares purchased for share award scheme	(196,000)	–	–	(10,218)	–	(10,218)
Repurchase and cancellation of shares	(2,772,600)	–	(105,126)	–	–	(105,126)
At 30 June 2008	1,796,554,238	195	1,402,286	(10,218)	287,971	1,680,234
At 1 January 2009	1,795,031,443	195	1,155,209	(21,809)	381,439	1,515,034
Employee share option schemes:						
– value of employee services	–	–	–	–	86,674	86,674
– number of shares issued and proceeds received (Note (i))	10,007,785	1	82,813	–	–	82,814
Employee share award scheme:						
– value of employee services	–	–	–	–	17,026	17,026
– shares purchased for share award scheme (Note (ii))	(383,100)	–	–	(24,423)	–	(24,423)
Repurchase and cancellation of shares	(1,922,000)	–	(74,570)	–	–	(74,570)
At 30 June 2009	1,802,734,128	196	1,163,452	(46,232)	485,139	1,602,555

As at 30 June 2009, the total number of issued ordinary shares of the Company was 1,804,466,758 shares (31 December 2008: 1,796,513,053 shares).

13 Share capital, share premium, shares held for share award scheme and share-based compensation reserve (Continued)

Note:

(i) During the six months ended 30 June 2009, a total of 1,375,675 Pre-IPO options were exercised at exercise prices ranging from USD0.0497 to USD0.4396. In addition, a total of 8,632,110 Post-IPO options were exercised at exercise prices ranging from HKD3.6650 to HKD47.7200.

(ii) During the six months ended 30 June 2009, 383,100 shares of the Company were acquired on the open market for the purpose of a share award scheme (Note 14(b)). The total amount paid was approximately HKD27,708,000 (equivalent to approximately RMB24,423,000) and has been deducted from shareholder's equity.

(iii) As at 30 June 2009, included in "Shares held for share award scheme", 237,480 shares held by the Tencent Share Award Scheme ("Share Scheme Trust") have not yet been granted to employees (Note 14(b)). They represented the "treasury shares" of the Group as at that date. All these treasury shares were purchased by the Share Scheme Trust from the open market, at a total consideration of approximately HKD21,173,000 (equivalent to approximately RMB18,660,000).

14 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.

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(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.

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall not exceed 88,903,654 shares, 5% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme II (the "Scheme Mandate Limit A"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme II shall not be counted for the purpose of calculating the 5% limit. The Company may refresh the Scheme Mandate Limit A by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit A so refreshed shall not exceed 5% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit A. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II).

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(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.

The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall not exceed 36,018,666 shares, 2% of the issued shares as at the date of shareholders' approval of the Post-IPO Option Scheme III (the "Scheme Mandate Limit B"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme III shall not be counted for the purpose of calculating the 2% limit. The Company may refresh the Scheme Mandate Limit B by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit B so refreshed shall not exceed 2% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit B. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme III will expire no later than the last day of the ten-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme III).

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and any other share option schemes of the Company (whether exercised, cancelled or outstanding) to any eligible person in any 12-month period shall not exceed 1% of the issued shares from time to time unless such grant has been duly approved by an ordinary resolution of the shareholders in a general meeting at which the relevant eligible person and his associates are abstained from voting. In calculating the aforesaid limit of 1%, options that have lapsed shall not be counted.

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	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	–	–	–	–	HKD48.2972	7,288,977	7,288,977
Exercised	USD0.1046	(4,027,362)	HKD7.4123	(6,838,989)	HKD31.7500	(81,840)	(10,948,191)
Lapsed	–	–	HKD7.9551	(724,312)	HKD48.8305	(1,811,492)	(2,535,804)
At 30 June 2008	USD0.1033	4,721,500	HKD10.2298	42,632,781	HKD36.2249	22,831,321	70,185,602
Currently exercisable as at 30 June 2008	USD0.0891	4,247,227	HKD8.8246	11,242,971	HKD31.8252	605,688	16,095,886
At 1 January 2009	**USD0.0964**	**4,124,083**	**HKD10.4762**	**37,615,536**	**HKD41.2330**	**28,715,506**	**70,455,125**
Granted	**–**	**–**	**–**	**–**	**HKD48.0100**	**380,000**	**380,000**
Exercised	**USD0.1435**	**(1,375,675)**	**HKD8.1223**	**(7,860,636)**	**HKD37.0514**	**(771,474)**	**(10,007,785)**
Lapsed	**USD0.0497**	**(254,080)**	**HKD8.8487**	**(329,029)**	**HKD48.3206**	**(346,393)**	**(929,502)**
At 30 June 2009	**USD0.0752**	**2,494,328**	**HKD11.1232**	**29,425,871**	**HKD41.3526**	**27,977,639**	**59,897,838**
Currently exercisable as at 30 June 2009	**USD0.0752**	**2,494,328**	**HKD9.4056**	**14,952,621**	**HKD37.0696**	**2,504,950**	**19,951,899**

No share options had been granted under the Post-IPO Option Scheme III since its adoption to 30 June 2009.

During the six months ended 30 June 2009, no share options under the Post-IPO Option Scheme II (during the six months ended 30 June 2008: Nil) were granted to any director of the Company.

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(1) Movements in share options (Continued)

As a result of options exercised during the six months ended 30 June 2009, 10,007,785 (during the six months ended 30 June 2008: 10,948,191) ordinary shares were issued (Note 13). The weighted average price of the shares at the time these options were exercised was HKD64.87 per share (during the six months ended 30 June 2008: HKD53.90 per share).

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2009 and 31 December 2008 were as follows:

Expiry Date	**Range of exercise price**	**30 June 2009**	31 December 2008
31 December 2011	USD0.0497	**2,257,900**	3,392,100
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	**236,428**	731,983
		2,494,328	4,124,083
10 years commencing from the adoption date of 24 March 2004 (Post-IPO Option Scheme I)	HKD3.6650-HKD8.3500	**16,443,605**	22,343,843
	HKD11.5500-HKD25.2600	**12,982,266**	15,271,693
		29,425,871	37,615,536
7 years commencing from date of grant of options (Post-IPO Option Scheme II)	HKD31.7500-HKD43.5000	**16,309,773**	16,918,113
	HKD45.5000-HKD60.5900	**11,667,866**	11,797,393
		27,977,639	28,715,506
		59,897,838	70,455,125

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(3) Fair values of options

The directors have used the Black-Scholes valuation model (the "BS Model") to determine the fair values of the options granted, which is to be expensed over the vesting period. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model.

The fair values of the options granted to employees, together with the parameters used, during the period from 1 January 2008 to 30 June 2009 are as follows:

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
29/1/2008	HKD 73,154,000	4,243,350	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (iv))
29/1/2008	HKD 23,324,000	1,306,600	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (vii))
29/1/2008	HKD 6,318,000	330,167	HKD46.50	HKD46.50	2.38%	1.03%	50%	Based on option grant date (Note (v))
18/2/2008	HKD 3,372,000	182,070	HKD49.95	HKD49.95	2.39%	1.03%	50%	Based on option grant date (Note (iv))
25/3/2008	HKD 6,565,000	416,990	HKD42.65	HKD42.65	2.24%	1.03%	50%	Based on option grant date (Note (iv))
11/4/2008	HKD 872,000	51,820	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (iv))
11/4/2008	HKD 382,000	20,390	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (v))
11/4/2008	HKD 410,000	20,390	HKD47.72	HKD46.50	2.30%	1.03%	50%	Based on option grant date (Note (vi))
3/7/2008	HKD 118,700,000	5,278,440	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (iv))
3/7/2008	HKD 10,811,000	431,310	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (v))
3/7/2008	HKD 1,560,000	57,930	HKD60.59	HKD59.50	3.50%	1.03%	50%	Based on option grant date (Note (vi))

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(3) Fair values of options (Continued)

Date of grant	Fair value of options	No. of options granted	Exercise price	Closing share price at date of grant	Risk free rate (Note (i))	Dividend yield (Note (ii))	Expected volatility (Note (iii))	Exercisable date
10/10/2008	HKD 3,877,000	243,390	HKD48.92	HKD45.10	2.42%	1.03%	51%	Based on option grant date (Note (iv))
10/10/2008	HKD 1,425,000	80,000	HKD48.92	HKD45.10	2.42%	1.03%	51%	Based on option grant date (Note (v))
1/12/2008	HKD 3,078,000	179,320	HKD43.50	HKD43.50	1.75%	1.03%	54%	Based on option grant date (Note (iv))
17/2/2009	HKD 6,613,000	380,000	HKD48.01	HKD45.75	1.45%	0.71%	54%	Based on option grant date (Note (iv))

Note:

(i) The risk free rate was determined based on the yield to maturity of Hong Kong Government Bonds with maturity in June 2015 or December 2015 as at the date of valuation.

(ii) Dividend yield is estimated based on the Company's historical dividend yield.

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

(iv) The first 20% of the option can be exercised one year after the grant date, and then each 20% of the total options will become exercisable in each subsequent year.

(v) The first 20% of the option can be exercised two years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year.

(vi) The first 20% of the option can be exercised three years after the grant date, and then each 20% of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

14 Share option and share award schemes (Continued)

(a) Share option schemes (Continued)

(3) Fair values of options (Continued)

(vii) The first 20% of the option can become exercisable from 17 May 2009, and then each 20% of the total options will become exercisable in each subsequent year.

(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 ("Awarded Person(s)") to participate in the Share Scheme.

Pursuant to the Share Scheme, ordinary shares of the Company will be acquired by an independent trustee (the "Trustee") at the cost of the Company or shares will be allotted to the Trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares will be held in trust for the Awarded Persons by the Trustee until the end of each vesting period. Vested shares will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them.

Unless it is early terminated by the Board, the Share Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date according to the amendment on 13 May 2009 (31 December 2008: ten years).

The number of shares to be awarded under the Share Scheme throughout its duration shall not exceed 2% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the Share Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

14 Share option and share award schemes (Continued)

(b) Share award scheme (Continued)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares

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

	Shares held for the Share Scheme		
	Shares acquired	Shares allotted	Total
At 1 January 2008	–	–	–
Shares purchased	196,000	–	196,000
Granted	(195,760)	–	(195,760)
Cancelled	–	–	–
At 30 June 2008	240	–	240
At 1 January 2009	**80**	**132,080**	**132,160**
Shares purchased (Note (i))	**383,100**	**–**	**383,100**
Granted	**(145,700)**	**–**	**(145,700)**
Cancelled (Note (ii))	**–**	**(132,080)**	**(132,080)**
At 30 June 2009	**237,480**	**–**	**237,480**

Note:

(i) During the six months ended 30 June 2009, the Company contributed HKD47,000,000 (equivalent to approximately RMB41,427,000) to the Trustee for its acquisition of the Company's shares, and the Trustee subsequently acquired 383,100 shares with a consideration of approximately HKD27,708,000 (equivalent to approximately RMB24,423,000).

(ii) The grant of 132,080 awarded shares was not completed and these shares were subsequently cancelled.

14 Share option and share award schemes (Continued)

(b) Share award scheme (Continued)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Continued)

Movements in the number of awarded shares for the six months ended 30 June 2009 and 2008 are as follows:

	Awarded shares		
	Shares acquired	Shares allotted	Total
At 1 January 2008	–	–	–
Granted	195,760	–	195,760
Vested	–	–	–
Lapsed	–	–	–
At 30 June 2008	195,760	–	195,760
At 1 January 2009	**465,480**	**883,970**	**1,349,450**
Granted	**145,700**	**–**	**145,700**
Vested	**–**	**–**	**–**
Lapsed	**–**	**–**	**–**
At 30 June 2009	**611,180**	**883,970**	**1,495,150**

14 Share option and share award schemes (Continued)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Continued)

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

The fair values of the awarded shares were calculated based on the market prices of the Company's shares at the grant dates. The expected dividends during the vesting period have been taken into account when calculating the fair values of the awarded shares.

The fair values of the awarded shares and their exercisable dates during the period from 1 January 2008 to 30 June 2009 are as follows:

Date of grant	Total value of shares at grant date	No. of shares granted	Market price at grant date	Exercisable date (Note (i))
Shares acquired:				
1/4/2008	HKD3,047,000	67,710	HKD45.00	Based on share grant date (Note (ii))
10/6/2008	HKD2,731,000	42,570	HKD64.15	Based on share grant date (Note (ii))
10/6/2008	HKD1,283,000	20,000	HKD64.15	Based on share grant date (Note (iii))
10/6/2008	HKD4,201,000	65,480	HKD64.15	Based on share grant date (Note (iv))
6/10/2008	HKD1,410,000	29,310	HKD48.10	Based on share grant date (Note (ii))
6/10/2008	HKD577,000	12,000	HKD48.10	Based on share grant date (Note (v))
6/10/2008	HKD722,000	15,000	HKD48.10	Based on share grant date (Note (iii))
17/11/2008	HKD4,267,000	85,510	HKD49.90	Based on share grant date (Note (ii))
17/11/2008	HKD6,008,000	120,400	HKD49.90	Based on share grant date (Note (vi))
9/12/2008	HKD365,000	7,500	HKD48.70	Based on share grant date (Note (ii))

14 Share option and share award schemes (Continued)

(b) Share award scheme (Continued)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Continued)

Date of grant	Total value of shares at grant date	No. of shares granted	Market price at grant date	Exercisable date (Note (i))
Shares acquired: (Continued)				
23/1/2009	HKD2,686,000	60,700	HKD44.25	Based on share grant date (Note (ii))
23/1/2009	HKD1,106,000	25,000	HKD44.25	Based on share grant date (Note (v))
23/1/2009	HKD1,549,000	35,000	HKD44.25	Based on share grant date (Note (iv))
17/2/2009	HKD1,144,000	25,000	HKD45.75	Based on share grant date (Note (ii))
Shares allotted:				
29/8/2008	HKD893,000	13,330	HKD67.00	Based on share grant date (Note (iv))
29/8/2008	HKD27,988,000	417,730	HKD67.00	Based on share grant date (Note (ii))
29/8/2008	HKD18,647,000	278,310	HKD67.00	Based on share grant date (Note (v))
29/8/2008	HKD2,412,000	36,000	HKD67.00	Based on share grant date (Note (iii))
29/8/2008	HKD9,286,000	138,600	HKD67.00	Based on share grant date (Note (vii))

Note:

(i) Notwithstanding the exercisable dates, the awarded shares shall only be vested upon the Awarded Person serving a written notice to the Company requesting for transfer of such awarded shares.

(ii) The first 20% of these awarded shares will be exercisable one year after the grant date, and then each 20% of the total awarded shares will be exercisable in each subsequent year.

(iii) The first 20% of these awarded shares will be exercisable two years after the grant date, and then each 20% of the total awarded shares will be exercisable in each subsequent year.

14 Share option and share award schemes (Continued)

(b) Share award scheme (Continued)

(1) Movements in shares held for the Share Scheme and awarded shares, and the fair values of awarded shares (Continued)

(iv) The first one-third of these awarded shares will be exercisable one year after the grant date, and then each one-third of the total awarded shares will be exercisable in each subsequent year.

(v) The first 50% of these awarded shares will be exercisable one year after the grant date, and then the remaining 50% of the total awarded shares will be exercisable in the subsequent year.

(vi) The first one-sixth of these awarded shares will be exercisable one year after the grant date, and then each one-sixth of the total awarded shares will be exercisable in each subsequent year.

(vii) The first 50% of these awarded shares will be exercisable two years after the grant date, and then the remaining 50% of the total awarded shares will be exercisable in the subsequent year.

(2) Outstanding awarded shares

Details of the expiry dates, the fair values and the respective numbers of awarded shares which remained outstanding as at 30 June 2009 and 31 December 2008 were as follows:

Expiry Date	Range of market price at grant date	Number of shares 30 June 2009	Number of shares 31 December 2008
15 years (31 December 2008: 10 years) commencing on the adoption date of the Share Scheme	HKD44.25 – HKD67.00	1,495,150	1,349,450

(c) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the option and awarded share vesting period ("expected retention rate of grantees") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 30 June 2009, the expected retention rate of grantees was assessed to be 87% (31 December 2008: 87%).

15 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
0 - 30 days	517,988	202,237
31 days - 60 days	11,560	25,225
61 days - 90 days	52,481	1,269
Over 90 days but less than a year	55,072	15,916
	637,101	244,647

16 Other payables and accruals

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Staff costs and welfare accruals	501,572	457,710
Marketing and administrative expenses accruals	189,824	170,378
Payables for running royalty fee	106,363	98,231
Prepayments received from customers	53,566	43,684
Deposits from customer-to-customer business	177,171	126,395
Professional fees accruals	11,345	13,655
Others	76,125	103,489
	1,115,966	1,013,542

17 Long-term payables

The long-term payables mainly represented the financial liabilities relating to the put options granted to minority interest owners of Shenzhen Domain, a 60% owned subsidiary of the Company.

As mentioned in the 2008 Financial Statements, in August 2008, the Group granted put options relating to the 40% equity interests in Shenzhen Domain held by Mr Zhang Yan and employees (the "Option Equity Interest").

Under the put option agreement, the Group may be required to acquire the Option Equity Interest if certain conditions have been met. The considerations for the acquisition of the Option Equity Interest are determined with reference to the adjusted net profits of Shenzhen Domain for certain years specified in the put option agreement.

As the Group does not have the unconditional right to avoid delivering cash under the put option agreement, the Group has recognized the relevant financial liabilities at the present value of the estimated future cash outflows on the assumption that it is required to acquire the Option Equity Interest. Based on the preliminary profit forecast of Shenzhen Domain, the directors of the Company have accrued the relevant financial liabilities of RMB515,000,000 in the long-term payables in 2008 and the like amount has been charged to other reserves in the shareholder's equity which, as a result, showed a debit balance as at 30 June 2009.

18 Deferred revenue

Deferred revenue mainly represented service fees prepaid by customers for certain Internet value-added services not yet rendered as at 30 June 2009.

19 Deferred income taxes

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

The gross movements in the deferred tax account are as follows:

	Unaudited 30 June 2009 RMB'000	Unaudited 30 June 2008 RMB'000
At beginning of period	255,796	227,708
Business combinations	–	(315)
(Charge)/Credit to income statement	(26,562)	73,876
At end of period	229,234	301,269

19 Deferred income taxes (Continued)

The movements of deferred tax assets are as follows:

Deferred tax assets:

	Deferred tax assets arising from intra-group software and technology sales RMB'000 (Note)
At 1 January 2008	287,652
Credit to income statement	98,404
Charge to income statement	(33,923)
At 30 June 2008	352,133
At 1 January 2009	**334,164**
Charge to income statement	**(31,565)**
At 30 June 2009	**302,599**

Note:

The deferred tax assets recognized were related to the temporary differences arising from certain intra-group software and technology sales transactions enacted. The credits to the income taxes represented the tax impact of originating temporary differences arising from these software sales, while the charge to income statement represented the tax impact of the reversal of the temporary differences as a result of the amortization of the costs of these software and technology.

19 Deferred income taxes (Continued)

The movements of deferred tax liabilities are as follows:

Deferred tax liabilities:

	Intangible assets acquired in business combination at fair values RMB'000	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'000 (Note)	Others RMB'000	Total RMB'000
At 1 January 2008	(52,313)	–	(7,631)	(59,944)
Business combinations	(315)	–	–	(315)
Credit to income statement	1,988	–	7,407	9,395
At 30 June 2008	(50,640)	–	(224)	(50,864)
At 1 January 2009	(28,368)	(50,000)	–	(78,368)
Credit to income statement	5,003	–	–	5,003
At 30 June 2009	(23,365)	(50,000)	–	(73,365)

Note:

Pursuant to the Detailed Implementation Regulations for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding tax shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. All dividends coming from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding tax. A lower withholding tax rate of 5% is applied to the PRC subsidiaries held by companies incorporated in Hong Kong in accordance with the tax treaty arrangement between the PRC and Hong Kong.

As at 30 June 2009, the Group accrued relevant deferred tax liabilities of RMB50,000,000 for the earnings of approximately RMB1,000,000,000 anticipated to be remitted abroad as dividends by the PRC subsidiaries in the foreseeable future. No withholding tax has been provided for the remaining earnings of approximately RMB3,169,404,000 which were generated after 1 January 2008 and not expected to be remitted out of the PRC in the foreseeable future based on management's estimated requirement for funding outside the PRC.

20 Other gains, net

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Interest income	27,520	22,066	61,569	47,300
Fair value gains/(losses) on financial assets held for trading	11,929	(942)	11,929	4,641
Government subsidies	17,039	25,680	20,580	39,780
Donation to a charity fund established by the Group	(25,000)	(20,000)	(55,000)	(20,000)
Others	(6,160)	(949)	(14,521)	1,582
	25,328	25,855	24,557	73,303

21 Expenses by nature

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Employee benefit expenses (Note)	467,386	326,228	947,335	591,204
Mobile and telecom charges and bandwidth and server custody fees	395,204	252,057	751,429	478,736
Content costs and agency fees	349,689	73,227	573,519	136,199
Depreciation of fixed assets (Note)	94,003	59,996	181,435	113,268
Promotion and advertising expenses	49,730	43,147	95,643	75,288
Travelling and entertainment expenses	26,559	16,106	51,409	35,886
Operating lease rentals in respect of office buildings	24,335	21,441	48,814	43,921
Amortization of intangible assets	31,196	18,267	69,193	29,972
Other expenses	66,727	49,871	125,089	98,907
Total cost of revenues, selling and marketing expenses and general and administrative expenses	1,504,829	860,340	2,843,866	1,603,381

Note:

Research and development expenses were RMB264,582,000 and RMB535,855,000 for the three and six months ended 30 June 2009, respectively (for the three and six months ended 30 June 2008: RMB164,183,000 and RMB297,371,000, respectively). The expenses included employee benefit expenses of RMB201,278,000 and depreciation of fixed assets of RMB56,276,000 for the three months ended 30 June 2009 (for the three months ended 30 June 2008: RMB127,474,000 and RMB33,160,000, respectively) and employee benefit expenses of RMB414,564,000 and depreciation of fixed assets of RMB109,357,000 for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB230,335,000 and RMB61,182,000, respectively).

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

22 Finance costs

Finance costs mainly represented foreign exchange losses arising from the translation of non-RMB denominated monetary assets and liabilities into Renminbi.

23 Tax expenses

(a) Income tax

Income tax expense is recognized 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 six months ended 30 June 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 six months ended 30 June 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 tax law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

23 Tax expenses (Continued)

(a) Income tax (Continued)

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

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, five subsidiaries namely Shenzhen Tencent Computer Systems Company Limited, Tencent Technology (Shenzhen) Company Limited, Shenzhen Domain, Tencent Cyber (Shenzhen) Company Limited, and Tencent Technology (Beijing) Company Limited ("Tencent Beijing"), 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% according to the New EIT Law and the above transitional income tax rates for the period from 2008 to 2010 were no longer applicable to them.

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 six months ended 30 June 2009 (for the three and six months ended 30 June 2008: 7.5%).

As approved by the relevant tax authority, Tencent Cyber (Tianjin) Company Limited ("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. For each year of the tax holiday to be eligible for the exemption, the annual productive sales income for that year shall exceed 50% of its reported total sales income. 2008 was the first profit-making year of Cyber Tianjin, and no provision for EIT was provided for the three and six months ended 30 June 2009.

23 Tax expenses (Continued)

(a) Income tax (Continued)

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
PRC current tax	184,948	115,097	289,978	245,334
Deferred tax	15,025	(44,479)	26,562	(73,876)
	199,973	70,618	316,540	171,458

23 Tax expenses (Continued)

(a) Income tax (Continued)

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Profit before income tax	1,401,721	722,817	2,571,898	1,365,669
Add: Share of (profit)/losses of associates	(3,452)	1,558	(8,824)	1,558
	1,398,269	724,375	2,563,074	1,367,227
Tax calculated at a tax rate of 20% (for the three and six months ended 30 June 2008: 18%)	279,654	130,388	512,615	246,101
Income not subject to tax	–	(3,097)	–	(3,097)
Effects of different tax rates available to different companies of the Group	(29,390)	1,105	(69,957)	5,255
Effects of tax holiday on assessable profit of subsidiaries	(92,624)	(61,456)	(198,832)	(83,645)
Expenses not deductible for tax purposes	28,372	3,852	39,304	14,739
Unrecognized deferred tax assets/(Utilization of previously unrecognized deferred tax assets)	13,961	(174)	33,410	(7,895)
Tax charge	199,973	70,618	316,540	171,458

23 Tax expenses (Continued)

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

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

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

24 Earnings per share

(a) Basic

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	1,192,410	643,979	2,227,850	1,178,357
Weighted average number of ordinary shares in issue (thousand shares)	1,800,959	1,794,673	1,798,190	1,794,163
Basic EPS (RMB per share)	0.662	0.359	1.239	0.657

24 Earnings per share (Continued)

(b) Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the periods) based on the sum of the monetary value of the subscription rights attached to the outstanding share options and their relevant remaining share-based compensation expenses to be recorded in future periods. The number of shares so calculated is compared against the number of shares that would have been issued assuming the exercise of the share options.

For the awarded shares, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the periods) based on the awarded shares' remaining share-based compensation expenses to be recorded in future periods. The number of shares so calculated is compared against the number of awarded shares.

24 Earnings per share (Continued)

(b) Diluted (Continued)

The above two differences are added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	1,192,410	643,979	2,227,850	1,178,357
Weighted average number of ordinary shares in issue (thousand shares)	1,800,959	1,794,673	1,798,190	1,794,163
Adjustments for share options (thousand shares)	39,797	50,490	38,246	51,224
Adjustments for awarded shares (thousand shares)	825	95	638	47
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	1,841,581	1,845,258	1,837,074	1,845,434
Diluted EPS (RMB per share)	0.647	0.349	1.213	0.639

25 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 tenth year anniversary of the Group, totalling approximately HKD629,802,000 (equivalent to RMB554,604,000) (final dividend for 2007: HKD286,990,000 (equivalent to RMB257,803,000)), 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 had been paid as at 30 June 2009.

The Board did not propose any interim dividends.

26 Contingencies

Save as disclosed in Note 17, the Group had no other material contingent liabilities outstanding as at 30 June 2009.

27 Commitments

(a) Capital commitments

Capital commitments as at 30 June 2009 and 31 December 2008 were analysed as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Contracted:		
Construction of buildings	**16,889**	159,458
Purchase of other fixed assets	**138,815**	161,269
Capital investment in investees	**62,540**	40,050
	218,244	360,777
Authorised but not contracted:		
Capital investment in an investee	**20,496**	–
Construction of buildings	**377,396**	478,773
	397,892	478,773
	616,136	839,550

27 Commitments (Continued)

(b) Operating lease commitments

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

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Contracted:		
Not later than one year	58,320	66,931
Later than one year but not later than five years	80,711	95,130
Later than five years	4,225	5,208
	143,256	167,269

(c) Other commitments

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

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Contracted:		
Not later than one year	382,392	234,969
Later than one year but not later than five years	202,405	111,499
	584,797	346,468

28 Related parties transactions

There are no material related parties transactions during the six months ended 30 June 2009.

29 Subsequent events

On 10 July 2009, the Board has resolved to award 8,181,180 shares (which shall be held by the Trustee) to 1,250 eligible persons by way of allotment of new shares of the Company pursuant to the general mandate granted by shareholders of the Company at the annual general meeting held on 13 May 2009.

Review Report of Independent Auditors

TO THE BOARD OF DIRECTORS OF
TENCENT HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 1 to 52, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2009, the related consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information"). The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of the Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 12 August 2009

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 June 2009	For the 16-day period ended 31 March 2009	Percentage change
	(in millions)		
Registered IM user accounts (at end of period)	**990.0**	934.9	5.89%
Active user accounts (at end of period)	**448.0**	410.8	9.06%
Peak simultaneous online user accounts (for the quarter)	**61.3**	57.5	6.61%
Average daily user hours	**996.8**	847.3	17.64%
Average daily messages[(1)]	**6,147.6**	4,991.0	23.17%
Fee-based Internet value-added services registered subscriptions (at end of period)	**40.0**	36.9	8.40%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)[(2)]	**17.2**	16.8	2.38%

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

Operating Information (Continued)

Our IM platform continued to grow in the second quarter of 2009. Registered IM user accounts, active user accounts, peak simultaneous online user accounts, average daily user hours and average daily messages increased mainly due to the growing Internet market in China. The increase in usage and activity, as evidenced by the significant growth in average daily user hours and average daily messages, reflected the growing popularity of our social networking services, Qzone, which induced our users to spend more time logged on to our IM platform through cross-platform integration, and the commencement of summer holiday for students towards the end of June 2009.

The quarter saw healthy growth in registered subscription to our fee-based Internet value-added services, primarily driven by Qzone and QQ Membership. Registered subscriptions to our fee-based mobile and telecommunications value-added services also increased as our bundled SMS packages continued to be popular among users.

Financial Performance Highlights

First Half of 2009

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

	Unaudited Six months ended 30 June 2009 RMB'000	30 June 2008 RMB'000
Revenues	**5,382,788**	3,032,689
Cost of revenues	**(1,720,527)**	(841,534)
Gross profit	**3,662,261**	2,191,155
Other gains, net	**24,557**	73,303
Selling and marketing expenses	**(212,692)**	(186,146)
General and administrative expenses	**(910,647)**	(575,701)
Operating profit	**2,563,479**	1,502,611
Finance costs	**(405)**	(135,384)
Share of profit/(losses) of associates	**8,824**	(1,558)
Profit before income tax	**2,571,898**	1,365,669
Income tax expense	**(316,540)**	(171,458)
Profit for the period	**2,255,358**	1,194,211
Attributable to:		
Equity holders of the Company	**2,227,850**	1,178,357
Minority interests	**27,508**	15,854

First Half of 2009 (Continued)

Revenues. Revenues increased by 77.5% to RMB5,382.8 million for the first half of 2009 from RMB3,032.7 million for the first half of 2008.

	Unaudited Six months ended 30 June 2009		30 June 2008	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	4,061,031	75.5%	2,035,775	67.1%
Mobile and telecommunications value-added services	909,548	16.9%	626,602	20.7%
Online advertising	389,607	7.2%	367,370	12.1%
Others	22,602	0.4%	2,942	0.1%
Total revenues	5,382,788	100.0%	3,032,689	100.0%

Cost of revenues. Cost of revenues increased by 104.5% to RMB1,720.5 million for the first half of 2009 from RMB841.5 million for the first half of 2008.

	Unaudited Six months ended 30 June 2009		30 June 2008	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	1,209,779	29.8%	503,786	24.7%
Mobile and telecommunications value-added services	348,641	38.3%	221,720	35.4%
Online advertising	125,424	32.2%	93,147	25.4%
Others	36,683	162.3%	22,881	777.7%
Total cost of revenues	1,720,527		841,534	

Financial Performance Highlights (Continued)

Second Quarter of 2009

Unaudited consolidated revenues for the second quarter of 2009 were RMB2,878.4 million, an increase of 79.9% over the same period in 2008 and an increase of 14.9% from the first quarter of 2009.

Revenues from our Internet value-added services for the second quarter of 2009 were RMB2,156.5 million, an increase of 107.9% over the same period in 2008 and an increase of 13.2% from the first quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the second quarter of 2009 were RMB470.0 million, an increase of 38.9% over the same period in 2008 and an increase of 6.9% from the first quarter of 2009.

Revenues from online advertising for the second quarter of 2009 were RMB243.0 million, an increase of 9.1% over the same period in 2008 and an increase of 65.8% from the first quarter of 2009.

Cost of revenues for the second quarter of 2009 were RMB934.6 million, an increase of 106.3% over the same period in 2008 and an increase of 18.9% from the first quarter of 2009.

Other gains, net of RMB25.3 million were recorded for the second quarter of 2009, compared to other gains, net of RMB25.9 million for the same period in 2008 and other losses, net of RMB0.8 million for the first quarter of 2009.

Selling and marketing expenses for the second quarter of 2009 were RMB114.6 million, an increase of 14.3% over the same period in 2008 and an increase of 16.8% from the first quarter of 2009.

General and administrative expenses for the second quarter of 2009 were RMB455.6 million, an increase of 48.4% over the same period in 2008 and an increase of 0.1% from the first quarter of 2009.

Operating profit for the second quarter of 2009 was RMB1,398.9 million, representing an increase of 82.8% over the same period in 2008 and an increase of 20.1% from the first quarter of 2009. As a percentage of revenues, operating profit accounted for 48.6% for the second quarter of 2009, compared to 47.8% for the same period in 2008 and 46.5% for the first quarter of 2009.

Financial Performance Highlights (Continued)

Second Quarter of 2009 (Continued)

Profit for the second quarter of 2009 was RMB1,201.7 million, representing an increase of 84.3% over the same period in 2008 and an increase of 14.1% from the first quarter of 2009. As a percentage of revenues, profit for the period accounted for 41.8% for the second quarter of 2009, compared to 40.8% for the same period in 2008 and 42.1% for the first quarter of 2009.

Profit attributable to equity holders of the Company for the second quarter of 2009 was RMB1,192.4 million, an increase of 85.2% over the same period in 2008 and an increase of 15.2% from the first quarter of 2009.

Second Quarter of 2009 Compared to First Quarter of 2009

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

	Unaudited Three months ended	
	30 June 2009 RMB'000	31 March 2009 RMB'000
Revenues	**2,878,423**	2,504,365
Cost of revenues	**(934,613)**	(785,914)
Gross profit	**1,943,810**	1,718,451
Other gains/(losses), net	**25,328**	(771)
Selling and marketing expenses	**(114,587)**	(98,105)
General and administrative expenses	**(455,629)**	(455,018)
Operating profit	**1,398,922**	1,164,557
Finance (costs)/income	**(653)**	248
Share of profit of associates	**3,452**	5,372
Profit before income tax	**1,401,721**	1,170,177
Income tax expense	**(199,973)**	(116,567)
Profit for the period	**1,201,748**	1,053,610
Attributable to:		
Equity holders of the Company	**1,192,410**	1,035,440
Minority interests	**9,338**	18,170

Second Quarter of 2009 Compared to First Quarter of 2009 (Continued)

Revenues. Revenues increased by 14.9% to RMB2,878.4 million for the second quarter of 2009 from RMB2,504.4 million for the first quarter of 2009. The following table sets forth our revenues by line of business for the second quarter of 2009 and the first quarter of 2009:

	Unaudited Three months ended			
	30 June 2009		31 March 2009	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	2,156,468	74.9%	1,904,563	76.0%
Mobile and telecommunications value-added services	470,003	16.3%	439,545	17.6%
Online advertising	243,044	8.5%	146,563	5.9%
Others	8,908	0.3%	13,694	0.5%
Total revenues	2,878,423	100.0%	2,504,365	100.0%

– Revenues from our Internet value-added services increased by 13.2% to RMB2,156.5 million for the second quarter of 2009 from RMB1,904.6 million for the first quarter of 2009. Despite weaker seasonality, online gaming revenues recorded growth amid the increased monetization of our popular games, Dungeon and Fighter ("DNF") and Cross Fire, as well as the organic growth of QQ Game. This was partially offset by the decline in revenues from more mature MMOGs, including QQ Fantasy, QQ SanGuo and QQ Huaxia. Revenues from our community value-added services increased with the growth in Qzone, QQ Membership and QQ Show, partly offset by QQ Pets. Growth in revenues from Qzone was stimulated by the launch of new applications which enhanced user engagement and activity. Revenues from QQ Membership continued to increase as a result of enhanced user loyalty and stickiness driven by the expansion of valued-added functions and cross promotions with our online games and other community services. QQ Show benefited from the growth in monthly subscription mainly driven by the ongoing enhancements in features and user experience. QQ Pets, a predominantly item-based service, experienced decline in revenues during the quarter primarily due to negative seasonality and as enhancement of the service was still in progress.

Second Quarter of 2009 Compared to First Quarter of 2009 (Continued)

- Revenues from our mobile and telecommunications value-added services increased by 6.9% to RMB470.0 million for the second quarter of 2009 from RMB439.5 million for the first quarter of 2009. This was mainly driven by the growth in our bundled SMS packages due to ongoing enhancements in the privileges and user experience of our services. Mobile gaming revenues also grew during the quarter as a result of the rising popularity of mobile games and the enrichment of our game portfolio. The increase was partially offset by the decrease in revenue from mobile voice value-added services as a result of the dwindling business volume of color ringback tone.

- Revenues from online advertising increased by 65.8% to RMB243.0 million for the second quarter of 2009 from RMB146.6 million for the first quarter of 2009. The increase primarily reflected better seasonality in the second quarter. In addition, there was an increase in advertising spending as advertisers resumed their activities upon signing of framework contracts. The first quarter of 2009 was particularly subdued for the online advertising business as advertisers delayed their spending in response to the uncertain economic environment.

Second Quarter of 2009 Compared to First Quarter of 2009 (Continued)

Cost of revenues. Cost of revenues increased by 18.9% to RMB934.6 million for the second quarter of 2009 from RMB785.9 million for the first quarter of 2009. This primarily reflected the increase in sharing costs, bandwidth and server custody fees, as well as telecommunications operators' revenue share. As a percentage of revenues, cost of revenues increased to 32.5% for the second quarter of 2009 from 31.4% for the first quarter of 2009. The following table sets forth our cost of revenues by line of business for the second quarter of 2009 and the first quarter of 2009:

	Unaudited Three months ended			
	30 June 2009		31 March 2009	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	665,155	30.8%	544,624	28.6%
Mobile and telecommunications value-added services	179,581	38.2%	169,060	38.5%
Online advertising	73,423	30.2%	52,001	35.5%
Others	16,454	184.7%	20,229	147.7%
Total cost of revenues	934,613		785,914	

– Cost of revenues for our Internet value-added services increased by 22.1% to RMB665.2 million for the second quarter of 2009 from RMB544.6 million for the first quarter of 2009. The increase mainly reflected higher sharing costs driven by the growth in revenues from licensed games, including DNF and Cross Fire. It was also driven by the increase in bandwidth and server custody fees as well as telecommunications operators' revenue share due to the continuing expansion of our business.

– Cost of revenues for our mobile and telecommunications value-added services increased by 6.2% to RMB179.6 million for the second quarter of 2009 from RMB169.1 million for the first quarter of 2009. This was mainly driven by the increase in telecommunications operators' revenue share and sharing costs due to the growth in revenues that involved content provided by our partners.

Second Quarter of 2009 Compared to First Quarter of 2009 (Continued)

– Cost of revenues for online advertising increased by 41.2% to RMB73.4 million for the second quarter of 2009 from RMB52.0 million for the first quarter of 2009. This mainly reflected the increase in sales commissions paid to advertising agencies as a result of the growth in advertising revenues.

Other gains/(losses), net. Other gains, net of RMB25.3 million were recorded for the second quarter of 2009, compared to other losses, net of RMB0.8 million for the first quarter of 2009. The change primarily reflected higher government subsidies received and the increase in fair value gains on financial assets held for trading. In addition, we made a donation of RMB25.0 million to the Tencent Charity Fund, which was lower than the RMB30.0 million for the previous quarter. These factors were partially offset by lower interest income.

Selling and marketing expenses. Selling and marketing expenses increased by 16.8% to RMB114.6 million for the second quarter of 2009 from RMB98.1 million for the first quarter of 2009. This was mainly attributable to the increase in staff costs as a result of the continued expansion of our business. Promotion and advertising expenses also increased as we started to spend more on brand advertising and promotion during the quarter to further enhance our brand position and media influence. As a percentage of revenues, selling and marketing expenses increased slightly to 4.0% in the second quarter of 2009 from 3.9% in the first quarter of 2009.

General and administrative expenses. General and administrative expenses amounted to RMB455.6 million for the second quarter of 2009 which was broadly stable compared to RMB455.0 million for the first quarter of 2009 despite the growth of our business. This primarily reflected the implementation of tighter temporary costs control measures under a challenging economic environment. As a percentage of revenues, general and administrative expenses decreased to 15.8% in the second quarter of 2009 from 18.2% in the first quarter of 2009.

Finance (costs)/income. We recorded finance costs of RMB0.7 million for the second quarter of 2009 compared to finance income of RMB0.2 million for the first quarter of 2009. This represented foreign exchange losses associated with our US dollar-denominated cash and investments arising from the slight appreciation of Renminbi during the second quarter.

Second Quarter of 2009 Compared to First Quarter of 2009 (Continued)

Income tax expense. Income tax expense increased by 71.6% to RMB200.0 million for the second quarter of 2009 from RMB116.6 million for the first quarter of 2009. The increase mainly reflected higher profit before tax. Additional tax expense was also provided during the quarter upon the finalization 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 14.1% to RMB1,201.7 million for the second quarter of 2009 from RMB1,053.6 million for the first quarter of 2009. Net margin was 41.8% for the second quarter of 2009 compared to 42.1% for the first quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 15.2% to RMB1,192.4 million for the second quarter of 2009 from RMB1,035.4 million for the first quarter of 2009.

Second Quarter of 2009 Compared to Second Quarter of 2008

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

	Unaudited Three months ended	
	30 June 2009 RMB'000	30 June 2008 RMB'000
Revenues	2,878,423	1,599,778
Cost of revenues	(934,613)	(453,069)
Gross profit	1,943,810	1,146,709
Other gains, net	25,328	25,855
Selling and marketing expenses	(114,587)	(100,212)
General and administrative expenses	(455,629)	(307,059)
Operating profit	1,398,922	765,293
Finance costs	(653)	(40,918)
Share of profit/(losses) of associates	3,452	(1,558)
Profit before income tax	1,401,721	722,817
Income tax expense	(199,973)	(70,618)
Profit for the period	1,201,748	652,199
Attributable to:		
Equity holders of the Company	1,192,410	643,979
Minority interests	9,338	8,220

Second Quarter of 2009 Compared to Second Quarter of 2008 (Continued)

Revenues. Revenues increased by 79.9% to RMB2,878.4 million for the second quarter of 2009 from RMB1,599.8 million for the second quarter of 2008. The following table sets forth our revenues by line of business for the second quarter of 2009 and the second quarter of 2008:

	Unaudited Three months ended			
	30 June 2009		30 June 2008	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,156,468**	**74.9%**	1,037,042	64.8%
Mobile and telecommunications value-added services	**470,003**	**16.3%**	338,311	21.2%
Online advertising	**243,044**	**8.5%**	222,790	13.9%
Others	**8,908**	**0.3%**	1,635	0.1%
Total revenues	**2,878,423**	**100.0%**	1,599,778	100.0%

– Revenues from our Internet value-added services increased by 107.9% to RMB2,156.5 million for the second quarter of 2009 from RMB1,037.0 million for the second quarter of 2008. Online gaming revenues registered strong growth, mainly attributable to the contribution of revenues from MMOGs and advanced casual games launched in 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, as well as the organic growth of QQ Game. This was partially offset by the decline in revenues from more mature MMOGs, including QQ Fantasy and QQ Huaxia. Revenues from our community value-added services also grew, primarily due to the growth in QQ Membership, Qzone and QQ Show. Revenues from QQ Membership increased as a result of improved user loyalty and stickiness driven by the expansion of value-added functions as well as cross promotions with our online games and other community services. Revenues from Qzone grew with increased user number and activity mainly driven by the continued improvements in functionalities and features as well as the introduction of new applications. QQ Show recorded revenue growth on the back of the successful transition from item-based to subscription-based business model.

Second Quarter of 2009 Compared to Second Quarter of 2008 (Continued)

– Revenues from our mobile and telecommunications value-added services increased by 38.9% to RMB470.0 million for the second quarter of 2009 from RMB338.3 million for the second quarter of 2008. This mainly reflected growth in revenues from bundled SMS packages as we continued to enhance the functionalities of our services and offer more privileges to users. Mobile gaming revenues also increased with the growing popularity of mobile games and the continuing enrichment of our game portfolio. The increase was partially offset by the decrease in revenue from mobile voice value-added services as a result of the dwindling business volume of color ringback tone.

– Revenues from online advertising increased by 9.1% to RMB243.0 million for the second quarter of 2009 from RMB222.8 million for the second quarter of 2008. This primarily reflected the growth in reach of and traffic on our advertising platforms, our enhanced brand awareness as well as our expanding user base, partly offset by the negative impact of the global economic downturn on advertising spending.

Second Quarter of 2009 Compared to Second Quarter of 2008 (Continued)

Cost of revenues. Cost of revenues increased by 106.3% to RMB934.6 million for the second quarter of 2009 from RMB453.1 million for the second quarter of 2008. This was mainly driven by the increase in sharing costs, bandwidth and server custody fees, telecommunications operators' revenue share, as well as staff costs. As a percentage of revenues, cost of revenues increased to 32.5% in the second quarter of 2009 from 28.3% in the second quarter of 2008. The following table sets forth our cost of revenues by line of business for the second quarter of 2009 and the second quarter of 2008:

	Unaudited Three months ended			
	30 June 2009		30 June 2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**665,155**	**30.8%**	269,244	26.0%
Mobile and telecommunications value-added services	**179,581**	**38.2%**	117,761	34.8%
Online advertising	**73,423**	**30.2%**	53,656	24.1%
Others	**16,454**	**184.7%**	12,408	758.9%
Total cost of revenues	**934,613**		453,069	

- Cost of revenues for our Internet value-added services increased by 147.0% to RMB665.2 million for the second quarter of 2009 from RMB269.2 million for the second quarter of 2008. This mainly reflected higher sharing costs driven by the growth in revenues from licensed games, including DNF and Cross Fire. This was also driven by the increase in bandwidth and server custody fees as well as telecommunications operators' revenue share due to the continuing expansion of business volume.

- Cost of revenues for our mobile and telecommunications value-added services increased by 52.5% to RMB179.6 million for the second quarter of 2009 from RMB117.8 million for the second quarter of 2008. This was primarily driven by the increase in telecommunications operators' revenue share and sharing costs due to the growth in revenues that involved content provided by our partners.

Second Quarter of 2009 Compared to Second Quarter of 2008 (Continued)

– Cost of revenues for online advertising increased by 36.8% to RMB73.4 million for the second quarter of 2009 from RMB53.7 million for the second quarter of 2008. The increase primarily reflected higher sales commissions paid to agencies. It was also driven by higher staff costs due to the growth in headcount for supporting our business expansion.

Other gains, net. Other gains, net decreased slightly by 2.0% to RMB25.3 million for the second quarter of 2009 from RMB25.9 million for the second quarter of 2008. The decrease primarily reflected lower government subsidies received and that the donation made to the Tencent Charity Fund increased to RMB25.0 million for the second quarter of 2009 from RMB20.0 million for the same period last year. It was offset by the increase in fair value gains on financial assets held for trading and higher interest income.

Selling and marketing expenses. Selling and marketing expenses increased by 14.3% to RMB114.6 million for the second quarter of 2009 from RMB100.2 million for the second quarter of 2008. This was primarily driven by higher staff costs and the increase in promotion and advertising expenses as our business continued to grow. As a percentage of revenues, selling and marketing expenses decreased to 4.0% in the second quarter of 2009 from 6.3% in the second quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 48.4% to RMB455.6 million for the second quarter of 2009 from RMB307.1 million for the second quarter of 2008. The increase primarily reflected higher research and development costs as a result of the expansion in our research and development team as well as higher staff cost due to the growth of our business. As a percentage of revenues, general and administrative expenses decreased to 15.8% in the second quarter of 2009 from 19.2% in the second quarter of 2008.

Finance costs. Finance costs decreased by 98.4% to RMB0.7 million for the second quarter of 2009 from RMB40.9 million for the second quarter of 2008. This reflected a significant reduction in foreign exchange losses associated with our US dollar-denominated cash and investments arising from the appreciation of Renminbi.

Second Quarter of 2009 Compared to Second Quarter of 2008 (Continued)

Income tax expense. Income tax expense increased by 183.2% to RMB200.0 million for the second quarter of 2009 from RMB70.6 million for the second quarter of 2008. This primary reflected higher profit before tax. In addition, we recorded deferred tax assets of RMB53.7 million in the second quarter of 2008 relating to intra-group sales of technology and software, whereas no deferred tax assets was recognized in the second quarter of 2009. These factors were partly offset by lower tax rates applicable to certain subsidiaries in the second quarter of 2009 as they were qualified as high/new technology enterprises at the end of 2008.

Profit for the period. Profit for the period increased by 84.3% to RMB1,201.7 million for the second quarter of 2009 from RMB652.2 million for the second quarter of 2008. Profit margin was 41.8% for the second quarter of 2009 compared to 40.8% for the second quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 85.2% to RMB1,192.4 million for the second quarter of 2009 from RMB644.0 million for the second quarter of 2008.

Liquidity and Financial Resources

As at 30 June 2009 and 31 March 2009, we had the following major financial resources in the form of cash and investments:

	Unaudited 30 June 2009 RMB'000	31 March 2009 RMB'000
Cash and cash equivalents	**4,061,022**	3,803,523
Term deposits with initial term of over three months	**3,380,260**	2,464,401
Financial assets held for trading	**–**	329,866
Held-to-maturity investments	**341,595**	–
Total	**7,782,877**	6,597,790

As at 30 June 2009, RMB1,174.2 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 interest-bearing borrowings as at 30 June 2009.

Business Review and Outlook

We delivered solid financial and operating results in the second quarter of 2009. Our Internet value-added services ("IVAS") achieved growth, mainly driven by the increased monetization of our major games, DNF and Cross Fire, as well as the organic growth of QQ Game and our community value-added services. Our mobile and telecommunications value-added services ("MVAS") registered healthy growth, thanks to the increasing popularity of our bundled SMS packages and mobile games. Our online advertising business also grew significantly on a quarter-on-quarter basis. This reflected more favorable seasonality as well as increased spending by advertisers as they resumed activities upon a delay in the signing of framework contracts. Looking ahead, we expect that the third quarter would present stronger seasonality compared to the second quarter for our online games due to summer school holidays, although the increase in monetization of games launched in 2008 would be more difficult as the games mature over time. Outlook of our online advertising business remains challenging as we are still facing an uncertain economic environment.

IM Platform

Active users and peak concurrent users ("PCU") of our core IM platform increased to 448 million and 61 million respectively in the second quarter of 2009, as the Internet market in China continued to expand and the major upgraded version of our IM service, QQ2009, was well received by our users. As we improved integration among our various online platforms, the amount of time users spent on our IM service also increased. We will continue to leverage the enhanced architecture of QQ2009 to develop attractive functionalities for our users.

QQ.com

The second quarter saw continued growth in the traffic of our QQ.com portal, consolidating its position as the most visited portal in China. We started to step up our advertising and promotional activities during the quarter in order to strengthen our brand recognition and media influence. We will accelerate our brand investments in the second half of 2009 to further enhance our position as a mainstream media in China. We are also investing in our content, technology platform and operations to improve our long-term competitiveness.

Internet value-added services

Our community value-added services registered healthy growth during the quarter. For QQ Membership, we continued to focus on enhancing user stickiness and loyalty by bundling more valued-added functions as well as offline lifestyle privileges. We also increased cross promotions with our online games and other community value-added services, leveraging our diversified product portfolio and integrated online platforms. For SNS, Qzone benefited from the launch of new applications which enhanced user engagement and monetization. Its active user base increased by 25% on a quarter-on-quarter basis to 228 million at the end of the second quarter. QQ Show continued to register organic growth in monthly subscription. Trendy themes were launched to promote its fashionable appeal. For QQ Pets, we are still in the process of developing multi-player community functions to provide better experience to the users.

Our online gaming business grew during the quarter, benefiting from our platform strategy, diversified product portfolio as well as our strong experience in game operations. The PCU of QQ Game grew to 6.2 million in the second quarter mainly due to the short-term boost provided by special marketing activities and in-game promotions. Cross Fire benefited from increased monetization with upgrades and seasonal in-game promotions, and achieved 1.2 million in PCU during the quarter. DNF saw its PCU exceeding 1.9 million, on the back of the release of new content and items as well as increased promotional activities. We have recently launched Hero Island, a niche market MMOG developed by our subsidiary Shenzhen Domain, and are currently fine-tuning the close beta of A.V.A., a first person shooting game licensed from a Korean developer. In order to ensure the quality and depth of content for our upcoming MMOGs, we have decided to postpone the launch of our two in-house developed MMOGs, which were originally scheduled for launch towards the end of this year, to the first half of 2010. Although our gaming revenue may be affected in the short-term as a result of this decision, we believe it will benefit our gaming business over the longer run.

Mobile and telecommunications value-added services

Our MVAS business posted growth during the second quarter, primarily driven by our bundled SMS packages and mobile gaming services. This was partly offset by decline in our mobile voice value-added services due to the dwindling business volume of color ringback tone. On the wireless Internet front, our wireless portal further reinforced its position as the leading wireless portal in China with healthy growth in traffic. We also continued to customize our 2G/2.5G products for 3G platforms, although the exact timing of 3G widespread rollout and the realization of its growth opportunities remain uncertain. We believe visibility of the MVAS business remains low as the value chain of the industry is still in transition.

Online advertising

Our online advertising business registered significant growth in the second quarter compared to the first quarter amid better seasonality as well as the resumption of advertisers' activities after a delay in the signing of framework contracts. Advertising spending was particularly subdued in the first quarter of 2009 as advertisers took cautious cost control measures and held up their spending in response to the economic downturn. However, from a year-on-year perspective, growth in the business was significantly slower than previous years amid the challenging industry environment.

During the second quarter, we focused on promoting our unique core platforms, including IM, portal and SNS, as cost-effective marketing tools under a tough economic environment. We also fine-tuned our pricing strategy and offered inventory bundling to increase return on investments for advertisers. Looking into the second half of 2009, we expect the outlook of the online advertising industry to remain challenging as advertisers are still cautious and the recent improvements in market sentiment are still fragile. We will continue to make prudent investments in our sales organization, content, technology platform, branding and relationship with advertisers to prepare for an eventual market recovery in the future.

Directors' Interests in Securities

As at 30 June 2009, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Long/Short position	Nature of interest	Number of shares/underlying shares held	Percentage of issued share capital
Ma Huateng	Long position	Corporate *(Note 1)*	210,392,880	11.66%
	Short position	Corporate *(Note 1)*	15,000,000	0.83%
Zhang Zhidong	Long position	Corporate *(Note 2)*	73,000,000	4.05%
Lau Chi Ping Martin	Long position	Personal *(Note 3)*	11,003,600	0.61%
Li Dong Sheng	Long position	Personal *(Note 4)*	100,000	0.01%
Iain Ferguson Bruce	Long position	Personal *(Note 4)*	100,000	0.01%
Ian Charles Stone	Long position	Personal *(Note 4)*	100,000	0.01%

Directors' Interests in Securities (Continued)

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

Notes:

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

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

3. The interest represents the underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme I and the Post-IPO Option Scheme II. Details of the share options granted to the directors are set out below under "Share Option Schemes".

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

(B) Long Position in the Shares of Associated Corporations

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer")	Personal	RMB10,857,140 (registered capital)	54.29%
	Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan")	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB4,571,420 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2009.

Share Option Schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, under which the directors may, at their discretion, grant options to employees, including any director, of the Company or its subsidiaries to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I. Movements of the options under the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III are detailed in Note 14 to the Interim Financial Information as included in this interim report.

Share Option Schemes (Continued)

As at 30 June 2009, there were a total of 11,303,600 outstanding share options granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Exercise price (HKD)	Number of share options: As at 1 January 2009	Granted during the period	Exercised during the period	As at 30 June 2009	Exercise Period
Lau Chi Ping Martin	3 February 2005	4.8	2,103,600	–	600,000 *(Note 1)*	1,503,600	3 February 2006 to 23 March 2014 *(Note 2)*
	20 December 2005	8.35	2,000,000	–	–	2,000,000	20 December 2006 to 23 March 2014 *(Note 2)*
	23 March 2006	11.55	1,500,000	–	–	1,500,000	23 March 2007 to 23 March 2014 *(Note 2)*
	4 April 2007	25.26	1,000,000	–	–	1,000,000	4 April 2008 to 23 March 2014 *(Note 3)*
	5 July 2007	33.05	2,000,000	–	–	2,000,000	5 July 2009 to 4 July 2014 *(Note 4)*
	5 July 2007	33.05	3,000,000	–	–	3,000,000	5 July 2010 to 4 July 2014 *(Note 5)*
	Total		11,603,600		600,000	11,003,600	
Li Dong Sheng	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 3)*
Iain Ferguson Bruce	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 3)*
Ian Charles Stone	4 April 2007	25.26	100,000	–	–	100,000	4 April 2008 to 23 March 2014 *(Note 3)*
Grand Total			11,903,600		600,000	11,303,600	

Share Option Schemes (Continued)

Notes:

1. The weighted average closing price immediately before the date on which the options were exercised was HKD66.00.

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

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

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

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

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

Share Award Scheme

On 13 December 2007 (the "Adoption Date"), the Board adopted the Share Scheme in which eligible persons (including any director) of the Group will be entitled to participate. The term of the Share Scheme was amended from 10 to 15 years by shareholders of the Company at the extraordinary general meeting held on 13 May 2009. Unless early terminated by the Board, the Share Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date. The maximum number of shares which can be awarded under the Share Scheme and to an awarded person are limited to 2% (i.e. 35,755,232 shares) and 1% (i.e. 17,877,616 shares) of the issued share capital of the Company as at the Adoption Date, respectively.

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

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

Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the awarded person satisfying all vesting conditions specified by the Board at the time of making the award until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the trustee.

During the six months ended 30 June 2009, a total of 145,700 Awarded Shares were granted and no Awarded Shares was granted to the directors of the Company. Details of the movements in the Share Scheme during the six months ended 30 June 2009 are set out in Note 14 to the Interim Financial Information as included in this interim report.

Information of Directors

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

Ma Huateng, age 37, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a member of the 4th Shenzhen Municipal People's Congress. Mr Ma has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and more than 14 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which has interest in the shares of the Company. Mr Ma is entitled to an annual base salary of RMB3,215,000 (before tax) in 2009 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Lau Chi Ping Martin, age 36, is an executive director with effect from 21 March 2007. Mr Lau was appointed as the President of the Company in February 2006 to assist Mr Ma Huateng, Chairman of the Board and Chief Executive Officer, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investment, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an Executive Director at Goldman Sachs (Asia) L.L.C's investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. He has over 12 years' experience in IPO, merger and acquisitions and management consulting. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Lau is entitled to an annual base salary of USD414,000 (before tax) in 2009 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Zhang Zhidong, age 37, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science degree specializing in Computer & its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 12 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which has interest in the shares of the Company. Mr Zhang is entitled to an annual base salary of RMB2,460,000 (before tax) in 2009 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Antonie Andries Roux, age 51, has been a non-executive director since 10 December 2002. Mr Roux is currently Chief Executive Officer of Internet Operations for the MIH group companies, a position he has held since 2002. Mr Roux joined the Naspers group in 1979 and was a founding member of M-Net in 1985. In 1997, he was appointed Chief Executive Officer of M-Web South Africa. Currently, Mr Roux serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Roux has more than 30 years of experience in the telecommunications industry. Mr Roux as a non-executive director is not entitled to any director's fee or emoluments.

Charles St Leger Searle, age 45, has been a non-executive director since 5 June 2001. Mr Searle is currently the Chief Investment Officer of MIH Internet group companies. Prior to joining the MIH group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 15 years of experience in the telecommunications and Internet industries. Mr Searle as a non-executive director is not entitled to any director's fee or emoluments.

Li Dong Sheng, age 53, has been an independent non-executive director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li graduated from Huanan Polytechnic University in 1982 with a Bachelor degree in radio technology and has more than 14 years of experience in the information technology field. Mr Li is entitled to a director's fee of HKD350,000 per annum for the year 2009 which is determined with reference to his duties and responsibilities with the Company.

Iain Ferguson Bruce, age 68, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 44 years' experience in the accounting profession. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. Mr Bruce is currently an independent non-executive director of Paul Y. Engineering Group Limited, a construction and engineering services company, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed companies in Hong Kong. Mr Bruce is also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed in Singapore, of China Medical Technologies, Inc., a China-based medical device company that is listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce is a steward of The Hong Kong Jockey Club, an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited. For the first half year of 2009, Mr Bruce is entitled to a director's fee of HKD350,000 per annum, which was revised to HKD600,000 per annum commencing from the third quarter of 2009, which is determined with reference to his duties and responsibilities with the Company.

Ian Charles Stone, age 58, has been an independent non-executive director since April 2004. Mr Stone is currently the Managing Director of International Projects for PCCW Limited. Mr Stone has more than 38 years of experience in the telecom and mobile industries. He was the Chief Executive Officer of SmarTone between 1999 and 2001. Prior to joining SmarTone, he was Senior Adviser to First Pacific / PLDT of the First Pacific Group, Chief Operations Officer of Piltel, Managing Director of Pacific Link and Executive Director of Asialink, the regional telecom investment arm of First Pacific, respectively. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom. Mr Stone is entitled to a director's fee of HKD350,000 per annum for the year 2009 which is determined with reference to his duties and responsibilities with the Company.

Substantial Shareholders

As at 30 June 2009, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long and short positions in the shares of the Company

Name of shareholder	Long/Short position	Nature of interest	Number of shares held	Percentage of issued share capital
MIH China (BVI) Limited	Long position	Corporate *(Note 1)*	630,240,380	34.93%
Advance Data Services Limited	Long position	Corporate *(Note 2)*	210,392,880	11.66%
	Short position	Corporate *(Note 2)*	15,000,000	0.83%
ABSA Bank Limited	Long position	Corporate *(Note 3)*	185,000,000	10.25%

Notes:

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

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

3. As ABSA Bank Limited has a security interest in 185,000,000 shares, which are held by MIH, and ABSA Bank Limited is wholly owned by Barclays Bank PLC through its intermediary company ABSA Group Limited, Barclays Bank PLC and ABSA Group Limited are deemed to be interested in the same block of 185,000,000 shares under Part XV of the SFO.

Substantial Shareholders (Continued)

Save as disclosed above, the Company had not been notified of any other person (other than a director or chief executive of the Company) who, as at 30 June 2009, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Employee and Remuneration Policies

As at 30 June 2009, the Group had 6,421 employees (30 June 2008: 5,168), 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 six months ended 30 June 2009 was RMB950.2 million (for the six months ended 30 June 2008: RMB593.6 million).

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

During the six months ended 30 June 2009, the Company repurchased 1,922,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD84.4 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value over the long term. Details of the shares repurchased are as follows:

Month of purchase in the six months ended 30 June 2009	No. of shares purchased	Purchase consideration per share Highest price paid HKD	Purchase consideration per share Lowest price paid HKD	Aggregate consideration paid HKD
January	1,822,000	45.80	41.50	79,706,000
February	100,000	47.00	45.80	4,644,000
Total	1,922,000			84,350,000

Save as disclosed above and in the Interim Financial Information as included in this interim report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 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 six months ended 30 June 2009.

Adoption of Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Companies to the Listing Rules. The directors of the Company have complied with such code of conduct throughout the accounting periods covered by this interim report.

Compliance with the Code on Corporate Governance Practices

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 six months ended 30 June 2009, 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

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, 12 August 2009

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