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**Tencent 腾讯**  
**TENCENT HOLDINGS LIMITED**  
**騰訊控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 700)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

The board of directors (the “Board”) of Tencent Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2010. The consolidated financial statements of the Group for the year have been audited by PricewaterhouseCoopers, the auditors of the Company (the “Auditors”), in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the “Audit Committee”).

**RESULTS**

The Group’s audited profit attributable to equity holders of the Company for the year ended 31 December 2010 was RMB8,053.6 million, an increase of 56.2% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2010 were RMB4.432 and RMB4.328 respectively.

**DIVIDEND**

The Board has recommended the payment of a final dividend of HKD0.55 per share (2009: HKD0.40 per share) for the year ended 31 December 2010, subject to the approval of the shareholders at the annual general meeting of the Company to be held on 11 May 2011 (the “AGM”). Such proposed dividend will be payable on 25 May 2011 to the shareholders whose names appear on the register of members of the Company on 11 May 2011.

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	As at 31 December	
	2010	2009
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	<b>3,292,828</b>	2,517,202
Construction in progress	<b>386,943</b>	105,771
Investment properties	<b>37,229</b>	68,025
Land use rights	<b>229,890</b>	35,296
Intangible assets	<b>572,981</b>	268,713
Investment in associates	<b>1,070,633</b>	477,622
Investment in a jointly controlled entity	<b>74,542</b>	—
Deferred income tax assets	<b>219,019</b>	301,016
Held-to-maturity investments	—	341,410
Available-for-sale financial assets	3 <b>4,126,878</b>	153,462
Prepayments, deposits and other assets	<b>445,430</b>	<u>80,306</u>
	<b><u>10,456,373</u></b>	<u>4,348,823</u>
<b>Current assets</b>		
Accounts receivable	4 <b>1,715,412</b>	1,229,436
Prepayments, deposits and other assets	<b>487,872</b>	373,642
Term deposits with initial term of over three months	<b>11,725,743</b>	5,310,168
Restricted cash	7 <b>1,036,457</b>	200,000
Cash and cash equivalents	<b>10,408,257</b>	<u>6,043,696</u>
	<b><u>25,373,741</u></b>	<u>13,156,942</u>
<b>Total assets</b>	<b><u>35,830,114</u></b>	<u>17,505,765</u>

		<b>As at 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital		<b>198</b>	197
Share premium		<b>1,100,302</b>	1,244,425
Shares held for share award scheme		<b>(258,137)</b>	(123,767)
Share-based compensation reserve		<b>1,199,663</b>	703,563
Other reserves		<b>1,919,695</b>	(166,364)
Retained earnings		<b><u>17,795,225</u></b>	<u>10,520,453</u>
		<b>21,756,946</b>	12,178,507
<b>Non-controlling interests</b>		<b><u>83,912</u></b>	<u>120,146</u>
<b>Total equity</b>		<b><u>21,840,858</u></b>	<u>12,298,653</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		<b>967,211</b>	369,983
Long-term payables		<b>—</b>	274,050
		<b><u>967,211</u></b>	<u>644,033</u>
<b>Current liabilities</b>			
Accounts payable	6	<b>1,380,464</b>	696,511
Other payables and accruals		<b>2,997,808</b>	1,626,051
Derivative financial instruments	7	<b>17,964</b>	—
Short-term bank borrowings	7	<b>5,298,947</b>	202,322
Current income tax liabilities		<b>341,103</b>	85,216
Other tax liabilities		<b>225,188</b>	216,978
Deferred revenue		<b><u>2,760,571</u></b>	<u>1,736,001</u>
		<b>13,022,045</b>	4,563,079
<b>Total liabilities</b>		<b><u>13,989,256</u></b>	<u>5,207,112</u>
<b>Total equity and liabilities</b>		<b><u>35,830,114</u></b>	<u>17,505,765</u>
<b>Net current assets</b>		<b><u>12,351,696</u></b>	<u>8,593,863</u>
<b>Total assets less current liabilities</b>		<b><u>22,808,069</u></b>	<u>12,942,686</u>

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2010**

		<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenues</b>			
Internet value-added services		<b>15,482,301</b>	9,530,711
Mobile and telecommunications value-added services		<b>2,715,931</b>	1,905,599
Online advertising		<b>1,372,522</b>	962,171
Others		<b>75,277</b>	41,479
		<b>19,646,031</b>	12,439,960
Cost of revenues	9	<b>(6,320,200)</b>	(3,889,468)
<b>Gross profit</b>		<b>13,325,831</b>	8,550,492
Interest income		<b>255,922</b>	136,014
Other gains/(losses), net	8	<b>38,056</b>	(58,213)
Selling and marketing expenses	9	<b>(945,370)</b>	(581,468)
General and administrative expenses	9	<b>(2,836,226)</b>	(2,026,347)
<b>Operating profit</b>	*	<b>9,838,213</b>	6,020,478
Finance costs		<b>(838)</b>	(1,953)
Share of profit of associates		<b>72,359</b>	22,206
Share of profit of a jointly controlled entity		<b>3,399</b>	—
<b>Profit before income tax</b>		<b>9,913,133</b>	6,040,731
Income tax expense	10	<b>(1,797,924)</b>	(819,120)
<b>Profit for the year</b>		<b>8,115,209</b>	5,221,611
<b>Attributable to:</b>			
Equity holders of the Company		<b>8,053,625</b>	5,155,646
Non-controlling interests		<b>61,584</b>	65,965
		<b>8,115,209</b>	5,221,611

		<b>Year ended 31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Note</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)</b>			
- basic	11	<u><b>4.432</b></u>	<u>2.862</u>
- diluted	11	<u><b>4.328</b></u>	<u>2.791</u>
<b>Dividend per share</b>			
Final dividend proposed	12	<u><b>HKD0.55</b></u>	<u>HKD0.40</u>

\* After deduction of share-based compensation charge amounting to RMB495,772,000 for the year ended 31 December 2010 (2009: RMB321,422,000).

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>Year ended 31 December</b>	
	<b>2010</b>	2009
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the year</b>	<b><u>8,115,209</u></b>	<b><u>5,221,611</u></b>
<b>Other comprehensive income:</b>		
Income from changes in fair value of available-for-sale financial assets	<b><u>1,821,129</u></b>	<u>—</u>
<b>Other comprehensive income for the year, net of tax</b>	<b><u>1,821,129</u></b>	<u>—</u>
<b>Total comprehensive income for the year</b>	<b><u>9,936,338</u></b>	<b><u>5,221,611</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	<b>9,874,754</b>	5,155,646
Non-controlling interests	<b><u>61,584</u></b>	<u>65,965</u>
<b>Total comprehensive income for the year</b>	<b><u>9,936,338</u></b>	<b><u>5,221,611</u></b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Attributable to equity holders of the Company								
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares held	Share-based compensation reserve <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>
			for share award scheme <i>RMB'000</i>						
<b>Balance at 1 January 2010</b>	<u>197</u>	<u>1,244,425</u>	<u>(123,767)</u>	<u>703,563</u>	<u>(166,364)</u>	<u>10,520,453</u>	<u>12,178,507</u>	<u>120,146</u>	<u>12,298,653</u>
<b>Comprehensive income</b>									
Profit for the year	-	-	-	-	-	8,053,625	8,053,625	61,584	8,115,209
Other comprehensive income									
- income from changes in fair value of available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,821,129</u>	<u>-</u>	<u>1,821,129</u>	<u>-</u>	<u>1,821,129</u>
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,821,129</u>	<u>8,053,625</u>	<u>9,874,754</u>	<u>61,584</u>	<u>9,936,338</u>
<b>Transactions with owners</b>									
Employee share option schemes:									
- value of employee services	-	-	-	139,621	-	-	139,621	-	139,621
- proceeds from shares issued	1	199,248	-	-	-	-	199,249	-	199,249
Employee share award scheme:									
- value of employee services	-	-	-	356,479	-	-	356,479	-	356,479
- shares purchased for share award scheme	-	-	(167,519)	-	-	-	(167,519)	-	(167,519)
- vesting of awarded shares	-	(33,149)	33,149	-	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	-	8,237	(8,237)	-	-	-
Dividend (Note 12)	-	-	-	-	-	(639,264)	(639,264)	(66,723)	(705,987)
Repurchase and cancellation of shares	-	(310,222)	-	-	-	-	(310,222)	-	(310,222)
Reversal of the liabilities in respect of put options granted to non-controlling interest owners	-	-	-	-	94,246	-	94,246	-	94,246
Acquisition of additional interests in a subsidiary	-	-	-	-	154,198	(123,103)	31,095	(31,095)	-
Transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,249</u>	<u>(8,249)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total transactions with owners for the year</b>	<u>1</u>	<u>(144,123)</u>	<u>(134,370)</u>	<u>496,100</u>	<u>264,930</u>	<u>(778,853)</u>	<u>(296,315)</u>	<u>(97,818)</u>	<u>(394,133)</u>
<b>Balance at 31 December 2010</b>	<u>198</u>	<u>1,100,302</u>	<u>(258,137)</u>	<u>1,199,663</u>	<u>1,919,695</u>	<u>17,795,225</u>	<u>21,756,946</u>	<u>83,912</u>	<u>21,840,858</u>

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>	Share-based compensation reserve <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 2009	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332
Profit/Total comprehensive income for the year	—	—	—	—	—	5,155,646	5,155,646	65,965	5,221,611
Transactions with owners									
Employee share option schemes:									
- value of employee services	—	—	—	167,178	—	—	167,178	—	167,178
- proceeds from shares issued	2	165,446	—	—	—	—	165,448	—	165,448
Employee share award scheme:									
- value of employee services	—	—	—	154,946	—	—	154,946	—	154,946
- shares purchased for share award scheme	—	—	(103,618)	—	—	—	(103,618)	—	(103,618)
- vesting of awarded shares	—	(1,660)	1,660	—	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	—	2,193	(2,193)	—	—	—
Dividend (Note 12)	—	—	—	—	—	(554,604)	(554,604)	(32,088)	(586,692)
Repurchase and cancellation of shares	—	(74,570)	—	—	—	—	(74,570)	—	(74,570)
Equity interest purchased for an employee restricted equity interest plan in a non-wholly owned subsidiary	—	—	—	—	—	(17,326)	(17,326)	(11,856)	(29,182)
Exercise of put option granted to non-controlling interest owners	—	—	—	—	281	—	281	(281)	—
Reversal of the liabilities in respect of the put options granted to non-controlling interest owners	—	—	—	—	264,200	—	264,200	—	264,200
Total transactions with owners for the year	2	89,216	(101,958)	322,124	266,674	(574,123)	1,935	(44,225)	(42,290)
Balance at 31 December 2009	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>Year ended 31 December</b>	
	<b>2010</b>	2009
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<b>Net cash flows generated from operating activities</b>	<b>12,319,293</b>	8,398,365
<b>Net cash flows used in investing activities</b>	<b>(12,014,997)</b>	(5,024,795)
<b>Net cash flows generated from/(used in) financing activities</b>	<u><b>4,112,146</b></u>	<u>(397,110)</u>
<b>Net increase in cash and cash equivalents</b>	<b>4,416,442</b>	2,976,460
Cash and cash equivalents at beginning of the year	<b>6,043,696</b>	3,067,928
Exchange losses on cash and cash equivalents	<u>(51,881)</u>	<u>(692)</u>
<b>Cash and cash equivalents at end of the year</b>	<u><b>10,408,257</b></u>	<u>6,043,696</u>
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	<b>5,688,087</b>	1,898,166
Short-term highly liquid investments with initial term of three months or less	<u><b>4,720,170</b></u>	<u>4,145,530</u>
	<u><b>10,408,257</b></u>	<u>6,043,696</u>

Notes:

## 1 General information, basis of preparation and presentation

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

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

These consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on 16 March 2011.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The following new standards and amendment to existing standards, which have been published and are mandatory for the financial year beginning 1 January 2010, are relevant to the Group:

IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
IFRS 3 (Revised)	Business Combinations

The Group has applied IAS 27 (Revised) and IFRS 2 (Amendment), and management has considered that the new standard and amendment have no significant impact on the Group’s consolidated financial statements. The Group has also applied IFRS 3 (Revised) from 1 January 2010 and taken into account its relevant impact on the business combinations completed in 2010.

## 2 Segment information

The Group has the following reportable segments for the years ended 31 December 2010 and 2009:

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

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

There were no inter-segment sales during the year ended 31 December 2010 and 2009. The revenues from external customers reported to the executive directors are measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the executive directors for the reportable segments for the years ended 31 December 2010 and 2009 is as follows:

Year ended	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
31 December 2010	services	value-added	services		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>15,482,301</u>	<u>2,715,931</u>	<u>1,372,522</u>	<u>75,277</u>	<u>19,646,031</u>
Gross profit/(loss)	<u>10,719,866</u>	<u>1,705,073</u>	<u>931,220</u>	<u>(30,328)</u>	<u>13,325,831</u>
Depreciation	374,991	35,264	21,884	13,923	446,062
Amortisation	37,033	–	–	–	37,033
Share of profit of associates	<u>67,563</u>	<u>4,796</u>	<u>–</u>	<u>–</u>	<u>72,359</u>
Year ended	Internet	Mobile and	Online	Others	Total
31 December 2009	value-added	telecommunications	advertising		
	services	value-added	services		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>9,530,711</u>	<u>1,905,599</u>	<u>962,171</u>	<u>41,479</u>	<u>12,439,960</u>
Gross profit/(loss)	<u>6,741,486</u>	<u>1,177,852</u>	<u>664,563</u>	<u>(33,409)</u>	<u>8,550,492</u>
Depreciation	141,427	17,956	7,063	7,114	173,560
Amortisation	73,772	–	–	–	73,772
Share of profit of associates	<u>15,957</u>	<u>6,249</u>	<u>–</u>	<u>–</u>	<u>22,206</u>

### 3 Available-for-sale financial assets

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Beginning of the year	153,462	86,180
Additions	2,179,096	67,282
Transfer to investment in associates	(26,809)	—
Net gains recognised in other comprehensive income	<u>1,821,129</u>	<u>—</u>
End of the year	<u>4,126,878</u>	<u>153,462</u>
Non-current portion	<u>4,126,878</u>	<u>153,462</u>
Available-for-sale financial assets include the following:		
Listed equity interests:		
7.56% (2009: Nil) economic interest in Mail.ru Group Limited	3,869,033	—
Unlisted equity interests:		
8.30% (2009: Nil) equity interest in an online game company in Korea	68,263	—
14.56% (2009: 14.56%) equity interest in an online game company in the PRC	40,000	40,000
13.99% (2009: 13.99%) equity interest in an online game company in Korea	37,017	37,017
10% (2009: 6%) equity interest in an Internet company in India	33,198	14,758
19.71% (2009: 10.90%) equity interest in an online game company in Korea	26,207	8,118
10.70% (2009: 10.70%) equity interest in a search service company in the PRC	20,477	20,477
Others	<u>32,683</u>	<u>33,092</u>
	<u>4,126,878</u>	<u>153,462</u>
Market value of listed securities	<u>3,869,033</u>	<u>—</u>

On 12 April 2010, the Group and Digital Sky Technology Limited (“DST”) entered into a share subscription agreement. Pursuant to this agreement, the Group subscribed for an aggregate of 8,114 ordinary shares of DST for a total cash consideration at USD300,002,000 (approximately RMB2,047,904,000). After completion of the transaction, the Group held approximately a 10.3% economic interest in DST and 0.5% of the total voting power of DST.

DST changed its name to Mail.ru Group Limited (“Mail.ru”) and completed its initial public offering (“IPO”) in November 2010. The global depositary receipts (“GDRs”) of Mail.ru (each GDR representing one ordinary share) commenced their unconditional trading in the London

Stock Exchange on 11 November 2010. After the IPO, the Group held 16,228,000 ordinary shares in Mail.ru, representing approximately 7.56% economic interest on a fully diluted basis. The Group's interest in Mail.ru is subject to 180-day lock-up period.

Mail.ru was founded in 2005 and is one of the largest Internet companies in the Russian-speaking and Eastern Europe markets. It is also one of the leading global investment groups primarily focused on Internet-related companies.

At 31 December 2010, the carrying amounts of interests in Mail.ru exceeded 10% of total assets of the Company and the Group.

As at 31 December 2010 and 2009, there were certain call options embedded in the available-for-sale financial assets. The directors have considered that the fair value of such call options was insignificant and accordingly, the Group did not separately recognise these call options in the financial statements.

#### 4 Accounts receivable

	<b>As at 31 December</b>	
	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 - 30 days	<b>931,438</b>	690,858
31 - 60 days	<b>331,922</b>	173,331
61 - 90 days	<b>143,785</b>	112,752
Over 90 days but less than a year	<b><u>308,267</u></b>	<u>252,495</u>
	<b><u>1,715,412</u></b>	<u>1,229,436</u>

Receivable balances as at 31 December 2010 mainly represented amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

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

#### 5 Share option and share award schemes

##### (a) Share option schemes

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

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

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

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

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

(iii) *Post-IPO Option Scheme II*

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

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

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

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2009	USD0.0964	4,124,083	HKD10.4762	37,615,536	HKD41.2330	28,715,506	–	–	70,455,125
Granted	–	–	–	–	HKD89.8122	2,952,150	–	–	2,952,150
Exercised	USD0.1164	(2,004,895)	HKD8.4108	(12,249,167)	HKD54.2627	(1,995,844)	–	–	(16,249,906)
Lapsed	USD0.0498	(254,120)	HKD9.6262	(424,451)	HKD45.7985	(680,393)	–	–	(1,358,964)
At 31 December 2009	USD0.0812	<u>1,865,068</u>	HKD11.5050	<u>24,941,918</u>	HKD45.1756	<u>28,991,419</u>	–	–	<u>55,798,405</u>
Currently exercisable as at 31 December 2009	USD0.0812	<u>1,865,068</u>	HKD9.6579	<u>18,037,478</u>	HKD41.5573	<u>3,057,144</u>	–	–	<u>22,959,690</u>
At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	–	–	55,798,405
Granted	–	–	–	–	HKD138.3689	2,708,350	HKD158.5000	1,000,000	3,708,350
Exercised	USD0.0759	(1,301,875)	HKD9.9387	(11,925,949)	HKD32.3254	(2,573,377)	–	–	(15,801,201)
Lapsed	–	–	HKD17.9512	(210,206)	HKD58.2388	(331,224)	–	–	(541,430)
At 31 December 2010	USD0.0935	<u>563,193</u>	HKD12.8579	<u>12,805,763</u>	HKD54.9391	<u>28,795,168</u>	HKD158.5000	<u>1,000,000</u>	<u>43,164,124</u>
Currently exercisable as at 31 December 2010	USD0.0935	<u>563,193</u>	HKD11.2750	<u>11,069,343</u>	HKD41.4494	<u>6,210,804</u>	–	–	<u>17,843,340</u>

During the year ended 31 December 2010, 1,000,000 share options (2009: Nil) were granted to an executive director of the Company.

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Scheme and awarded shares for the years ended 31 December 2010 and 2009 are as follows:

	<b>Shares held for the Share Scheme</b>	<b>Awarded shares</b>
At 1 January 2009	132,160	1,349,450
Purchased	1,013,100	–
Allotted to Share Scheme	8,181,180	–
Granted to the employee	(9,194,350)	9,194,350
Cancelled	(132,080)	–
Vested	<u>–</u>	<u>(132,376)</u>
At 31 December 2009	<u>10</u>	<u>10,411,424</u>
Currently exercisable as at 31 December 2009		<u>339,056</u>
<b>At 1 January 2010</b>	<b>10</b>	<b>10,411,424</b>
Purchased (Note)	<b>1,184,883</b>	–
Allotted to Share Scheme	<b>3,662,975</b>	–
Granted to the employee	<b>(4,847,788)</b>	<b>4,847,788</b>
Vested	<u>–</u>	<u>(1,696,478)</u>
At 31 December 2010	<u>80</u>	<u>13,562,734</u>
Currently exercisable as at 31 December 2010		<u>101,337</u>

*Note:*

During the year ended 31 December 2010, the Group acquired 1,184,883 ordinary shares of the Company through an independent trustee with a consideration of approximately HKD191,447,000 (equivalent to approximately RMB167,519,000).

During the year ended 31 December 2010, no awarded shares (2009: Nil) had been granted to any director of the Company.

## 6 Accounts payable

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
0 - 30 days	975,869	493,013
31 - 60 days	242,547	72,554
61 - 90 days	68,632	82,525
Over 90 days but less than a year	<u>93,416</u>	<u>48,419</u>
	<u>1,380,464</u>	<u>696,511</u>

## 7 Short-term bank borrowings

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Bank borrowings accounted for as RMB borrowings (Note (a))		
- Secured (Note (b))	990,887	202,322
- Unsecured	<u>334,440</u>	<u>—</u>
	1,325,327	202,322
USD borrowings		
- Unsecured (Note (c))	<u>3,973,620</u>	<u>—</u>
	<u>5,298,947</u>	<u>202,322</u>

*Note:*

- (a) These bank borrowings were denominated in USD according to the loan agreements executed with the lending banks. The aggregate principal amount was USD198,637,000 and the interest rates were fixed at 1.71% to 3.36% per annum. These borrowings will be repaid in full in USD and the term for each of these borrowings is one year. Concurrently, foreign exchange forward contracts were arranged with the same banks as at the respective initial borrowing dates in order to enable the Group to purchase the required amount of USD with RMB for settling the principal amount of the borrowings plus related interest upon the loan due dates. The bank borrowings and the foreign exchange forward contracts are deemed as linked transactions and accordingly, the bank borrowings have effectively been accounted for as borrowings denominated in RMB.



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

- (b) These bank borrowings were secured by a pledge of bank deposits of RMB1,014,493,000 of the Group with the banks.
- (c) These unsecured bank borrowings were also denominated in USD. The aggregate principal amount was USD600,000,000 and the interest rates were fixed at 1.20% to 2.32% per annum. In addition, the Group entered into foreign forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the borrowings upon the due dates. However, the Group arranged the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and the relevant foreign forward contracts were accounted for separately. These bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains/(losses), net” in the consolidated income statement.

The fair value of the short-term bank borrowings approximated to their carrying amounts as at 31 December 2010.

8 **Other gains/(losses), net**

	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Government subsidies	<b>96,537</b>	28,339
Fair value gains on financial assets held for trading	—	11,929
Losses from derivative financial instruments	<b>(17,964)</b>	—
Donation to a charity fund established by the Group	<b>(70,000)</b>	(85,000)
Gain/(loss) on disposals of fixed assets	<b>883</b>	(3,043)
Loss on disposals of intangible assets	—	(1,654)
Others	<b><u>28,600</u></b>	<u>(8,784)</u>
	<b><u>38,056</u></b>	<u>(58,213)</u>

## 9 Expenses by nature

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses (Note)	<b>3,143,967</b>	2,133,135
Mobile and telecom charges and bandwidth and server custody fees	<b>2,089,273</b>	1,584,025
Content costs and agency fees	<b>2,797,872</b>	1,430,526
Promotion and advertising expenses	<b>557,601</b>	306,309
Depreciation of fixed assets (Note)	<b>668,580</b>	405,301
Amortisation of intangible assets	<b>109,411</b>	131,897
Amortisation of land use rights	<b>3,724</b>	466
Travelling and entertainment expenses	<b>124,320</b>	108,404
Operating lease rentals in respect of office buildings	<b>116,378</b>	89,381
Auditors' remuneration	<b>8,000</b>	5,950
Other expenses	<b><u>482,670</u></b>	<u>301,889</u>
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<b><u>10,101,796</u></b>	<u>6,497,283</u>

### *Note:*

Research and development expenses for the year ended 31 December 2010 were RMB1,685,525,000 (2009: RMB1,191,637,000) which included employee benefit expenses of RMB1,407,948,000 (2009: RMB948,309,000) and depreciation of fixed assets of RMB194,090,000 (2009: RMB215,674,000).

## 10 Income tax expense

### (a) Cayman Islands and British Virgin Islands profits tax

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2010 (2009: Nil).

### (b) 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 year ended 31 December 2010 (2009: Nil).

### (c) PRC corporate income tax ("CIT")

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective 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 the Transitional Preferential Policies for the Corporate Income Tax". Pursuant to this circular, the transitional income tax rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rates for the respective years.

In 2008, six subsidiaries namely Shenzhen Tencent Computer Systems Company Limited, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), Shenzhen Domain Computer Network Company Limited, Tencent Cyber (Shenzhen) Company Limited, Tencent Technology (Beijing) Company Limited ("Tencent Beijing") and Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin"), applied for and were subsequently approved as High/New Technology Enterprises, and accordingly, they were subject to a reduced preferential CIT rate of 15% according to the CIT Law. With such status, the above mentioned transitional income tax rates for the period from 2008 to 2010 were no longer applicable to them.

In April 2010, the PRC tax authorities issued a tax circular Guoshui 2010 No.157 to clarify that an entity is only allowed to enjoy either the preferential CIT rate of 15% as a High/New Technology Enterprise or CIT exemption for two or three years and followed by a 50% reduction for the next 3 years based on the unified CIT rate in the PRC.

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from CIT 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 CIT was provided at a rate of 11% for 2010 (2009: 7.5%).

As approved by the relevant tax authority, Cyber Tianjin is exempt from CIT for two years commencing from the first year of profitable operation after offsetting tax loss brought forward from prior years, followed by a 50% reduction for the next three years. 2008 was its first profit-making year and accordingly provision for CIT was made at a rate of 12.5% for 2010 (2009: Nil).

In addition, Beijing Yonghang Technology Company Limited, a subsidiary of the Company, was recognised as a newly set-up software production enterprise in 2009, and according to the tax incentives granted by the tax authority, it was exempt from CIT in 2009, followed by a 50% reduction from 2010 to 2012. As a result, the provision for CIT was made at a rate of 12.5% for 2010 (2009: Nil).

Furthermore, Tencent Technology (Chengdu) Company Limited (“Tencent Chengdu”), a subsidiary of the Company, was recognised as a newly set-up software production enterprise by the relevant tax authority, Tencent Chengdu is exempt from CIT for two years commencing from the first year of profitable operation after offsetting tax loss brought forward from prior years, followed by a 50% reduction for the next three years. 2010 was its first profit-making year and accordingly it was exempt from CIT in 2010 (2009: Nil).

For Tencent Technology, it was further approved as a national key software enterprise for 2010, and accordingly, its CIT rate in 2010 was further reduced to 10%.

(d) **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 subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced to 5% from 10%. In 2010, one of the PRC subsidiaries of the Company remitted its dividends to a Hong Kong intermediate holding company at a withholding tax rate of 5%.

The income tax charge of the Group for the year ended 31 December 2010 and 2009 are analysed as follows:

	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
PRC current tax	<b>1,127,390</b>	494,357
Deferred income tax	<b><u>670,534</u></b>	<u>324,763</u>
	<b><u>1,797,924</u></b>	<u>819,120</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 22% for the year ended 31 December 2010 (2009: 20%), the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Profit before income tax	<b>9,913,133</b>	6,040,731
Less: Share of profit of associates and a jointly controlled entity	<u>(75,758)</u>	<u>(22,206)</u>
	<b><u>9,837,375</u></b>	<u>6,018,525</u>
Tax calculated at a tax rate of 22% (2009: 20%)	<b>2,164,223</b>	1,203,705
Effects of different tax rates available to different companies of the Group	<b>(575,213)</b>	(363,940)
Effect of tax holiday on assessable profits of subsidiaries	<b>(556,561)</b>	(429,638)
Effect of changes in tax rates	<b>54,895</b>	—
Income not subject to tax	<b>(29,217)</b>	—
Expenses not deductible for tax purposes	<b>110,391</b>	75,691
Adjustments in respect of prior year	<b>5,869</b>	(13,528)
Withholding tax on earnings expected to be remitted by PRC subsidiaries	<b>595,162</b>	300,000
Unrecognised deferred income tax assets	<u><b>28,375</b></u>	<u>46,830</u>
Income tax expense	<u><b>1,797,924</b></u>	<u>819,120</u>

## 11 Earnings per share

### (a) Basic

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

	<b>2010</b>	2009
Profit attributable to equity holders of the Company for the year (RMB'000)	<b><u>8,053,625</u></b>	<u>5,155,646</u>
Weighted average number of ordinary shares in issue (thousand shares)	<b><u>1,816,954</u></b>	<u>1,801,646</u>
Basic EPS (RMB per share)	<u><b>4.432</b></u>	<u>2.862</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).

	<b>2010</b>	2009
Profit attributable to equity holders of the Company for the year (RMB'000)	<u><b>8,053,625</b></u>	<u>5,155,646</u>
Weighted average number of ordinary shares in issue (thousand shares)	<b>1,816,954</b>	1,801,646
Adjustments for share options (thousand shares)	<b>35,252</b>	43,566
Adjustments for awarded shares (thousand shares)	<u><b>8,777</b></u>	<u>2,073</u>
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	<u><b>1,860,983</b></u>	<u>1,847,285</u>
Diluted EPS (RMB per share)	<u><u><b>4.328</b></u></u>	<u><u>2.791</u></u>

12 **Dividend**

The dividend paid in 2010 was RMB639,264,000 (2009: RMB554,604,000), which excluded the dividend related to the shares held by the share scheme trust of RMB3,717,000 (2009: RMB462,000).

A final dividend in respect of the year ended 31 December 2010 of HKD0.55 per share (2009: HKD0.40 per share) was proposed pursuant to a resolution passed by the Board on 16 March 2011 and subject to the approval of the shareholders in the AGM. These consolidated financial statements do not reflect this dividend payable.

13 **Subsequent event**

As at 31 December 2010, Riot Games, Inc. (“Riot Games”), a US-based independent developer and publisher of premium online games, was accounted for as an associate of the Company. In early 2011, the Company further acquired a majority stake in Riot Games, which then became a subsidiary of the Company.

## OPERATING INFORMATION

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

	<b>As at 31 December 2010</b>	As at 30 September 2010	Percentage change
	<i>(in millions)</i>		
Active IM user accounts	<b>647.6</b>	636.6	1.7%
Peak simultaneous online IM user accounts (for the quarter)	<b>127.5</b>	118.7	7.4%
Average daily IM user hours (for the last 16/15 days of the quarter)	<b>1,885.9</b>	1,816.2	3.8%
Active Qzone user accounts	<b>492.0</b>	481.2	2.2%
Peak simultaneous online QQ Game user accounts (for the quarter)	<b>6.8</b>	6.4	6.3%
Fee-based Internet value-added services registered subscriptions	<b>65.7</b>	67.3	-2.4%
Fee-based mobile and telecommunications value-added services registered subscriptions	<b>24.6</b>	25.3	-2.8%

In the fourth quarter of 2010, we experienced a significant security attack by a program, which we believe to be a malware, called “Kou Kou Bodyguard”, that caused material security risks to QQ users (the “Malware Attack”). Detailed background of the incident has been discussed in the results announcement for the third quarter. To prevent the malware from affecting QQ users on a large scale, we imposed certain usage restrictions on computers which ran the risk of being infected by the malware. The risks subsided after government authorities ordered the creator of the malware to withdraw the program. The incident affected usage of our services primarily during the month of November and part of December, impacting the operating statistics for the fourth quarter.

The active user base of our core IM platform expanded slightly during the quarter. User activity and engagement improved primarily along with growing usage of our IM service on mobile devices. Qzone’s active user base registered modest increase during the quarter, primarily as a result of organic growth. Peak simultaneous online user accounts of QQ Game grew on the back of increased user activeness due to new games and upgrade of existing games. For our Internet value-added services, registered subscriptions decreased mainly due to decline in subscribers of Qzone and

QQ Show. Subscriber base of QQ Membership was stable compared to the previous quarter. The decrease in registered subscriptions generally reflected the negative impact of the Malware Attack on our QQ services in the fourth quarter. In addition, Qzone's subscriber base was affected by reduced impact of social games as a result of the maturity of QQ Farm, as well as our focus on platform building rather than monetisation. Subscribers of QQ Show were also impacted by reduced promotional activities in the fourth quarter amid the Malware Attack. Registered subscriptions to our mobile and telecommunications value-added services also declined on a quarter-on-quarter basis. This was primarily driven by decline in the subscriber number of our bundled SMS packages as the impact of the regulation requiring service providers to conduct double confirmation plus reminder services came into full effect in the fourth quarter. This was also attributable to the clean-up of inactive user accounts for our bundled SMS packages towards the end of the year.

## **FINANCIAL PERFORMANCE HIGHLIGHTS**

### **Year Ended 31 December 2010**

Consolidated revenues for the year ended 31 December 2010 were RMB19,646.0 million, an increase of 57.9% from the year ended 31 December 2009.

Revenues from our Internet value-added services for the year ended 31 December 2010 were RMB15,482.3 million, an increase of 62.4% from the year ended 31 December 2009.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2010 were RMB2,715.9 million, an increase of 42.5% from the year ended 31 December 2009.

Revenues from our online advertising business for the year ended 31 December 2010 were RMB1,372.5 million, an increase of 42.6% from the year ended 31 December 2009.

Cost of revenues for the year ended 31 December 2010 were RMB6,320.2 million, an increase of 62.5% from the year ended 31 December 2009.

Selling and marketing expenses for the year ended 31 December 2010 were RMB945.4 million, an increase of 62.6% from the year ended 31 December 2009.

General and administrative expenses for the year ended 31 December 2010 were RMB2,836.2 million, an increase of 40.0% from the year ended 31 December 2009.



Operating profit for the year ended 31 December 2010 was RMB9,838.2 million, representing an increase of 63.4% over the year ended 31 December 2009. As a percentage of revenues, operating profit represented 50.1% for the year ended 31 December 2010, compared to 48.4% for the year ended 31 December 2009.

Profit for the year ended 31 December 2010 was RMB8,115.2 million, representing an increase of 55.4% from the year ended 31 December 2009. As a percentage of revenues, profit for the year represented 41.3% for the year ended 31 December 2010, compared to 42.0% for the year ended 31 December 2009.

Profit attributable to equity holders of the Company for the year ended 31 December 2010 was RMB8,053.6 million, representing an increase of 56.2% from the year ended 31 December 2009.

#### **Fourth Quarter of 2010**

Unaudited consolidated revenues for the fourth quarter of 2010 were RMB5,524.2 million, an increase of 49.8% over the same period in 2009 and an increase of 5.7% from the third quarter of 2010.

Revenues from our Internet value-added services for the fourth quarter of 2010 were RMB4,383.9 million, an increase of 54.0% over the same period in 2009 and an increase of 6.2% from the third quarter of 2010.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2010 were RMB728.5 million, an increase of 32.5% over the same period in 2009 and an increase of 4.8% from the third quarter of 2010.

Revenues from our online advertising business for the fourth quarter of 2010 were RMB388.1 million, an increase of 39.1% over the same period in 2009 and an increase of 1.5% from the third quarter of 2010.

Cost of revenues for the fourth quarter of 2010 was RMB1,832.4 million, an increase of 60.1% over the same period in 2009 and an increase of 9.3% from the third quarter of 2010.

Selling and marketing expenses for the fourth quarter of 2010 were RMB301.8 million, an increase of 45.0% over the same period in 2009 and an increase of 32.5% from the third quarter of 2010.

General and administrative expenses for the fourth quarter of 2010 were RMB840.4 million, an increase of 46.7% over the same period in 2009 and an increase of 12.9% from the third quarter of 2010.

Operating profit for the fourth quarter of 2010 was RMB2,652.5 million, representing an increase of 49.3% over the same period in 2009 and a decrease of 0.5% from the third quarter of 2010. As a percentage of revenues, operating profit represented 48.0% for the fourth quarter of 2010, compared to 48.2% for the same period of 2009 and 51.0% for the third quarter of 2010.

Profit for the fourth quarter of 2010 was RMB2,213.3 million, representing an increase of 44.4% over the same period in 2009 and an increase of 2.1% from the third quarter of 2010. As a percentage of revenues, profit for the period represented 40.1% for the fourth quarter of 2010, compared to 41.6% for the same period of 2009 and 41.5% for the third quarter of 2010.

Profit attributable to equity holders of the Company for the fourth quarter of 2010 was RMB2,200.8 million, an increase of 45.9% over the same period in 2009 and an increase of 2.2% from the third quarter of 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Fourth Quarter of 2010 Compared to Third Quarter of 2010

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 December</b>	<b>30 September</b>
	<b>2010</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenues	<b>5,524,163</b>	5,226,628
Cost of revenues	<b>(1,832,362)</b>	<b>(1,676,544)</b>
Gross profit	<b>3,691,801</b>	3,550,084
Interest income	<b>79,467</b>	65,259
Other gains, net	<b>23,437</b>	22,479
Selling and marketing expenses	<b>(301,796)</b>	(227,817)
General and administrative expenses	<b>(840,407)</b>	<b>(744,092)</b>
Operating profit	<b>2,652,502</b>	2,665,913
Finance income	<b>265</b>	3,431
Share of profit of associates	<b>37,127</b>	10,985
Share of profit of a jointly controlled entity	<b>3,399</b>	—
Profit before income tax	<b>2,693,293</b>	2,680,329
Income tax expense	<b>(480,011)</b>	<b>(512,013)</b>
Profit for the period	<b><u>2,213,282</u></b>	<b><u>2,168,316</u></b>
Attributable to:		
Equity holders of the Company	<b>2,200,818</b>	2,153,111
Non-controlling interests	<b><u>12,464</u></b>	<b><u>15,205</u></b>
	<b><u>2,213,282</u></b>	<b><u>2,168,316</u></b>

*Note:*

In the fourth quarter of 2010, an income from changes in fair value of available-for-sale financial asset of RMB1,821.1 million was recognised in other comprehensive income, which was not included in the profit for the period. This was related to our investment in Mail.ru, one of the largest Internet companies in the Russian-speaking and Eastern European markets. The IPO of Mail.ru was completed in November 2010.

*Revenues.* Revenues increased by 5.7% to RMB5,524.2 million for the fourth quarter of 2010 from RMB5,226.6 million for the third quarter of 2010. The following table sets forth our revenues by line of business for the fourth quarter of 2010 and the third quarter of 2010:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>31 December 2010</b>		<b>30 September 2010</b>	
	<b>Amount</b>	<b>% of total revenues</b>	<b>Amount</b>	<b>% of total revenues</b>
<i>(RMB in thousands, except percentages)</i>				
Internet value-added services	<b>4,383,940</b>	<b>79.4%</b>	4,129,008	79.0%
Mobile and telecommunications value-added services	<b>728,516</b>	<b>13.2%</b>	695,057	13.3%
Online advertising	<b>388,126</b>	<b>7.0%</b>	382,542	7.3%
Others	<b><u>23,581</u></b>	<b><u>0.4%</u></b>	<u>20,021</u>	<u>0.4%</u>
<b>Total revenues</b>	<b><u>5,524,163</u></b>	<b><u>100.0%</u></b>	<u>5,226,628</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 6.2% to RMB4,383.9 million for the fourth quarter of 2010 from RMB4,129.0 million for the third quarter of 2010. Despite weaker seasonality, online gaming revenues increased by 9.0% to RMB2,786.1 million from RMB2,557.2 million for the previous quarter. This was mainly driven by full quarter contribution of Qi Xiong Zheng Ba, a web-based MMOG launched in August 2010, and increased monetisation of Cross Fire. Dungeon and Fighter (“DNF”) and QQ Game also registered revenue growth during the quarter. Revenues from our community value-added services increased slightly by 1.7% to RMB1,597.8 million from RMB1,571.8 million for the previous quarter, mainly as a result of growth in Qzone and QQ Membership. Revenues from Qzone grew on the back of an increase in the number of third-party social applications available on our platform. Growth in revenues from QQ Membership benefited from promotional activities focusing on annual subscription.
- Revenues from our mobile and telecommunications value-added services increased by 4.8% to RMB728.5 million for the fourth quarter of 2010 from RMB695.1 million for the third quarter of 2010. This was mainly driven by growth in revenues from our bundled SMS packages and mobile social games.

- Revenues from our online advertising business increased slightly by 1.5% to RMB388.1 million for the fourth quarter of 2010 from RMB382.5 million for the third quarter of 2010. This mainly reflected an increase in revenues from search-based advertising. Albeit weaker seasonality in the fourth quarter, advertising revenues from IM client and portal were broadly stable compared to the previous quarter.

*Cost of revenues.* Cost of revenues increased by 9.3% to RMB1,832.4 million for the fourth quarter of 2010 from RMB1,676.5 million for the third quarter of 2010. This mainly reflected an increase in sharing costs, depreciation and staff costs. As a percentage of revenues, cost of revenues increased to 33.2% for the fourth quarter of 2010 from 32.1% for the third quarter of 2010. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2010 and the third quarter of 2010:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>31 December 2010</b>		<b>30 September 2010</b>	
	<b>% of</b>		<b>% of</b>	
	<b>segment</b>		<b>segment</b>	
	<b>Amount</b>	<b>revenues</b>	<b>Amount</b>	<b>revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>1,384,724</b>	<b>31.6%</b>	1,264,751	30.6%
Mobile and telecommunications value-added services	<b>279,456</b>	<b>38.4%</b>	267,962	38.6%
Online advertising	<b>138,087</b>	<b>35.6%</b>	114,844	30.0%
Others	<b><u>30,095</u></b>	<b>127.6%</b>	<u>28,987</u>	144.8%
Total cost of revenues	<b><u>1,832,362</u></b>		<b><u>1,676,544</u></b>	

- Cost of revenues for our Internet value-added services increased by 9.5% to RMB1,384.7 million for the fourth quarter of 2010 from RMB1,264.8 million for the third quarter of 2010. This primarily reflected an increase in sharing costs as a result of growth in revenues from our licensed games. Other costs also increased along with expansion of our business volume.
- Cost of revenues for our mobile and telecommunications value-added services increased by 4.3% to RMB279.5 million for the fourth quarter of 2010 from RMB268.0 million for the third quarter of 2010. This was mainly attributable to an increase in staff costs as we positioned the business for future growth.

- Cost of revenues for our online advertising business increased by 20.2% to RMB138.1 million for the fourth quarter of 2010 from RMB114.8 million for the third quarter of 2010. This mainly reflected higher sharing costs for the search business due to increased traffic generated from our search distribution partners, as well as an increase in sales commissions paid to advertising agencies.

*Other gains, net.* Other gains, net increased by 4.3% to RMB23.4 million for the fourth quarter of 2010 from RMB22.5 million for the third quarter of 2010. During the fourth quarter, no donation was made to the Tencent Charity Fund and government subsidies increased. On the other hand, loss on foreign exchange forward contracts, which we entered into for the purpose of managing our foreign currency exposure related to our USD-denominated bank borrowings, increased.

*Selling and marketing expenses.* Selling and marketing expenses increased by 32.5% to RMB301.8 million for the fourth quarter of 2010 from RMB227.8 million for the third quarter of 2010. This was primarily driven by an increase in advertising and promotional expenses for our online games and other products. As a percentage of revenues, selling and marketing expenses increased to 5.5% for the fourth quarter of 2010 from 4.4% for the third quarter of 2010.

*General and administrative expenses.* General and administrative expenses increased by 12.9% to RMB840.4 million for the fourth quarter of 2010 from RMB744.1 million for the third quarter of 2010. This primarily reflected higher staff costs and an increase in research and development expenses for pursuing long-term business growth. Other administrative expenses also increased as our business scale continued to expand. As a percentage of revenues, general and administrative expenses increased to 15.2% for the fourth quarter of 2010 from 14.2% for the third quarter of 2010.

*Income tax expense.* Income tax expense decreased by 6.3% to RMB480.0 million for the fourth quarter of 2010 from RMB512.0 million for the third quarter of 2010. This mainly reflected a reversal of income tax expense for a subsidiary which was qualified during the fourth quarter of 2010 to enjoy a lower income tax rate. The decrease was partly offset by an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

*Profit for the period.* Profit for the period increased by 2.1% to RMB2,213.3 million for the fourth quarter of 2010 from RMB2,168.3 million for the third quarter of 2010. Net margin was 40.1% for the fourth quarter of 2010 compared to 41.5% for the third quarter of 2010.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 2.2% to RMB2,200.8 million for the fourth quarter of 2010 from RMB2,153.1 million for the third quarter of 2010.

### **Year Ended 31 December 2010 Compared to Year Ended 31 December 2009**

The following table sets forth the comparative figures for the year ended 31 December 2010 and the year ended 31 December 2009:

	<b>Year ended 31 December</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenues	<b>19,646,031</b>	12,439,960
Cost of revenues	<b><u>(6,320,200)</u></b>	<u>(3,889,468)</u>
Gross profit	<b>13,325,831</b>	8,550,492
Interest income	<b>255,922</b>	136,014
Other gains/(losses), net	<b>38,056</b>	(58,213)
Selling and marketing expenses	<b>(945,370)</b>	(581,468)
General and administrative expenses	<b><u>(2,836,226)</u></b>	<u>(2,026,347)</u>
Operating profit	<b>9,838,213</b>	6,020,478
Finance costs	<b>(838)</b>	(1,953)
Share of profit of associates	<b>72,359</b>	22,206
Share of profit of a jointly controlled entity	<b><u>3,399</u></b>	<u>—</u>
Profit before income tax	<b>9,913,133</b>	6,040,731
Income tax expense	<b><u>(1,797,924)</u></b>	<u>(819,120)</u>
Profit for the year	<b><u>8,115,209</u></b>	<u>5,221,611</u>
Attributable to:		
Equity holders of the Company	<b>8,053,625</b>	5,155,646
Non-controlling interests	<b><u>61,584</u></b>	<u>65,965</u>
	<b><u>8,115,209</u></b>	<u>5,221,611</u>

*Note:*

In the fourth quarter of 2010, an income from changes in fair value of available-for-sale financial asset of RMB1,821.1 million was recognised in other comprehensive income, which was not included in the profit for the year. This was related to our investment in Mail.ru, one of the largest Internet companies in the Russian-speaking and Eastern European markets. The IPO of Mail.ru was completed in November 2010.

*Revenues.* Revenues increased by 57.9% to RMB19,646.0 million for the year ended 31 December 2010 from RMB12,440.0 million for the year ended 31 December 2009. The following table sets forth our revenues by line of business for the year ended 31 December 2010 and the year ended 31 December 2009:

	<b>Year ended 31 December</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>% of total revenues</b>	<b>Amount</b>	<b>% of total revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>15,482,301</b>	<b>78.8%</b>	9,530,711	76.6%
Mobile and telecommunications value-added services	<b>2,715,931</b>	<b>13.8%</b>	1,905,599	15.3%
Online advertising	<b>1,372,522</b>	<b>7.0%</b>	962,171	7.7%
Others	<b>75,277</b>	<b>0.4%</b>	41,479	0.4%
<b>Total revenues</b>	<b><u>19,646,031</u></b>	<b><u>100.0%</u></b>	<b><u>12,439,960</u></b>	<b><u>100.0%</u></b>

- Revenues from our Internet value-added services increased by 62.4% to RMB15,482.3 million for the year ended 31 December 2010 from RMB9,530.7 million for the year ended 31 December 2009. Online gaming revenues grew by 76.6% to RMB9,509.7 million from RMB5,385.4 million for the previous year. This was mainly driven by growth in revenues from our major MMOGs and advanced casual games, including DNF, Cross Fire, QQ Dancer and QQ Speed. The increase was also driven by revenue contribution from new online games launched during 2010 and growth of QQ Game. Revenues from our community value-added services increased by 44.1% to RMB5,972.6 million from RMB4,145.3 million for the previous year, mainly attributable to growth in Qzone, QQ Membership and QQ Show. Qzone registered increase in revenues as we offered more SNS applications, which enhanced user activity and engagement as well as stimulated growth of monthly subscription. Our focus on annual subscription also contributed to the increase. Revenues from QQ Membership grew as its user base expanded, riding on improved online and offline privileges as well as an increase in annual subscription. The increase in revenues from QQ Show was mainly driven by growth in monthly subscription as we focused on enhancing the features and user value of the product.
- Revenues from our mobile and telecommunications value-added services increased by 42.5% to RMB2,715.9 million for the year ended 31 December 2010 from RMB1,905.6 million for the year ended 31 December 2009. This was



mainly attributable to growth in revenues from our bundled SMS packages as we improved the functionalities and privileges of our products and services. It also reflected growth in revenues from mobile social games and mobile music services. The increase was partly offset by decline in revenues from WAP services due to the suspension of WAP billing by China Mobile since 30 November 2009, as well as lower revenues from legacy mobile voice value-added services.

- Revenues from our online advertising business increased by 42.6% to RMB1,372.5 million for the year ended 31 December 2010 from RMB962.2 million for the year ended 31 December 2009. The increase mainly reflected growth in our user base, improvements in our advertising platforms, as well as enhancements in our brand position and media influence. This also reflected our focus on leveraging the World Cup and the World Expo to generate business opportunities during the year. Revenues from search-based advertising declined as we transitioned into our self-developed search engine at the end of the third quarter of 2009.

*Cost of revenues.* Cost of revenues increased by 62.5% to RMB6,320.2 million for the year ended 31 December 2010 from RMB3,889.5 million for the year ended 31 December 2009. This primarily reflected an increase in sharing costs, staff costs and telecommunications operators' revenue share. As a percentage of revenues, cost of revenues increased to 32.2% for the year ended 31 December 2010 from 31.3% for the year ended 31 December 2009. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2010 and the year ended 31 December 2009:

	Year ended 31 December			
	2010		2009	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>4,762,435</b>	<b>30.8%</b>	2,789,225	29.3%
Mobile and telecommunications value-added services	<b>1,010,858</b>	<b>37.2%</b>	727,747	38.2%
Online advertising	<b>441,302</b>	<b>32.2%</b>	297,608	30.9%
Others	<b>105,605</b>	<b>140.3%</b>	74,888	180.5%
Total cost of revenues	<b><u>6,320,200</u></b>		<b><u>3,889,468</u></b>	

- Cost of revenues for our Internet value-added services increased by 70.7% to RMB4,762.4 million for the year ended 31 December 2010 from RMB2,789.2 million for the year ended 31 December 2009. This was mainly driven by growth in sharing costs as a result of significant increase in revenues from our licensed games, including Cross Fire and DNF. Other costs also increased due to our business growth.
- Cost of revenues for our mobile and telecommunications value-added services increased by 38.9% to RMB1,010.9 million for the year ended 31 December 2010 from RMB727.7 million for the year ended 31 December 2009. This primarily reflected an increase in telecommunications operators' revenue share as a result of revenue growth. Staff costs also increased as we positioned the business for future growth.
- Cost of revenues for our online advertising business increased by 48.3% to RMB441.3 million for the year ended 31 December 2010 from RMB297.6 million for the year ended 31 December 2009. This mainly reflected an increase in sales commissions paid to advertising agencies and staff costs due to our business expansion.

*Other gains/(losses), net.* We recorded other gains, net of RMB38.1 million for the year ended 31 December 2010, compared to other losses, net of RMB58.2 million for the year ended 31 December 2009. The change mainly reflected an increase in government subsidies and a decrease in donations made to the Tencent Charity Fund from RMB85.0 million for the year ended 31 December 2009 to RMB70.0 million for the year ended 31 December 2010. These factors were partly offset by recognition of fair value gains on financial assets held for trading in the previous year.

*Selling and marketing expenses.* Selling and marketing expenses increased by 62.6% to RMB945.4 million for the year ended 31 December 2010 from RMB581.5 million for year ended 31 December 2009. This primarily reflected an increase in advertising spending on our corporate brand, mainly as a result of our campaigns related to the World Cup and the World Expo. It also reflected higher promotional expenses associated with our online games and an increase in staff costs. As a percentage of revenues, selling and marketing expenses increased slightly to 4.8% for the year ended 31 December 2010 from 4.7% for the year ended 31 December 2009.

*General and administrative expenses.* General and administrative expenses increased by 40.0% to RMB2,836.2 million for the year ended 31 December 2010 from RMB2,026.3 million for the year ended 31 December 2009. This mainly reflected an increase in research and development expenses as we expanded our research and development effort to support our growth strategy. Staff costs for supporting functions and other administrative expenses also increased as our business scale grew. As a percentage of revenues, general and administrative expenses decreased to 14.4% for the year ended 31 December 2010 from 16.3% for the year ended 31 December 2009.

*Income tax expense.* We recorded income tax expense of RMB1,797.9 million for the year ended 31 December 2010 compared to RMB819.1 million for the year ended 31 December 2009. The increase was primarily due to growth in profit before tax as well as an increase in deferred tax liabilities recognised relating to intra-group dividend expected to be paid by our PRC subsidiaries to their overseas parent companies. It also reflected higher tax rates for certain subsidiaries of the Company.

*Profit for the year.* Profit for the year increased by 55.4% to RMB8,115.2 million for the year ended 31 December 2010 from RMB5,221.6 million for the year ended 31 December 2009. Net margin was 41.3% for the year ended 31 December 2010 compared to 42.0% for the year ended 31 December 2009.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 56.2% to RMB8,053.6 million for the year ended 31 December 2010 from RMB5,155.6 million for the year ended 31 December 2009.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010 and 30 September 2010, we had the following major financial resources in the form of cash and investments:

	<b>Audited</b> <b>31 December</b> <b>2010</b> <b>RMB'000</b>	Unaudited 30 September 2010 <i>RMB'000</i>
Cash and cash equivalents	<b>10,408,257</b>	7,712,112
Term deposits with initial term of over three months	<b><u>11,725,743</u></b>	<u>9,714,422</u>
Total financial resources	<b>22,134,000</b>	17,426,534
Unsecured short-term bank borrowings	<b><u>(4,308,060)</u></b>	<u>(2,847,353)</u>
Net financial resources	<b><u>17,825,940</u></b>	<u>14,579,181</u>

*Note:*

The above table excludes short-term bank borrowing arrangements with an aggregate principle amount of USD148.6 million as at 31 December 2010 (30 September 2010: USD148.6 million) and restricted cash deposits of RMB1,014.5 million as at 31 December 2010 (30 September 2010: RMB1,014.5 million) pledged as part of these arrangements, as such deposits are scheduled to offset the borrowed amount at the maturity of the loans.

As at 31 December 2010, RMB2,809.5 million of our financial assets (30 September 2010: RMB1,228.0 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

## **BUSINESS REVIEW AND OUTLOOK**

2010 witnessed another year of steady development in the Internet market in China. According to the China Internet Network Information Center (“the CNNIC”), the total number of Internet users increased by 19.1% on a year-on-year basis to 457.3 million at the end of 2010, compared to a growth rate of 28.9% in the previous year. Internet penetration increased to 34.3%, exceeding global average for the first time. Although the growth of China’s Internet user base has been slowing down as its scale continues to increase, the Internet has increasingly become an integral part of people’s everyday life as users spend more time online. We expect future growth of the industry to be increasingly driven by rising level of Internet usage by users and businesses, as opposed to user growth. In addition, advertising and e-commerce will become more important business models for the industry, in addition to revenue generated from users.

The industry witnessed several significant developments during 2010. First of all, the year saw continued rapid growth of the wireless Internet market. According to the CNNIC, the total number of wireless Internet users in China increased by 29.7% to 302.7 million at the end of 2010, representing 66.2% of the Internet user base. This was mainly driven by better wireless data infrastructure and availability of mobile applications such as WAP portal, IM and social games. Secondly, while traditional SNS continued to develop following a year of strong growth in 2009, microblog enjoyed explosive growth and emerged as a major social media platform in China. Thirdly, although the growth of the online gaming sector slowed down with the increasing scale of the industry, the web game sector experienced rapid growth in 2010. Meanwhile, the online advertising market benefited from the buoyant economy in China as well as positive impact of major events including the World Cup and the World Expo. In addition, the strong growth momentum of e-commerce and search advertising continued.

In 2010, our businesses delivered a strong set of financial and operating results, riding on the growth of our platforms and our relentless focus on user experience. Our Internet value-added services (“IVAS”) grew rapidly during the year, thanks to the robust revenue increase of our online gaming business. Community value-added services also registered solid growth. Our mobile and telecommunications value-added services (“MVAS”) benefited from increased popularity of our bundled SMS packages, mobile social games and mobile music services. Our online advertising business achieved significant growth in revenues and client base, reflecting our expanding platforms, improved brand position and media influence, as well as successful leverage of major events.

For the fourth quarter of 2010, our IVAS business expanded compared to the previous quarter. This primarily reflected the revenue increase of our online gaming business, mainly driven by a full quarter contribution from Qi Xiong Zheng Ba, a web-based MMOG launched in August 2010, and increased monetisation of Cross Fire. Our MVAS business registered revenue growth mainly driven by our bundled SMS packages and mobile social games. Our advertising business also grew during the quarter, reflecting the revenue increase of our search business. Despite weaker seasonality in the fourth quarter, advertising revenues from IM client and portal were broadly stable.

Looking into the first quarter of 2011, we expect more favourable seasonality for our IVAS business, particularly for online games, as users generally spend more during the winter school break and the Chinese New Year holiday. Monthly subscription of IVAS will also benefit from positive seasonality, albeit to a lesser extent. For MVAS, monthly subscription will see a more benign environment as the negative impact of the regulation requiring service providers to conduct double confirmation plus reminder services stabilises. For our online advertising business, the first quarter is traditionally a weaker season as advertisers reduce their activities around the Chinese New Year holidays.

### **New Strategic Investments for the Future**

We are operating in a dynamic and ever-evolving industry where new services and business models emerge, and the competitive landscape changes rapidly. While our user base and leading Internet platforms provide us with a solid foundation for capturing emerging opportunities, we do face significant challenges on a continuous basis. The most notable one is intensifying market competition. Major companies in the industry are all diversifying their businesses and increasing their investments in various sectors. In addition, an increasing number of up-and-coming companies have significantly strengthened their financial resources and competitiveness through initial public offerings and capital raising. Another key challenge is the increasing security threat to our users. This was evidenced by a significant security attack that we encountered in the fourth quarter of 2010, which not only caused substantial disruption to our users and businesses, but also inflicted damage on our corporate image.

In view of the opportunities and challenges, we have initiated a new investment phase, during which we will be making significant investments in our existing platforms including IM, SNS, wireless and gaming, as well as a range of new strategic initiatives, to position ourselves for future growth. One of the new strategic initiatives is our microblog service, which has been growing rapidly since its re-launch in April 2010. With registered user accounts already exceeding 110 million,

it has become an important social media platform in the context of our overall strategy, offering synergistic value to other Internet platforms of Tencent, such as IM, Qzone and QQ.com. In 2011, we will continue to focus on growing the user base of our microblog and optimising its user experience. Another strategic area that we are working on is e-commerce. In 2010, Tenpay and Paipai registered robust increase in transaction volumes, riding on the growth of the overall market. To increase our market share, we are extending into lifestyle service categories, such as group buying and travel, and exploring other e-commerce opportunities through investments. For search advertising, we are enhancing our overall competitiveness by investing in our search engine and advertising platform. In addition, we have launched our self-developed mobile search service and are exploring the synergies between SNS and search. We are also stepping up our explorative effort in international expansion. We have been making strategic investments in emerging markets such as Russia, India and South East Asia, and leveraging our technical and operational know-how to deliver quality Internet products and services to users in these markets. Recently, we have acquired a majority stake in Riot Games, Inc., a US-based independent developer and publisher of premium online games. This transaction allows us to gain exposure to the global online gaming market, as well as leverage the expertise and resources of a top-class game developer. As for online security, we have been increasing our focus on enhancing the security of QQ software and enhancing our safety products through research and development and co-operation with security software developers in the industry in order to better protect our users. In addition, we are increasing our investments in the marketing of our brand, platforms and products. Subsequent to the security attack in the fourth quarter of 2010, we have embarked on a major advertising program for revamping our corporate image. Another major advertising program focusing on microblog has also been launched.

These strategic initiatives involve significant investments in a range of areas, including research and development, marketing, content acquisition and technological infrastructure, in the coming years. In particular, we expect staff costs to increase significantly as we recruit more talents and strive to provide our staff with the most competitive overall package in the market. In addition, marketing costs will also increase as we aim to promote our new products and services. As we will incur significant costs on these initiatives and many of them will not generate revenue immediately, our profitability will be affected during the investment period. However, we believe we must take a long-term view in building our business, and these initiatives will benefit the Company and our shareholders in the long run.

## **Open Platform Strategy**

As the Internet becomes more entrenched into our everyday life, users' demands are becoming more diverse and complex. To become a stronger player in the market, we need to significantly enrich the applications and content offered to users in order to cater for their ever-changing needs in communications, information, entertainment and e-commerce. This is only made possible by promoting innovation and collaboration among all participants along the industry value chain. As such, we are striving to create a “win-win-win” ecosystem for users, application developers and ourselves by pursuing an open platform strategy. Such ecosystem should provide an open and sharing platform supporting innovation from all our partners.

Our key platforms have already been playing an essential role for building up a collaborative industry cluster. For instance, Qzone and our microblog enable social sharing on third-party websites, and support third-party applications with open application programming interface (“API”). Our IM service provides an open platform which enables third-party developers to benefit from our massive user base with web-based and client-based applications. We have also extended the reach of Tenpay into helping small-to-medium enterprises to promote and collect payment for their localised lifestyle services, and opened up API for different industries. As for Discuz!, our bulletin board system solution platform, we facilitate small-to-medium websites to build communities, increase traffic and explore monetisation opportunities.

As one of the key initiatives under our open platform strategy, we announced the establishment of the Tencent Collaboration Fund (the “Fund”) in January 2011. Aiming to invest up to RMB5 billion in innovative and top-notch Internet and related companies in China over a period of time, it will be operated as an internal fund and will be invested when appropriate opportunities arise. We believe the Fund will stimulate the development of more innovative companies and more quality services for Internet users, and nurture a healthy ecosystem which benefits the users, innovative companies, our open platforms and the Internet industry as a whole.

## **IM Platform**

In 2010, our core IM platform benefited from the rapid growth of wireless Internet users and expanded further. However, the growth rate decreased compared to the previous year as the increase in Internet users in China slowed down. Active user accounts amounted to 647.6 million at the end of the year, representing a year-on-year increase of 23.8%. Peak concurrent user accounts (“PCU”) grew by 37.1% to 127.5 million. During the year, we continued to enhance the features and user experience of our IM service. We also expanded into broader user groups and



deepened the integration of our IM services with other platforms. While we will continue to focus on these initiatives in 2011, we will enhance the anti-hijack and anti-attack capabilities of our IM service in order to protect our users in a challenging security environment.

## **QQ.com**

With significant growth in traffic, QQ.com continued to consolidate its position as the most visited portal in China. We have been successful in leveraging major events including the World Cup, the World Expo, and the Asian Games to enhance our brand image, media influence as well as user loyalty. Going forward, we will build on the positive impact we made in these major events to further enhance the position of QQ.com as a mainstream media platform in China. We will also continue to enhance the breadth and depth of our content, optimise our operations, as well as achieve stronger integration between QQ.com and our microblog platform.

## **IVAS**

Our community value-added services enjoyed solid growth during 2010. For SNS, Qzone maintained its position as the leading social networking platform in China, with its active user base increasing by 26.9% on a year-on-year basis to 492.0 million at the end of 2010. However, compared to the previous year, the grow rate reduced as the scale of the user base increased and the positive impact of social applications lessened over time. During the year, we enriched Qzone with a range of self-developed and third-party applications, as well as enhanced its infrastructure to increase social sharing and interaction. To cater for the differentiated social networking needs of university students and white-collar communities, we upgraded our real-name SNS Xiaoyou to Pengyou in the third quarter of 2010 and promoted the service to a broader user group. At the end of the fourth quarter of 2010, the active user accounts of Pengyou grew rapidly to 84.6 million, representing an increase of 56.1% compared to the previous quarter. With our open platform strategy, we are significantly expanding the portfolio of social applications available on Qzone and Pengyou through closer co-operation with third-party developers. For QQ Membership, user base expanded along with the growth of the active user accounts of our IM service. Throughout the year, we focused on enhancing user value by enriching online and offline lifestyle privileges. User stickiness and loyalty improved as a result. In 2011, we will continue to execute this strategy.

Our online gaming business achieved above-industry growth in 2010, increasing our market share and strengthening our leading position in the market. Our major MMOGs and advanced casual games were the key growth driver. In particular, Cross Fire achieved solid growth in paying users and revenues. During the year, we launched new online games in different genres to further diversify our game portfolio

and broaden our user base. Launched in August 2010, Qi Xiong Zheng Ba has become a leading title in the fast growing web game sector. Meanwhile, significant progress was made in the children segment as we introduced Roco Kingdom in July 2010 and achieved over 350,000 in PCU. QQ Game, the largest mini-casual game portal in China, registered healthy growth during 2010 and provided a solid growth platform for other online games of Tencent. Its PCU increased to 6.8 million in the fourth quarter of 2010, primarily reflecting our continued efforts in enriching our game portfolio, as well as the positive impact of tournaments and cross-platform integration.

With slowing industry growth, intensifying competition and increasing sophistication of gamers, the success rate and extent of success for new game titles is expected to decrease. To tackle these challenges, we have put a strong emphasis on leveraging our platforms and operational experience to introduce high quality games to a broader range of market segments via self-development, licensing and investments. For new online games for 2011, we have already launched World of West, a hardcore 3D fantasy MMOG, in the first quarter. We plan to introduce three MMOGs and one advanced casual game for the rest of 2011. As for the industry environment, we believe there will be more regulations going forward as the online gaming market has become a significant component of China's cultural and entertainment industry. While our business may be affected as a result, the additional regulations should foster a healthier industry environment over the longer term.

## **MVAS**

In 2010, our MVAS business benefited from the growth in our bundled SMS packages, mobile social games and mobile music services. The revenue growth was dampened by new regulations such as requiring service providers to conduct double confirmation plus reminder services for monthly subscription and item sales, as well as the suspension of billing for WAP services by China Mobile since 30 November 2009. On the other hand, we continued to make progress in wireless Internet applications. During the year, traffic on our WAP portal registered significant growth, further consolidating its position as the leading wireless portal in China. To prepare ourselves for the opportunities in the wireless Internet market, we will continue to extend our PC-based services, including SNS and microblog, to wireless platforms and customising our applications for a larger variety of terminal devices. In addition, we are strengthening our partnerships with various players in the evolving industry value chain, such as handset vendors, mobile operators and content providers. Looking ahead, we expect the visibility of the industry to remain low as the regulatory environment is still uncertain.

## **Online advertising**

In 2010, our online advertising business benefited from the buoyant macroeconomic environment. We were successful in leveraging major events, including the World Cup and the World Expo, to generate advertising opportunities and enhance our brand image through major advertising campaigns. As a result, our revenues and client base registered solid growth, demonstrating increased market recognition of the strengths of our Internet platforms and our media influence. On top of the sectors such as food and beverage, online gaming and apparel where we have already established significant presence, we increased our market share in other major sectors such as automobile and finance. Our search advertising business is still in a nascent phase of development as we focus on building our traffic and search advertising platform. In addition to our continued investments in our search engine and advertising platform, we have increased our search distribution partnership to enhance traffic.

## **OTHER INFORMATION**

### **Employee and Remuneration Policies**

As at 31 December 2010, the Group had 10,692 employees (2009: 7,515), most of whom were based in Shenzhen, the PRC. 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 programmes, discretionary bonuses, share awards and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the year ended 31 December 2010 was RMB3,146.1 million (2009: RMB2,136.8 million).

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

During the year ended 31 December 2010, the Company repurchased 2,624,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD354.8 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

<i>Month of purchase in 2010</i>	<i>No. of shares purchased</i>	<i>Purchase consideration per share</i>		<i>Aggregate consideration paid</i>
		<i>Highest price paid</i>	<i>Lowest price paid</i>	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
July	<u>2,624,000</u>	138.50	129.90	<u>354,764,000</u>
Total	<u>2,624,000</u>			<u>354,764,000</u>

Save as disclosed above and in the "Financial Information" section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2010.

## Closure of Register of Members

The register of members will be closed from Thursday, 5 May 2011 to Wednesday, 11 May 2011 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 4 May 2011.

## Audit Committee

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2010. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters.

### **Auditors' Procedures Performed on this Results Announcement**

The figures in respect of the announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Auditors to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditors in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditors on this announcement.

### **Compliance with the Code on Corporate Governance Practices**

Save as disclosed in the 2009 annual report and the 2010 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, for any part of the year ended 31 December 2010, complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

### **Publication of the Annual Results, Annual Report and Corporate Governance Report**

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tencent.com](http://www.tencent.com)) in due course.

### **APPRECIATION**

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

By Order of the Board

**Ma Huateng**  
*Chairman*

Hong Kong, 16 March 2011

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

*Executive Directors:*

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

*Non-Executive Directors:*

Antonie Andries Roux and Charles St Leger Searle; and

*Independent Non-Executive Directors:*

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

*This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. 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.*