

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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

ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2012

The Board is pleased to announce the unaudited consolidated results of the Group for the three and nine months ended 30 September 2012. These interim results have been reviewed by the Auditor in accordance with the International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited		
	Nine months ended		
	30 September	30 September	Year-
	2012	2011	on-year
	<i>(RMB in millions, unless specified)</i>		
			change
Revenues	31,740.7	20,573.6	54.3%
Gross profit	18,805.9	13,386.8	40.5%
Operating profit	11,753.3	9,162.0	28.3%
Profit for the period	9,314.0	7,673.6	21.4%
Profit attributable to equity holders of the Company	9,268.3	7,666.1	20.9%
Non-GAAP profit attributable to equity holders of the Company	10,218.7	8,040.6	27.1%
EPS (RMB per share)			
- basic	5.075	4.204	20.7%
- diluted	4.977	4.113	21.0%

	Unaudited				
	Three months ended				
	30		Quarter-	30	Year-
	September	30 June	on-quarter	September	on-year
	2012	2012	change	2011	change
	<i>(RMB in millions, unless specified)</i>				
Revenues	11,565.6	10,527.2	9.9%	7,496.2	54.3%
Gross profit	6,778.5	6,215.9	9.1%	4,834.8	40.2%
Operating profit	4,124.4	3,937.6	4.7%	2,991.6	37.9%
Profit for the period	3,241.1	3,110.6	4.2%	2,446.1	32.5%
Profit attributable to equity holders of the Company	3,218.7	3,100.1	3.8%	2,446.4	31.6%
Non-GAAP profit attributable to equity holders of the Company	3,551.3	3,386.3	4.9%	2,769.1	28.2%
EPS (RMB per share)					
- basic	1.759	1.698	3.6%	1.340	31.3%
- diluted	1.727	1.665	3.7%	1.314	31.4%

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

In the third quarter of 2012, we achieved solid year-on-year growth in revenues and earnings.

- Our IVAS business benefited from the popularity of our online game titles in China and overseas, and from increased item-based sales within applications on our open platforms.
- Our MVAS business continued to achieve year-on-year revenue growth. However, our primary focus for this business is maximising long-term user base and user engagement, rather than near-term financial performance.
- Our online advertising business registered a significant year-on-year revenue increase, thanks to new platform contributions and continued expansion in traditional brand display advertising.
- Our e-Commerce transactions business experienced a sequential revenue increase during the quarter, due to growth in transaction volume.

Strategic Highlights

In September 2012, we announced the completion of a USD600 million senior unsecured notes offering. This is our second international bond issue, following our first such transaction in December 2011. We are grateful that our investors continue to display confidence in our business model and financial performance, and we remain firmly committed to maintaining our strong credit profile and investment grade credit ratings.

Divisional and Product Highlights

Communications Platforms

For QQ IM, MAU registered 10% year-on-year growth and reached 784 million at the end of the third quarter of 2012. Its PCU for the quarter was 167 million, representing 15% growth as compared to the same period last year. The growth rate of QQ IM PCU decelerated as the increased number of mobile users resulted in greater dispersion of time spent on QQ IM through different day parts. During the quarter, Weixin reinforced its position as the leading mobile community in China, exceeding 200 million registered user accounts in September 2012.

Media Platforms

QQ.com extended its lead among portals in China in terms of page views and unique visitors, and Tencent Microblog maintained a leading social media position in China with 507 million registered user accounts and 94 million DAU at the end of the quarter. Tencent Video gained popularity among Internet users due to content enrichment and user experience improvement. During the quarter, we leveraged our in-depth coverage of the London Olympic Games and our cross-platform sharing tools to enhance our media influence and brand recognition, especially in the sports category.

IVAS

Our social networks registered solid growth in the third quarter of 2012, with increased traffic and photo uploads from mobile users. MAU of Qzone increased by 8% year-on-year to 593 million at the end of the quarter. MAU of Pengyou increased by 27% year-on-year to 259 million at the end of the quarter.

Our IVAS registered subscriptions count declined compared to the same period last year due to policies we launched in the second quarter of 2012 for cleaning up certain user accounts acquired through telecommunications operators, for whom fee collection was unlikely. We believe these measures should ultimately improve our subscriber base quality. The increasing adoption of mobile Internet activities is also impacting our IVAS registered subscriptions count, because at this stage the pace of our mobile user growth is faster than that of our mobile privilege development. Consequently, some of our IVAS subscription services are less appealing to mobile-oriented users as we have not yet extended all IVAS privileges from desktop to mobile devices. In future, we intend to enrich the mobile-related features and privileges of our IVAS subscription services to cater to this emerging user demand trend.

On our open platforms, item-based sales within applications continued to grow due to more usage of such applications and increased social sharing traffic. We have generated material revenues for third-party developers, who can publish their applications across our multiple platforms to tap into our base of social and game-oriented users. Looking ahead, we are extending the reach of our open platforms from desktop to mobile with the implementation of open QQ account login on third-party mobile applications, in order to position for the emerging opportunities in the mobile Internet. To maximise user engagement, and thus the long-term development of our open platforms, we are incentivising developers of applications with large user bases but moderate or low per user revenue generation. This initiative is particularly focused on non-game applications as we aim to broaden the range of services that our users can enjoy.

Our online game business achieved healthy year-on-year growth in users and revenues in the third quarter of 2012, with increased contribution from self-developed titles. Growth in revenues from China was driven by our established ACG and MMOG, as well as new titles, such as Legend of Yulong and Legend of Xuanyuan, which are both developed in-house. Revenue contribution from international markets, such as the US, Europe, and Korea, increased along with an expanded user base. QQ Game Platform's PCU increased to 9.4 million during the quarter, representing growth of 18% compared to the same period last year. As the Chinese game industry matures and hit titles within the industry face the law of large numbers, our game business revenue growth rate will depend in part on the popularity and monetisation of our new and future titles, and in part on the health of our existing titles.

MVAS

In the third quarter of 2012, our MVAS business delivered stable revenue growth compared to the same period last year, driven by our bundled SMS packages and mobile games. We continued to progress in building our long-term user base with different types of mobile applications. For example, our mobile security product achieved over 100 million activated users during the period.

Our MVAS business is primarily focused on extending our desktop services to mobile, and on developing new applications for smartphones. As we are currently less focused on optimising monetisation, the near-term financial trajectory of this business may be uneven. Longer term, we believe growth in smartphone users, and in time spent online on mobile devices, should enable new business models to emerge which tap into the unique features of such devices.

Online Advertising

In the third quarter of 2012, our online advertising business achieved robust revenue growth on a year-on-year basis, supported by performance advertising on our social networks, video advertising, traditional brand display advertising, and search advertising. During the quarter, we utilised the London Olympic Games opportunity to better penetrate selected up-scale brand advertisers. Performance advertising on our social networks increased as we delivered greater impression volume, improved our click-through rates, and enabled new advertiser categories, such as education service providers, to participate in performance advertising. Looking forward, the absence of the Olympic Games event and decelerating economic growth in China may slow revenue growth rates for the online advertising industry as a whole, including our own online advertising business.

e-Commerce Transactions

The volume of our principal e-Commerce transactions increased sequentially in the third quarter of 2012 due to our own promotional activities, as well as increased public awareness of our long-established price leadership in the consumer electronics sector as a result of a widely publicised “price war” among other industry players. Our agency revenues also grew on a quarter-on-quarter basis, albeit from a low base, due to an increased number of transactions on our marketplace.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Information

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

	As at 30 September 2012	As at 30 June 2012	Quarter- on-quarter change	As at 30 September 2011	Year- on-year change
Monthly active IM user accounts	783.9	783.6	0.0%	711.7	10.1%
Peak simultaneous online IM user accounts (for the quarter)	167.3	166.6	0.4%	145.4	15.1%
Average daily IM user hours (for the last 15 days of the quarter)	2,744.4	2,775.8	-1.1%	2,279.3	20.4%
Monthly active Qzone user accounts	592.8	597.6	-0.8%	548.1	8.2%
Peak simultaneous online QQ Game Platform user accounts (for the quarter)	9.4	8.8	6.8%	8.0	17.5%
Fee-based IVAS registered subscriptions	73.8	74.7	-1.2%	77.5	-4.8%
Fee-based MVAS registered subscriptions	33.7	34.6	-2.6%	31.2	8.0%

- *QQ*. MAU of our core IM platform grew organically compared to the same period last year. The year-on-year growth rates of peak simultaneous online user accounts and average daily user hours were higher than the growth rate of MAU, reflecting improvement of user engagement. On a quarter-on-quarter basis, peak simultaneous online user accounts grew slightly, reflecting the increased number of mobile users whose usage patterns may differ from those of desktop users. Sequentially, MAU was broadly stable and average daily user hours declined marginally, partly due to seasonal factors such as an eight-day holiday period which started in late September 2012.
- *Qzone*. MAU of Qzone experienced organic growth compared to the same period last year, riding on an expanded mobile user base. On a quarter-on-quarter basis, MAU registered a slight decline, reflecting the seasonal impact of an eight-day holiday period which started in late September 2012.
- *QQ Game Platform*. Peak simultaneous online user accounts of QQ Game Platform registered a healthy growth rate compared to the same period last year. The quarter-on-quarter increase was mainly driven by stronger seasonality and promotional activities.
- *IVAS subscriptions*. Registered subscriptions to our IVAS decreased as compared to the same period last year and the previous quarter. This reflected the continued impact of our stringent measures launched in the second quarter of 2012, which aim to improve the quality of our subscriber base by cleaning up certain user accounts acquired through telecommunications operators, for whom fee collection was unlikely. The increasing adoption of the mobile Internet also impacted our IVAS registered subscription, because at this stage the pace of our mobile user growth is faster than that of our mobile privilege development. Consequently, some of our IVAS subscription services are less appealing to mobile-oriented users as we have not yet extended all IVAS privileges from desktop to mobile devices.
- *MVAS subscriptions*. Registered subscriptions to our MVAS increased compared to the same period last year, due to growth in our bundled SMS packages and mobile books. A sequential decline mainly reflected the clean-up of inactive user accounts of our bundled SMS packages towards the end of the quarter.

Third Quarter of 2012 Compared to Second Quarter of 2012

The following table sets forth the comparative figures for the third quarter of 2012 and the second quarter of 2012:

	Unaudited	
	Three months ended	
	30 September	30 June
	2012	2012
	RMB'000	RMB'000
Revenues	11,565,556	10,527,244
Cost of revenues	(4,787,093)	<u>(4,311,379)</u>
Gross profit	6,778,463	6,215,865
Interest income	205,781	196,806
Other losses, net	(14,791)	(3,219)
Selling and marketing expenses	(819,790)	(609,672)
General and administrative expenses	(2,025,298)	<u>(1,862,165)</u>
Operating profit	4,124,365	3,937,615
Finance costs, net	(99,478)	(115,256)
Share of (losses)/profit of associates	(21,188)	5,411
Share of losses of jointly controlled entities	(6,089)	<u>(9,375)</u>
Profit before income tax	3,997,610	3,818,395
Income tax expense	(756,465)	<u>(707,824)</u>
Profit for the period	<u>3,241,145</u>	<u>3,110,571</u>
Attributable to:		
Equity holders of the Company	3,218,693	3,100,075
Non-controlling interests	22,452	<u>10,496</u>
	<u>3,241,145</u>	<u>3,110,571</u>
Non-GAAP profit attributable to equity holders of the Company	<u>3,551,337</u>	<u>3,386,266</u>

Revenues. Revenues increased by 10% to RMB11,566 million for the third quarter of 2012 from the second quarter of 2012. The following table sets forth our revenues by line of business for the third quarter of 2012 and the second quarter of 2012:

	Unaudited			
	Three months ended			
	30 September 2012		30 June 2012	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	8,371,026	72.4%	7,786,625	74.0%
MVAS	946,218	8.2%	929,007	8.8%
Online advertising	1,015,266	8.8%	879,691	8.4%
e-Commerce transactions	1,133,901	9.8%	857,526	8.1%
Others	99,145	0.8%	74,395	0.7%
Total revenues	<u>11,565,556</u>	<u>100.0%</u>	<u>10,527,244</u>	<u>100.0%</u>

- Revenues from our IVAS business increased by 8% to RMB8,371 million for the third quarter of 2012 from the second quarter of 2012. Online game revenues increased by 7% to RMB5,973 million. This primarily reflected growth in game revenues from China which benefited from the positive impact of summer holidays on titles such as Cross Fire, QQ Dancer and QQ Speed, as well as contributions from new titles, such as Legend of Yulong. We also experienced growth in game revenues from international markets such as the US, Europe, and Korea. Revenues from our community and open platforms increased by 8% to RMB2,398 million, mainly driven by growth in item-based sales within applications on our open platforms.
- Revenues from our MVAS business increased by 2% to RMB946 million for the third quarter of 2012 from the second quarter of 2012. This primarily reflected an increase in revenues from our mobile games and mobile books.
- Revenues from our online advertising business increased by 15% to RMB1,015 million for the third quarter of 2012 from the second quarter of 2012. Brand display advertising revenues increased, reflecting the positive impact of the London Olympic Games, and performance display advertising grew, as advertisers spent more on our social networks' inventory.

- Revenues from our e-Commerce transactions business increased by 32% to RMB1,134 million for the third quarter of 2012 from the second quarter of 2012. This was mainly driven by increased volume of e-Commerce transactions in which we act as principal. Fees generated from transactions on our marketplace also contributed to the growth rate.

Cost of revenues. Cost of revenues increased by 11% to RMB4,787 million for the third quarter of 2012 from the second quarter of 2012. This primarily reflected an increase in cost of merchandise sold, sharing costs and staff costs. As a percentage of revenues, cost of revenues was 41% for the third quarter of 2012, broadly stable compared to the second quarter of 2012. The following table sets forth our cost of revenues by line of business for the third quarter of 2012 and the second quarter of 2012:

	Unaudited			
	Three months ended			
	30 September 2012		30 June 2012	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	2,741,307	32.7%	2,645,374	34.0%
MVAS	389,083	41.1%	358,935	38.6%
Online advertising	511,545	50.4%	421,288	47.9%
e-Commerce transactions	1,084,637	95.7%	836,005	97.5%
Others	<u>60,521</u>	61.0%	<u>49,777</u>	66.9%
Total cost of revenues	<u>4,787,093</u>		<u>4,311,379</u>	

- Cost of revenues for our IVAS business increased by 4% to RMB2,741 million for the third quarter of 2012 from the second quarter of 2012. This primarily reflected increases in staff costs, bandwidth and server custody fees, and equipment depreciation.
- Cost of revenues for our MVAS business increased by 8% to RMB389 million for the third quarter of 2012 from the second quarter of 2012. This was mainly attributable to the growth in sharing costs driven by increased revenues from mobile games and mobile books. Staff costs also contributed to the increase.

- Cost of revenues for our online advertising business increased by 21% to RMB512 million for the third quarter of 2012 from the second quarter of 2012. This was primarily due to content costs associated with the London Olympic Games, as well as increased bandwidth and server custody fees, and commissions payable to advertising agencies.
- Cost of revenues for our e-Commerce transactions business increased by 30% to RMB1,085 million for the third quarter of 2012 from the second quarter of 2012. This was mainly due to an increase in cost of merchandise sold as a result of growth in principal e-Commerce transactions.

Other losses, net. Other losses, net amounted to RMB15 million for the third quarter of 2012, compared to RMB3 million for the second quarter of 2012. In the third quarter of 2012, we recognised impairment provision of RMB448 million against selected investee companies, a special dividend income of RMB390 million from our investee company Mail.ru, and a donation of RMB60 million to the Tencent Charity Fund. Subsidies and tax rebates increased to RMB136 million for the third quarter of 2012 from RMB13 million for the second quarter of 2012.

Selling and marketing expenses. Selling and marketing expenses increased by 34% to RMB820 million for the third quarter of 2012 from the second quarter of 2012. This was mainly driven by promotion and advertising expenses associated with the London Olympic Games, as well as increased advertising spending on mobile applications and online games. As a percentage of revenues, selling and marketing expenses increased to 7% for the third quarter of 2012 from 6% for the second quarter of 2012.

General and administrative expenses. General and administrative expenses increased by 9% to RMB2,025 million for the third quarter of 2012 from the second quarter of 2012. This primarily reflected an increase in research and development expenses and staff costs as our business scale grew. As a percentage of revenues, general and administrative expenses was 18% for the third quarter of 2012, stable compared to the second quarter of 2012.

Finance costs, net. Finance costs, net decreased by 14% to RMB99 million for the third quarter of 2012 from the second quarter of 2012. This mainly reflected lower foreign exchange losses on our foreign currency denominated debts in this quarter, partially offset by higher interest expense due to an increase in interest-bearing debts.

Income tax expense. Income tax expense increased by 7% to RMB756 million for the third quarter of 2012 from the second quarter of 2012. This was primarily driven by an increase in profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 4% to RMB3,219 million for the third quarter of 2012 from the second quarter of 2012. Non-GAAP profit attributable to equity holders of the Company increased by 5% to RMB3,551 million for the third quarter of 2012 from the second quarter of 2012.

Third Quarter of 2012 Compared to Third Quarter of 2011

The following table sets forth the comparative figures for the third quarter of 2012 and the third quarter of 2011:

	Unaudited	
	Three months ended	
	30 September	30 September
	2012	2011
	RMB'000	RMB'000
Revenues	11,565,556	7,496,157
Cost of revenues	<u>(4,787,093)</u>	<u>(2,661,407)</u>
Gross profit	6,778,463	4,834,750
Interest income	205,781	124,159
Other (losses)/gains, net	(14,791)	9,200
Selling and marketing expenses	(819,790)	(507,252)
General and administrative expenses	<u>(2,025,298)</u>	<u>(1,469,278)</u>
Operating profit	4,124,365	2,991,579
Finance (costs)/income, net	(99,478)	43,097
Share of losses of associates	(21,188)	(21,842)
Share of losses of jointly controlled entities	<u>(6,089)</u>	<u>(59,926)</u>
Profit before income tax	3,997,610	2,952,908
Income tax expense	<u>(756,465)</u>	<u>(506,760)</u>
Profit for the period	<u>3,241,145</u>	<u>2,446,148</u>
Attributable to:		
Equity holders of the Company	3,218,693	2,446,437
Non-controlling interests	<u>22,452</u>	<u>(289)</u>
	<u>3,241,145</u>	<u>2,446,148</u>
Non-GAAP profit attributable to equity holders of the Company	<u>3,551,337</u>	<u>2,769,143</u>

Revenues. Revenues increased by 54% to RMB11,566 million for the third quarter of 2012 from the third quarter of 2011. The following table sets forth our revenues by line of business for the third quarter of 2012 and the third quarter of 2011:

	Unaudited			
	Three months ended			
	30 September 2012		30 September 2011	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	8,371,026	72.4%	6,003,135	80.1%
MVAS	946,218	8.2%	844,900	11.3%
Online advertising	1,015,266	8.8%	600,572	8.0%
e-Commerce transactions	1,133,901	9.8%	—	—
Others	<u>99,145</u>	<u>0.8%</u>	<u>47,550</u>	<u>0.6%</u>
Total revenues	<u><u>11,565,556</u></u>	<u><u>100.0%</u></u>	<u><u>7,496,157</u></u>	<u><u>100.0%</u></u>

- Revenues from our IVAS business increased by 39% to RMB8,371 million for the third quarter of 2012 from the third quarter of 2011. Online game revenues increased by 44% to RMB5,973 million. This mainly reflected the increased popularity of our major titles in China, new game releases in China, and contributions from international markets. Revenues from our community and open platforms increased by 29% to RMB2,398 million, mainly driven by our open platforms and QQ Membership. Growth in revenues from our open platforms primarily reflected a significant increase in item-based sales within applications. The increase in revenues from QQ Membership was mainly attributable to an expanded subscriber base.
- Revenues from our MVAS business increased by 12% to RMB946 million for the third quarter of 2012 from the third quarter of 2011. This mainly reflected growth in revenues from our bundled SMS packages and mobile games.
- Revenues from our online advertising business increased by 69% to RMB1,015 million for the third quarter of 2012 from the third quarter of 2011. This primarily reflected the revenue contribution from performance advertising on our social networks, as well as the growth of video advertising. Traditional brand display advertising and search advertising also contributed to our business growth.
- Revenues from our e-Commerce transactions business amounted to RMB1,134 million for the third quarter of 2012.

Cost of revenues. Cost of revenues increased by 80% to RMB4,787 million for the third quarter of 2012 from the third quarter of 2011. This primarily reflected the recognition of cost of merchandise sold relating to our e-Commerce transactions business as well as an increase in sharing costs and staff costs. As a percentage of revenues, cost of revenues increased to 41% for the third quarter of 2012 from 36% for the third quarter of 2011. The following table sets forth our cost of revenues by line of business for the third quarter of 2012 and the third quarter of 2011:

	Unaudited			
	Three months ended			
	30 September 2012		30 September 2011	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	2,741,307	32.7%	2,039,091	34.0%
MVAS	389,083	41.1%	349,725	41.4%
Online advertising	511,545	50.4%	201,571	33.6%
e-Commerce transactions	1,084,637	95.7%	—	—
Others	<u>60,521</u>	61.0%	<u>71,020</u>	149.4%
Total cost of revenues	<u>4,787,093</u>		<u>2,661,407</u>	

- Cost of revenues for our IVAS business increased by 34% to RMB2,741 million for the third quarter of 2012 from the third quarter of 2011. This was driven by staff costs, sharing costs on licensed game titles and equipment depreciation.
- Cost of revenues for our MVAS business increased by 11% to RMB389 million for the third quarter of 2012 from the third quarter of 2011. This was mainly driven by an increase in bandwidth and server custody fees, as well as sharing costs.
- Cost of revenues for our online advertising business increased by 154% to RMB512 million for the third quarter of 2012 from the third quarter of 2011. The increase mainly reflected the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. It also reflected an increase in staff costs, sharing costs for our search advertising business and commissions payable to advertising agencies.

- Cost of revenues for our e-Commerce transactions business amounted to RMB1,085 million for the third quarter of 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB15 million for the third quarter of 2012, compared to other gains, net of RMB9 million for the third quarter of 2011. The change mainly reflected the recognition of impairment provision of RMB448 million for selected investee companies and the donation of RMB60 million made to the Tencent Charity Fund in the third quarter of 2012, partially offset by a special dividend income of RMB390 million from Mail.ru recognised in the same period and an increase in subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by 62% to RMB820 million for the third quarter of 2012 from the third quarter of 2011. This was mainly driven by an increase in promotion and advertising expenses related to the London Olympic Games as well as increased advertising spending on mobile applications and online games. Staff costs increased along with our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for the third quarter of 2012, broadly stable compared to the third quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 38% to RMB2,025 million for the third quarter of 2012 from the third quarter of 2011. This mainly reflected an increase in research and development expenses and higher staff costs due to our business expansion. As a percentage of revenues, general and administrative expenses decreased to 18% for the third quarter of 2012 from 20% for the third quarter of 2011.

Finance (costs)/income, net. We recorded finance costs, net of RMB99 million for the third quarter of 2012, compared to finance income, net of RMB43 million for the third quarter of 2011. The change was mainly driven by higher interest expense due to an increase in interest-bearing debts, and by the recognition of foreign exchange losses on our foreign currency denominated debts in this quarter.

Income tax expense. Income tax expense increased by 49% to RMB756 million for the third quarter of 2012 from the third quarter of 2011. This was primarily driven by an increase in profit before income tax. The absence of deferred tax liabilities reversal arising from the Riot Games Acquisition also contributed to the increase in income tax expense.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 32% to RMB3,219 million for the third quarter of 2012 from the third quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 28% to RMB3,551 million for the third quarter of 2012 from the third quarter of 2011.

Other Financial Information

	Unaudited Nine months ended		Unaudited Three months ended		
	30 September 2012	30 September 2011	30 September 2012	30 June 2012	30 September 2011
	<i>(RMB in thousands, unless specified)</i>				
EBITDA (a)	13,177,472	9,795,686	4,591,603	4,331,322	3,403,665
Adjusted EBITDA (a)	13,804,192	10,308,259	4,784,020	4,558,963	3,581,786
Adjusted EBITDA margin (b)	43.5%	50.1%	41.4%	43.3%	47.8%
Interest expense	223,026	44,578	86,104	69,344	14,760
Net cash (c)	23,492,375	15,654,534	23,492,375	19,631,631	15,654,534
Capital expenditures (d)	2,709,600	2,797,205	1,132,314	915,156	1,133,342

Note:

- (a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash is calculated as cash and cash equivalents, term deposits with initial term of over three months, and restricted cash pledged for secured bank borrowings, minus total borrowings and long-term notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the periods indicated.

	Unaudited		Unaudited		
	Nine months ended		Three months ended		
	30 September 2012 <i>RMB'000</i>	30 September 2011 <i>RMB'000</i>	30 September 2012 <i>RMB'000</i>	30 June 2012 <i>RMB'000</i>	30 September 2011 <i>RMB'000</i>
Operating profit	11,753,338	9,161,981	4,124,365	3,937,615	2,991,579
Less: Interest income	(569,320)	(331,367)	(205,781)	(196,806)	(124,159)
Add: Other losses/(gains), net	81,652	(351,078)	14,791	3,219	(9,200)
Add: Depreciation of fixed assets and investment properties	1,349,101	818,126	480,101	444,830	323,282
Add: Amortisation of intangible assets	562,701	498,024	178,127	142,464	222,163
EBITDA	13,177,472	9,795,686	4,591,603	4,331,322	3,403,665
Equity-settled share-based compensation	626,720	512,573	192,417	227,641	178,121
Adjusted EBITDA	13,804,192	10,308,259	4,784,020	4,558,963	3,581,786

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first nine months of 2012 and 2011, the third quarters of 2012 and 2011, and the second quarter of 2012 to the nearest measures prepared in accordance with IFRS:

Unaudited nine months ended 30 September 2012								
As reported	Adjustments						Non-GAAP	
	Equity-settled share-based compensation	Cash-settled share-based compensation	Losses/(gains) on deemed disposal	Amortisation of intangible assets	Impairment provision	Special dividend income		
	(a)	(b)	(c)	(d)	(e)			
Operating profit	11,753,338	626,720	82,835	5,150	207,005	448,000	(390,472)	12,732,576
Profit for the period	9,314,046	626,720	82,835	5,150	221,765	448,000	(390,472)	10,308,044
Profit attributable to equity holders	9,268,278	615,269	73,051	5,150	199,391	448,000	(390,472)	10,218,667
Operating margin	37.0%							40.1%
Net margin	29.3%							32.5%

(RMB in thousands, unless specified)

Unaudited nine months ended 30 September 2011								
As reported	Adjustments						Non-GAAP	
	Equity-settled share-based compensation	Cash-settled share-based compensation	Losses/(gains) on deemed disposal	Amortisation of intangible assets	Impairment provision	Special dividend income		
	(a)	(b)	(c)	(d)	(e)			
Operating profit	9,161,981	512,573	57,831	(459,037)	422,657	–	–	9,696,005
Profit for the period	7,673,628	512,573	57,831	(459,037)	290,880	–	–	8,075,875
Profit attributable to equity holders	7,666,057	507,307	53,450	(459,037)	272,843	–	–	8,040,620
Operating margin	44.5%							47.1%
Net margin	37.3%							39.3%

Unaudited three months ended 30 September 2012

	Adjustments							Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	
	<i>(RMB in thousands, unless specified)</i>							
Operating profit	4,124,365	192,417	24,860	5,150	38,494	448,000	(390,472)	4,442,814
Profit for the period	3,241,145	192,417	24,860	5,150	66,013	448,000	(390,472)	3,587,113
Profit attributable to equity holders	3,218,693	189,660	21,921	5,150	58,385	448,000	(390,472)	3,551,337
Operating margin	35.7%							38.4%
Net margin	28.0%							31.0%

Unaudited three months ended 30 June 2012

	Adjustments							Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	
	<i>(RMB in thousands, unless specified)</i>							
Operating profit	3,937,615	227,641	28,081	–	28,137	–	–	4,221,474
Profit for the period	3,110,571	227,641	28,081	–	44,060	–	–	3,410,353
Profit attributable to equity holders	3,100,075	221,817	24,643	–	39,731	–	–	3,386,266
Operating margin	37.4%							40.1%
Net margin	29.5%							32.4%

Unaudited three months ended 30 September 2011

	Adjustments							Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	
	<i>(RMB in thousands, unless specified)</i>							
Operating profit	2,991,579	178,121	24,294	–	184,212	–	–	3,378,206
Profit for the period	2,446,148	178,121	24,294	–	131,211	–	–	2,779,774
Profit attributable to equity holders	2,446,437	176,934	22,397	–	123,375	–	–	2,769,143
Operating margin	39.9%							45.1%
Net margin	32.6%							37.1%

Note:

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Losses/(gains) on deemed disposal of previously held interests in associates
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for interests in associates and available-for-sale financial assets
- (e) Special dividend income from Mail.ru

Liquidity and Financial Resources

Our net cash positions as at 30 September 2012 and 30 June 2012 are as follows:

	Unaudited 30 September 2012 RMB'000	Unaudited 30 June 2012 RMB'000
Cash and cash equivalents	13,441,768	10,602,451
Term deposits with initial term of over three months	22,873,125	17,014,730
Restricted cash pledged for secured bank borrowings	<u>—</u>	<u>324,347</u>
	36,314,893	27,941,528
Long-term notes payable	(7,591,193)	(3,751,839)
Long-term borrowings	(2,219,350)	(948,735)
Short-term borrowings	<u>(3,011,975)</u>	<u>(3,609,323)</u>
Net cash	<u>23,492,375</u>	<u>19,631,631</u>

As at 30 September 2012, RMB10,171 million of our financial resources (30 June 2012: RMB5,343 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012

		Unaudited	Audited
		30 September	31 December
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		6,707,460	5,884,952
Construction in progress		450,764	158,656
Investment properties		21,789	21,871
Land use rights		346,697	230,915
Intangible assets		4,739,476	3,779,976
Interests in associates	3	7,070,127	4,338,075
Investment in jointly controlled entities		47,819	61,903
Deferred income tax assets		172,590	198,058
Available-for-sale financial assets	4	5,504,415	4,343,602
Prepayments, deposits and other assets		1,991,043	2,282,869
Long-term deposits		8,591,724	—
		<u>35,643,904</u>	<u>21,300,877</u>
Current assets			
Inventories		424,273	—
Accounts receivable	5	2,683,965	2,020,796
Prepayments, deposits and other assets		3,332,155	2,211,917
Short-term deposits		14,281,401	13,716,040
Restricted cash		2,192,256	4,942,595
Cash and cash equivalents		13,441,768	12,612,140
		<u>36,355,818</u>	<u>35,503,488</u>
Total assets		<u>71,999,722</u>	<u>56,804,365</u>

		Unaudited	Audited
		30 September	31 December
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		198	198
Share premium		2,651,800	2,058,051
Shares held for share award scheme		(625,960)	(606,874)
Other reserves		518,860	302,091
Retained earnings		<u>34,870,783</u>	<u>26,710,368</u>
		37,415,681	28,463,834
Non-controlling interests		<u>876,950</u>	<u>624,510</u>
Total equity		<u>38,292,631</u>	<u>29,088,344</u>
LIABILITIES			
Non-current liabilities			
Borrowings	7	2,219,350	—
Long-term notes payable	8	7,591,193	3,733,331
Deferred income tax liabilities		1,016,454	939,534
Long-term payables		<u>1,530,080</u>	<u>1,859,808</u>
		<u>12,357,077</u>	<u>6,532,673</u>
Current liabilities			
Accounts payable	9	3,960,242	2,244,114
Other payables and accruals		5,403,161	5,014,281
Derivative financial instruments		—	20,993
Borrowings	7	3,011,975	7,999,440
Current income tax liabilities		1,029,070	708,725
Other tax liabilities		468,738	179,499
Deferred revenue		<u>7,476,828</u>	<u>5,016,296</u>
		<u>21,350,014</u>	<u>21,183,348</u>
Total liabilities		<u>33,707,091</u>	<u>27,716,021</u>
Total equity and liabilities		<u><u>71,999,722</u></u>	<u><u>56,804,365</u></u>
Net current assets		<u><u>15,005,804</u></u>	<u><u>14,320,140</u></u>
Total assets less current liabilities		<u><u>50,649,708</u></u>	<u><u>35,621,017</u></u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2012**

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2012	2011	2012	2011
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
		8,371,026	6,003,135	23,539,272	16,640,995
	Internet value-added services				
	Mobile and telecommunications				
	value-added services	946,218	844,900	2,789,067	2,416,531
	Online advertising	1,015,266	600,572	2,435,070	1,393,778
	e-Commerce transactions	1,133,901	–	2,744,244	–
	Others	99,145	47,550	233,005	122,317
		11,565,556	7,496,157	31,740,658	20,573,621
	Cost of revenues	(4,787,093)	(2,661,407)	(12,934,789)	(7,186,773)
	Gross profit	6,778,463	4,834,750	18,805,869	13,386,848
	Interest income	205,781	124,159	569,320	331,367
	Other (losses)/gains, net	(14,791)	9,200	(81,652)	351,078
	Selling and marketing expenses	(819,790)	(507,252)	(1,898,662)	(1,177,196)
	General and administrative expenses	(2,025,298)	(1,469,278)	(5,641,537)	(3,730,116)
	Operating profit	4,124,365	2,991,579	11,753,338	9,161,981
	Finance (costs)/income, net	(99,478)	43,097	(284,716)	40,999
	Share of (losses)/profit of associates	(21,188)	(21,842)	(25,530)	39,466
	Share of losses of jointly controlled entities	(6,089)	(59,926)	(14,084)	(124,912)
	Profit before income tax	3,997,610	2,952,908	11,429,008	9,117,534
	Income tax expense	(756,465)	(506,760)	(2,114,962)	(1,443,906)
	Profit for the period	<u>3,241,145</u>	<u>2,446,148</u>	<u>9,314,046</u>	<u>7,673,628</u>

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September		
		2012	2011	2012	2011	
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Attributable to:						
	Equity holders of the Company	3,218,693	2,446,437	9,268,278	7,666,057	
	Non-controlling interests	<u>22,452</u>	<u>(289)</u>	<u>45,768</u>	<u>7,571</u>	
		<u>3,241,145</u>	<u>2,446,148</u>	<u>9,314,046</u>	<u>7,673,628</u>	
Earnings per share for profit						
attributable to equity holders of						
the Company (expressed in RMB						
per share)						
	- basic	13	<u>1.759</u>	<u>1.340</u>	<u>5.075</u>	<u>4.204</u>
	- diluted	13	<u>1.727</u>	<u>1.314</u>	<u>4.977</u>	<u>4.113</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2012**

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period	<u>3,241,145</u>	<u>2,446,148</u>	<u>9,314,046</u>	<u>7,673,628</u>
Other comprehensive income, net of tax:				
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(37,923)	(491,093)	720,788	(909,249)
Currency translation differences	<u>125</u>	<u>(13,322)</u>	<u>13,944</u>	<u>(13,189)</u>
	<u>(37,798)</u>	<u>(504,415)</u>	<u>734,732</u>	<u>(922,438)</u>
Total comprehensive income for the period	<u>3,203,347</u>	<u>1,941,733</u>	<u>10,048,778</u>	<u>6,751,190</u>
Attributable to:				
Equity holders of the Company	3,180,882	1,942,022	10,002,257	6,743,619
Non-controlling interests	<u>22,465</u>	<u>(289)</u>	<u>46,521</u>	<u>7,571</u>
	<u>3,203,347</u>	<u>1,941,733</u>	<u>10,048,778</u>	<u>6,751,190</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares held for share award scheme <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2012	<u>198</u>	<u>2,058,051</u>	<u>(606,874)</u>	<u>302,091</u>	<u>26,710,368</u>	<u>28,463,834</u>	<u>624,510</u>	<u>29,088,344</u>
Comprehensive income								
Profit for the period	-	-	-	-	9,268,278	9,268,278	45,768	9,314,046
Other comprehensive income:								
- net gains from changes in fair value of available-for-sale financial assets	-	-	-	720,788	-	720,788	-	720,788
- currency translation differences	-	-	-	13,191	-	13,191	753	13,944
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>733,979</u>	<u>9,268,278</u>	<u>10,002,257</u>	<u>46,521</u>	<u>10,048,778</u>
Transaction with owners								
Capital injection	-	-	-	-	-	-	17,020	17,020
Employee share option schemes:								
- value of employee services	-	75,291	-	46,309	-	121,600	19,822	141,422
- proceeds from shares issued	-	187,960	-	-	-	187,960	-	187,960
Employee share award scheme:								
- value of employee services	-	444,124	-	35,672	-	479,796	5,502	485,298
- shares purchased for share award scheme	-	-	(112,480)	-	-	(112,480)	-	(112,480)
- vesting of awarded shares	-	(93,394)	93,394	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	(26)	26	-	-	-
Repurchase and cancellation of shares	-	(20,232)	-	-	-	(20,232)	-	(20,232)
Dividends (<i>Note 14</i>)	-	-	-	-	(1,107,889)	(1,107,889)	(76,830)	(1,184,719)
Total contributions by and distributions to owners for the period	<u>-</u>	<u>593,749</u>	<u>(19,086)</u>	<u>81,955</u>	<u>(1,107,863)</u>	<u>(451,245)</u>	<u>(34,486)</u>	<u>(485,731)</u>
Non-controlling interests arising from business combinations (<i>Note 15</i>)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249,181</u>	<u>249,181</u>
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	-	-	(241,547)	-	(241,547)	(8,776)	(250,323)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	-	-	-	(357,618)	-	(357,618)	-	(357,618)
Total transactions with owners for the period	<u>-</u>	<u>593,749</u>	<u>(19,086)</u>	<u>(517,210)</u>	<u>(1,107,863)</u>	<u>(1,050,410)</u>	<u>205,919</u>	<u>(844,491)</u>
Balance at 30 September 2012	<u>198</u>	<u>2,651,800</u>	<u>(625,960)</u>	<u>518,860</u>	<u>34,870,783</u>	<u>37,415,681</u>	<u>876,950</u>	<u>38,292,631</u>

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	<u>198</u>	<u>2,299,965</u>	<u>(258,137)</u>	<u>1,919,695</u>	<u>17,795,225</u>	<u>21,756,946</u>	<u>83,912</u>	<u>21,840,858</u>
Comprehensive income								
Profit for the period	—	—	—	—	7,666,057	7,666,057	7,571	7,673,628
Other comprehensive income:								
- net losses from changes in fair value of available-for-sale financial assets	—	—	—	(909,249)	—	(909,249)	—	(909,249)
- currency translation differences	—	—	—	(13,189)	—	(13,189)	—	(13,189)
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(922,438)</u>	<u>7,666,057</u>	<u>6,743,619</u>	<u>7,571</u>	<u>6,751,190</u>
Transaction with owners								
Capital injection	—	—	—	—	—	—	9,800	9,800
Employee share option schemes:								
- value of employee services	—	117,416	—	—	—	117,416	—	117,416
- proceeds from shares issued	—	129,214	—	—	—	129,214	—	129,214
Employee share award scheme:								
- value of employee services	—	396,748	—	—	—	396,748	—	396,748
- shares purchased for share award scheme	—	—	(276,575)	—	—	(276,575)	—	(276,575)
- vesting of awarded shares	—	(80,177)	80,177	—	—	—	—	—
Repurchase and cancellation of shares	—	(847,408)	—	—	—	(847,408)	—	(847,408)
Dividends (Note 14)	—	—	—	—	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	—	—	—	10,000	(10,000)	—	—	—
Total contributions by and distributions to owners for the period	—	(284,207)	(196,398)	10,000	(848,290)	(1,318,895)	(46,731)	(1,365,626)
Non-controlling interests arising from business combinations	—	—	—	—	—	—	187,092	187,092
Recognition of the financial liabilities in respect of the put option granted to non-controlling interests	—	—	—	(670,985)	—	(670,985)	—	(670,985)
Total transactions with owners for the period	<u>—</u>	<u>(284,207)</u>	<u>(196,398)</u>	<u>(660,985)</u>	<u>(848,290)</u>	<u>(1,989,880)</u>	<u>140,361</u>	<u>(1,849,519)</u>
Balance at 30 September 2011	<u>198</u>	<u>2,015,758</u>	<u>(454,535)</u>	<u>336,272</u>	<u>24,612,992</u>	<u>26,510,685</u>	<u>231,844</u>	<u>26,742,529</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

	Unaudited	
	Nine months ended	
	30 September	
	2012	2011
	RMB'000	RMB'000
Net cash flows generated from operating activities	14,117,844	9,092,191
Net cash flows used in investing activities	(13,014,232)	(12,810,210)
Net cash flows (used in)/generated from financing activities	<u>(315,311)</u>	<u>401,616</u>
Net increase/(decrease) in cash and cash equivalents	788,301	(3,316,403)
Cash and cash equivalents at beginning of period	12,612,140	10,408,257
Exchange gains/(losses) on cash and cash equivalents	<u>41,327</u>	<u>(113,029)</u>
Cash and cash equivalents at end of period	<u>13,441,768</u>	<u>6,978,825</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	7,388,954	5,332,070
Term deposits and highly liquid investments with initial term within three months	<u>6,052,814</u>	<u>1,646,755</u>
	<u>13,441,768</u>	<u>6,978,825</u>

Note:

1 General information, basis of preparation and presentation

The Company was incorporated in the Cayman Islands. The shares of the Company have been listed on the main board of the Stock Exchange since 16 June 2004.

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

The consolidated statement of financial position as at 30 September 2012, the related consolidated income statement and the consolidated statement of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 14 November 2012.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Company dated 14 March 2012 (the “2011 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2011 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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

The new or revised standards and amendments to the existing standards, which are mandatory for the financial year of the Company beginning 1 January 2012, are either not currently relevant or have no impact on the Group’s Interim Financial Information.

Because of the growth in certain business initiatives during the nine months ended 30 September 2012, the Group discloses the following accounting policies which were not included in the principal accounting policies in the 2011 Financial Statements:

- In relation to the sharing income derived from third-party games or applications which are available on the Group’s platforms and hosted by the developers, the Group recognises the related revenue on a net basis because it acts as an agent in the arrangement. The Group defers the related revenue over an estimated period as there is an implicit obligation of the Group to maintain and allow access of the users of the games or applications through its platforms.

- In relation to the e-Commerce transactions business, the Group recognises revenues from merchandise sales transaction and related costs on a gross basis when it acts as a principal. In transactions where the Group acts as an agent, revenues are recognised on a net basis which is based on a pre-determined percentage of the sales. Whether the Group acts as a principal or an agent in a transaction is determined based on several criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing price, and whether it has latitude in selecting suppliers.

2 Segment information

Due to the fact that the scale of e-Commerce transactions business of the Group had increased significantly, the executive directors of the Company treated e-Commerce transactions business as a separate segment of the Group's operations. As a result, a new line of segment information has been presented since 1 January 2012. No comparative figure of the comparative quarters of 2011 is presented since the amount involved was insignificant.

The Group has following reportable segments for the three and nine months ended 30 September 2012:

- IVAS;
- MVAS;
- Online advertising;
- e-Commerce transactions; and
- Others.

Other segments of the Group mainly comprises of the provision of trademark licensing, software development services and software sales.

There were no material inter-segment sales during the three and nine months ended 30 September 2012 and 2011. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and nine months ended 30 September 2012 and 2011 is as follows:

	Unaudited					
	Three months ended 30 September 2012					
	IVAS <i>RMB'000</i>	MVAS <i>RMB'000</i>	Online advertising <i>RMB'000</i>	e-Commerce transactions <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues	<u>8,371,026</u>	<u>946,218</u>	<u>1,015,266</u>	<u>1,133,901</u>	<u>99,145</u>	<u>11,565,556</u>
Gross profit	<u>5,629,719</u>	<u>557,135</u>	<u>503,721</u>	<u>49,264</u>	<u>38,624</u>	<u>6,778,463</u>
Depreciation	287,700	28,779	27,454	2,452	4,320	350,705
Amortisation	53,994	–	61,197	–	–	115,191
Share of (losses)/profit of associates	(36,011)	(1,846)	–	(7,924)	24,593	(21,188)
Share of losses of jointly controlled entities	<u>(6,089)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6,089)</u>

	Unaudited					
	Three months ended 30 September 2011					
	IVAS <i>RMB'000</i>	MVAS <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>	
Segment revenues	<u>6,003,135</u>	<u>844,900</u>	<u>600,572</u>	<u>47,550</u>	<u>7,496,157</u>	
Gross profit/(losses)	<u>3,964,044</u>	<u>495,175</u>	<u>399,001</u>	<u>(23,470)</u>	<u>4,834,750</u>	
Depreciation	196,480	16,756	15,567	11,937	240,740	
Amortisation	26,307	–	–	–	26,307	
Share of (losses)/profit of associates	(22,859)	1,017	–	–	(21,842)	
Share of losses of jointly controlled entities	<u>(59,926)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(59,926)</u>	

Unaudited						
Nine months ended 30 September 2012						
	IVAS	MVAS	Online advertising	e-Commerce transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>23,539,272</u>	<u>2,789,067</u>	<u>2,435,070</u>	<u>2,744,244</u>	<u>233,005</u>	<u>31,740,658</u>
Gross profit	<u>15,743,768</u>	<u>1,702,210</u>	<u>1,186,054</u>	<u>91,551</u>	<u>82,286</u>	<u>18,805,869</u>
Depreciation	799,245	80,903	76,087	6,149	13,000	975,384
Amortisation	144,200	–	146,774	–	–	290,974
Share of (losses)/profit of associates	(29,313)	(5,974)	–	(28,024)	37,781	(25,530)
Share of losses of jointly controlled entities	<u>(14,084)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(14,084)</u>

Unaudited						
Nine months ended 30 September 2011						
	IVAS	MVAS	Online advertising	Others	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>16,640,995</u>	<u>2,416,531</u>	<u>1,393,778</u>	<u>122,317</u>	<u>20,573,621</u>	
Gross profit/(losses)	<u>11,071,516</u>	<u>1,446,852</u>	<u>905,479</u>	<u>(36,999)</u>	<u>13,386,848</u>	
Depreciation	497,385	42,068	39,673	23,945	603,071	
Amortisation	39,904	–	–	–	39,904	
Share of profit of associates	39,441	25	–	–	39,466	
Share of losses of jointly controlled entities	<u>(124,912)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(124,912)</u>	

3 Interests in associates

	Unaudited	
	Nine months ended	
	30 September	
	2012	2011
	RMB'000	RMB'000
At beginning of period	4,338,075	1,070,633
Additions ((a), (b), (c) and (d))	3,297,574	2,839,521
Transfer from available-for-sale financial assets	31,139	—
Transfer out as a result of step-up business combinations	(43,391)	(117,502)
Share of (losses)/profit of associates	(25,530)	39,466
Dividends received from associates	(32,798)	(20,000)
Disposal of associates	(81,709)	—
Impairment provision (e)	(413,233)	—
At end of period	<u>7,070,127</u>	<u>3,812,118</u>

Note:

- (a) In January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8% of its total outstanding shares, for a cash consideration of HKD247,760,000. ChinaVision is a company listed on the main board of the Stock Exchange, and principally engaged in production and licensing of film and television programmes, and printed media and television advertising businesses. Since the Group has the right to nominate a director to the board of ChinaVision, the investment in ChinaVision is accounted for as an interest in associate of the Group.
- (b) In April 2012, the Group acquired 3,600,000 preference shares of Kakao Corp. (“Kakao”), a company principally engaged in developing and operating mobile chat applications, representing approximately 13.84% of its issued share capital, for a cash consideration of KRW72,000,000,000. Since the Group has significant influence in Kakao through its representative of the board, the investment in Kakao is accounted for as an interest in associate of the Group.
- (c) In July 2012, the Group acquired certain equity shares of Epic Games, Inc. (“Epic Games”). Epic Games, a US incorporated company, principally engaged in developing game engine technology, as well as game titles for PC, consoles and mobile devices. Since the Group has the right to nominate directors to the board of Epic Games, the investment in Epic Games is accounted for as an interest in associate of the Group.
- (d) In addition to the above, the Group acquired some other associates for an aggregate consideration of RMB250,281,000 during the nine months ended 30 September 2012. They are principally engaged in provision of online community services, online game development and other Internet-related businesses. The Group also made additional investments in existing investees for an aggregate consideration of RMB357,445,000 during the nine months ended 30 September 2012. They are principally engaged in online game development and other Internet-related businesses.

- (e) The Group made impairment provision of RMB413,233,000 for the interests in associates based on assessment with reference to business performance and recoverable value of associates.

4 Available-for-sale financial assets

	Unaudited	
	Nine months ended	
	30 September	
	2012	2011
	RMB'000	RMB'000
At beginning of period	4,343,602	4,126,878
Additions	507,499	1,430,149
Transfer to interests in associates	(31,139)	—
Gains/(losses) from changes in fair value	719,220	(912,479)
Impairment provision	<u>(34,767)</u>	<u>—</u>
At end of period	<u>5,504,415</u>	<u>4,644,548</u>
Market value of listed securities	<u>4,038,014</u>	<u>3,509,697</u>

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited	Audited
	30 September	31 December
	2012	2011
	RMB'000	RMB'000
0 - 30 days	1,484,494	1,103,261
31 - 60 days	472,260	443,555
61 - 90 days	378,358	246,501
Over 90 days	<u>348,853</u>	<u>227,479</u>
	<u>2,683,965</u>	<u>2,020,796</u>

Receivable balances as at 30 September 2012 mainly represented amounts due from telecommunications operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

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

6 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

As at the listing of the Company on 16 June 2004, all options under the pre-IPO Option Scheme had been granted.

(ii) Post-IPO Option Scheme I

Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

	Pre-IPO		Post-IPO		Post-IPO		Post-IPO		Total No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD191.1886	771,175	-	-	771,175
Exercised	USD0.0898	(550,620)	HKD12.1124	(2,472,173)	HKD44.9194	(2,770,830)	-	-	(5,793,623)
Lapsed	-	-	HKD6.0211	(5,534)	HKD53.4612	(171,416)	-	-	(176,950)
At 30 September 2011	USD0.2547	<u>12,573</u>	HKD13.0400	<u>10,328,056</u>	HKD59.9379	<u>26,624,097</u>	HKD158.5000	<u>1,000,000</u>	<u>37,964,726</u>
Exercisable as at 30 September 2011	USD0.2041	<u>12,573</u>	HKD11.8607	<u>9,119,636</u>	HKD42.7095	<u>9,134,396</u>	-	-	<u>18,266,605</u>
At 1 January 2012	-	-	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Granted	-	-	-	-	HKD248.8000	165,800	-	-	165,800
Exercised	-	-	HKD15.8239	(2,342,027)	HKD46.6147	(4,219,666)	-	-	(6,561,693)
Lapsed	-	-	HKD8.1734	(157)	HKD45.2759	(194,923)	-	-	(195,080)
At 30 September 2012	-	-	HKD11.1334	<u>6,419,753</u>	HKD61.5267	<u>21,907,299</u>	HKD158.5000	<u>1,000,000</u>	<u>29,327,052</u>
Exercisable as at 30 September 2012	-	-	HKD11.0002	<u>6,359,753</u>	HKD40.8706	<u>10,752,834</u>	-	-	<u>17,112,587</u>

During the nine months ended 30 September 2012, no share option (during the nine months ended 30 September 2011: Nil) was granted to the directors of the Company.

(b) **Share award scheme**

The Company has adopted the Share Award Scheme, which is managed by the Trustee. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the nine months ended 30 September 2012 and 2011 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2011	80	13,562,734
Purchased for awards	1,640,090	—
Shares to be allotted to the Share Award Scheme	4,045,360	—
Granted	(5,685,530)	5,685,530
Vested and exercised	<u>—</u>	<u>(2,426,559)</u>
At 30 September 2011	<u>—</u>	<u>16,821,705</u>
Exercisable as at 30 September 2011		<u>13,704</u>
At 1 January 2012	1,970,840	15,838,999
Purchased and withheld for awards	611,839	—
Shares to be allotted to the Share Award Scheme	4,378,400	—
Granted	(7,413,710)	7,413,710
Lapsed	669,666	(669,666)
Vested and exercised	<u>—</u>	<u>(3,293,922)</u>
At 30 September 2012	<u>217,035</u>	<u>19,289,121</u>
Exercisable as at 30 September 2012		<u>5</u>

During the nine months ended 30 September 2012, no awarded share (during the nine months ended 30 September 2011: 35,000) was granted to the directors of the Company.

7 Borrowings

	Unaudited	Audited
	30 September	31 December
	2012	2011
	RMB'000	RMB'000
<i>Included in non-current liabilities:</i>		
USD bank borrowings		
- Unsecured (a)	<u>2,219,350</u>	<u>—</u>
<i>Included in current liabilities:</i>		
RMB bank borrowings		
- Secured	—	2,958,720
USD bank borrowings		
- Unsecured (b)	3,011,975	4,410,630
Bonds		
- Unsecured	<u>—</u>	<u>630,090</u>
	<u>3,011,975</u>	<u>7,999,440</u>
	<u>5,231,325</u>	<u>7,999,440</u>

Movement in the borrowings is analysed as follows:

	Unaudited	
	Nine months ended	
	30 September	
	2012	2011
	RMB'000	RMB'000
At beginning of period	7,999,440	5,298,947
Additions of bank borrowings	3,158,220	5,389,827
Issuance of bonds	—	657,520
Repayments of bonds	(629,190)	—
Repayments of bank borrowings	(5,334,056)	(3,765,941)
Exchange difference	<u>36,911</u>	<u>(173,203)</u>
At end of period	<u>5,231,325</u>	<u>7,407,150</u>

Note:

- (a) Unsecured long-term bank borrowings of carrying amount of RMB2,219,350,000 as at 30 September 2012 were denominated in USD. The aggregate principal amount was USD350,000,000 with an interest rate of LIBOR plus 2.10% to 2.44% per annum. One of the long-term bank borrowings with a principal amount of USD150,000,000 shall be repaid in installments.
- (b) Unsecured short-term bank borrowings of carrying amount of RMB3,011,975,000 as at 30 September 2012 were denominated in USD. The aggregate principal amount was USD475,000,000 with interest rates of LIBOR plus 0.85% to 1.75% per annum.

8 Long-term notes payable

On 12 December 2011, the Company issued long-term notes (the “2011 Notes”) with an aggregate principal amount of USD600,000,000 for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the “2012 Notes”) with an aggregate principal amount of USD600,000,000 for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The Notes are listed on the Stock Exchange and will mature on 5 March 2018.

The issue price of the 2012 Notes is 99.771% of the aggregate principal amount. The net proceeds from the issue of the 2012 Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issue of the Notes, amounted to approximately USD593,826,000 (equivalent to approximately RMB3,767,767,000).

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	30 September	31 December
	2012	2011
	RMB'000	RMB'000
0 - 30 days	3,048,015	1,514,155
31 - 60 days	496,438	351,587
61 - 90 days	350,003	108,337
Over 90 days	65,786	270,035
	<u>3,960,242</u>	<u>2,244,114</u>

10 Other (losses)/gains, net

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment provision for associates and available-for-sale financial assets	(448,000)	—	(448,000)	—
Dividend income	390,722	2,324	401,847	15,851
Subsidies and tax rebates	136,461	26,063	169,297	41,051
Donation to Tencent Charity Fund	(60,000)	—	(120,000)	(100,000)
(Losses)/Gains on disposal/deemed disposal of associates	(15,596)	—	(4,053)	459,037
Losses from derivative financial instruments	(925)	(29,983)	(20,767)	(74,852)
Others	(17,453)	10,796	(59,976)	9,991
	<u>(14,791)</u>	<u>9,200</u>	<u>(81,652)</u>	<u>351,078</u>

11 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Employee benefit expenses (Note)	2,069,481	1,356,958	5,667,338	3,566,910
Content costs and agency fees	1,757,865	1,283,609	4,898,356	3,520,386
Cost of merchandise sold	1,044,629	—	2,568,994	—
Mobile and telecom charges and bandwidth and server custody fees	867,527	689,880	2,460,813	1,901,948
Depreciation of fixed assets (Note)	479,971	323,167	1,348,743	817,711
Promotion and advertising expenses	558,628	357,337	1,222,072	804,341
Amortisation of intangible assets	178,127	222,163	562,701	498,024
Operating lease rentals in respect of office buildings	151,631	98,773	440,305	238,123
Travelling and entertainment expenses	90,247	66,865	221,360	144,414
Other expenses	434,075	239,185	1,084,306	602,228
	<u>7,632,181</u>	<u>4,637,937</u>	<u>20,474,988</u>	<u>12,094,085</u>

Note:

Research and development expenses for the three and nine months ended 30 September 2012 were RMB1,116,057,000 and RMB3,099,260,000, respectively (for the three and nine months ended 30 September 2011: RMB737,195,000 and RMB1,922,173,000, respectively) which included employee benefit expenses of RMB902,785,000 and depreciation of fixed assets of RMB112,156,000 for the three months ended 30 September 2012 (for the three months ended 30 September 2011: RMB633,132,000 and RMB73,299,000, respectively) and employee benefit expenses of RMB2,520,307,000 and depreciation of fixed assets of RMB329,332,000 for the nine months ended 30 September 2012 (for the nine months ended 30 September 2011: RMB1,655,235,000 and RMB189,590,000, respectively). No research and development expenses had been capitalised as at 30 September 2012.

12 Income tax expense

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

(a) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three and nine months ended 30 September 2012 and 2011.

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and nine months ended 30 September 2012. No such provision was provided for the three and nine months ended 30 September 2011.

(c) PRC CIT

CIT provision was made on the assessable profits of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

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

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

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

In 2011, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

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

(d) United States corporate income tax

United States corporate income tax provision was provided during the three and nine months ended 30 September 2012 for the entities within the Group which were incorporated in the United States. No such provision was provided for the three and nine months ended 30 September 2011.

(e) Corporate income tax in other countries

Corporate income tax provision was provided during the three and nine months ended 30 September 2012 for the entities within the Group which were incorporated in Europe, East Asia and South America. No such provision was provided for the three and nine months ended 30 September 2011.

(f) PRC withholding tax

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

The income tax expense of the Group for the three and nine months ended 30 September 2012 and 2011 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	691,953	485,056	1,928,918	1,345,291
Deferred tax	64,512	21,704	186,044	98,615
	<u>756,465</u>	<u>506,760</u>	<u>2,114,962</u>	<u>1,443,906</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three and nine months ended 30 September 2012 (for the three and nine months ended 30 September 2011: 24%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments being applied. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	3,997,610	2,952,908	11,429,008	9,117,534
Add: Share of losses of associates and jointly controlled entities	<u>27,277</u>	81,768	<u>39,614</u>	85,446
	<u>4,024,887</u>	<u>3,034,676</u>	<u>11,468,622</u>	<u>9,202,980</u>
Tax calculated at a tax rate of 25% (for the three and nine months ended 30 September 2011: 24%)	1,006,222	728,322	2,867,156	2,208,715
Effects of different tax rates applicable to different subsidiaries	(273,417)	(227,012)	(945,798)	(760,232)
Effects of tax holiday on assessable profit of subsidiaries	(71,334)	(117,826)	(206,391)	(367,402)
Income not subject to tax	(30,946)	(5,930)	(77,402)	(17,593)
Expenses not deductible for tax purposes	60,646	42,493	180,738	156,372
Withholding tax on earnings expected to be remitted by PRC subsidiaries	71,186	81,000	242,789	222,500
Utilisation of previously unrecognised tax losses	(69,938)	(13,465)	(76,192)	(16,749)
Unrecognised deferred income tax assets	36,925	21,927	116,359	80,539
Adjustments in respect of CIT filing	<u>27,121</u>	<u>(2,749)</u>	<u>13,703</u>	<u>(62,244)</u>
Income tax expense	<u>756,465</u>	<u>506,760</u>	<u>2,114,962</u>	<u>1,443,906</u>

13 EPS

(a) Basic

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

	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2012	
	2012	2011	2012	2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>3,218,693</u>	<u>2,446,437</u>	<u>9,268,278</u>	<u>7,666,057</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,829,344</u>	<u>1,825,190</u>	<u>1,826,101</u>	<u>1,823,638</u>
Basic EPS (RMB per share)	<u>1.759</u>	<u>1.340</u>	<u>5.075</u>	<u>4.204</u>

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three and nine months ended 30 September 2012, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2012	
		2011		2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>3,218,693</u>	<u>2,446,437</u>	<u>9,268,278</u>	<u>7,666,057</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,829,344</u>	1,825,190	<u>1,826,101</u>	1,823,638
Adjustments for share options (thousand shares)	<u>22,792</u>	27,709	<u>23,937</u>	30,089
Adjustments for awarded shares (thousand shares)	<u>11,138</u>	<u>8,935</u>	<u>12,301</u>	<u>10,331</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,863,274</u>	<u>1,861,834</u>	<u>1,862,339</u>	<u>1,864,058</u>
Diluted EPS (RMB per share)	<u>1.727</u>	<u>1.314</u>	<u>4.977</u>	<u>4.113</u>

14 Dividends

A final dividend in respect of the year ended 31 December 2011 of HKD0.75 per share (2010: HKD0.55 per share) was proposed pursuant to a resolution passed by the Board on 14 March 2012 and approved by shareholders at the 2012 AGM. Such dividend, amounted to HKD1,369,117,000 (equivalent to approximately RMB1,107,889,000) (final dividend for 2010: HKD1,010,294,000 (equivalent to approximately RMB838,290,000)), had been paid as at 30 September 2012.

The Board did not propose any interim dividend for the nine months ended 30 September 2012 (for the nine months ended 30 September 2011: Nil).

15 Business combinations

(a) The Level Up! Acquisition

In July 2012, the Group acquired 49% equity interest in Level Up! International Holdings Pte. Ltd. ("Level Up!"), a publisher and operator of online games from a related party at a consideration of USD26,950,000 (equivalent to approximately RMB170,456,000) (the "Level Up! Acquisition"). According to the terms of the Level Up! Acquisition, the Group

also has a currently exercisable call option to acquire additional 18% equity interest (total 67% equity interest together with the aforesaid 49% interest) in Level Up!. Upon completion of the Level Up! Acquisition, Level Up! was accounted for as a subsidiary of the Group.

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

	<i>RMB'000</i>
Cash consideration paid	170,456
Fair value of the non-controlling interests	<u>177,612</u>
	<u><u>348,068</u></u>
 Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	80,739
Fixed assets	18,887
Brand, games distribution rights and other acquired intangible assets	220,447
Current liabilities	(58,416)
Deferred income tax liabilities	<u>(57,877)</u>
Total identifiable net assets	203,780
Goodwill	<u>144,288</u>
	<u><u>348,068</u></u>

The revenues and net profit contributed by Level Up! from its acquisition date to 30 September 2012 were not material to the Group.

(b) **Acquisition of equity interests in five companies**

During the nine months ended 30 September 2012, the Group acquired 100% equity interests in two companies. One of them is engaged in providing massively multi-players online game information and the other is engaged in developing utility on mobile device. In addition, the Group acquired 51% equity interest in a company engaged in publication and online reading services.

The Group acquired certain additional interest in an associate engaged in e-Commerce business. The Group held 58% equity interests in this company after the acquisition. The Group also acquired additional 60% equity interest in another associate engaged in developing mobile browser and the Group held 100% equity interest in this company after the acquisition. The deemed disposal gains/(losses) derived from these step-up business combinations were not material.

The considerations and the allocation of such considerations to the fair value of the identifiable net assets acquired and goodwill recognised as at the respective dates of these acquisitions are as follows:

	<i>RMB'000</i>
Cash consideration paid	212,264
Fair value of the interests previously held by the Group	38,240
Fair value of the non-controlling interests	<u>71,569</u>
	<u>322,073</u>
Fair value of identifiable net assets acquired	137,934
Goodwill	<u>184,139</u>
	<u>322,073</u>

The revenues and net profit contributed by these subsidiaries from their respective acquisition dates to 30 September 2012 were not material to the Group.

16 Subsequent events

In October 2012, the Group entered into agreements with an independent third party, a company listed on the Shanghai Stock Exchange (the “Buyer”), to sell its entire equity interest in Beijing Manyogu Information Technology Company Limited, a subsidiary of the Group and principally engaged in game development in the PRC, to the Buyer in different phases, subject to satisfaction of a number of conditions, including without limitation, approval of shareholders of the Buyer in its general meeting and PRC government authorities as well as the successful placement of the Buyer’s shares to finance this transaction.

OTHER INFORMATION

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2012.

Employee and Remuneration Policies

As at 30 September 2012, the Group had 23,542 employees (30 September 2011: 16,020). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the three months ended 30 September 2012 was RMB2,069 million (for the three months ended 30 September 2011: RMB1,361 million).

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and nine months ended 30 September 2012.

Compliance with the Corporate Governance Code

Save as disclosed in the 2011 annual report and the 2012 interim report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions of the CG Code during the period from 1 July 2012 to 30 September 2012.

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

APPRECIATION

With our employees' and management's unwavering dedication, we have successfully better served our user community. The Board would like to take this opportunity to thank them, as well as the shareholders and stakeholders of the Company, for their continuous support, contribution and commitment going forward.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 14 November 2012

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

Jacobus Petrus Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:

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

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

DEFINITION

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

Term	Definition
“2012 AGM”	the annual general meeting of the Company held on 16 May 2012
“ACG”	advanced casual games
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Telecommunications Co. Ltd.
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“KRW”	the lawful currency of Republic of Korea
“LIBOR”	London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mail.ru”	Mail.ru Group Limited
“MAU”	monthly active user accounts
“MMOG”	massively multiplayer online games
“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“Riot Games”	Riot Games, Inc.

“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games
“RMB”	the lawful currency of the PRC
“Share Award Scheme”	the share award scheme adopted by the Company on 13 December 2007
“SMS”	short message service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Scheme
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States