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

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2012. These interim results have been reviewed by the Auditor in accordance with the International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited				
	Three months ended				
	31 March	31 December	Quarter-	31 March	Year-
	2012	2011	on-quarter	2011	on-year
			change		change
	<i>(RMB in millions, unless specified)</i>				
Revenues	9,647.9	7,922.5	21.8%	6,338.4	52.2%
Operating profit	3,691.4	3,091.6	19.4%	3,386.5	9.0%
Profit for the period	2,962.3	2,551.2	16.1%	2,884.2	2.7%
Profit attributable to equity holders of the Company	2,949.5	2,537.0	16.3%	2,870.4	2.8%
Non-GAAP profit attributable to equity holders of the Company	3,281.1	2,899.6	13.2%	2,584.7	26.9%
EPS (RMB per share)					
- basic	1.618	1.396	15.9%	1.575	2.7%
- diluted	1.587	1.370	15.8%	1.540	3.1%

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

In the first quarter of 2012, our core businesses registered healthy growth. For IVAS, our online game business benefited from robust user growth and increased monetisation across our major domestic game titles during the Chinese New Year holidays and the winter break for students, as well as user growth of LOL in international markets. Community and open platform revenues registered solid sequential growth due to a significant increase in item-based sales within applications on our open platforms. Our MVAS business grew steadily against a backdrop of volatile collection rates. For online advertising, our business experienced a sequential revenue decline due to weaker seasonality. However, the business achieved a strong year-on-year revenue growth, driven by category share gains in display brand advertising and enthusiastic advertiser responses to some of our newer products such as search advertising, online video advertising and performance advertising on our social networks.

We believe that the e-Commerce market in China offers significant growth opportunities and have invested prudently against those opportunities, generating substantial GMV on our platforms. In order to improve our consumer experience, we have stepped up the scale of our B2C e-Commerce transactions business in certain product categories, such as consumer electronics. Because we are a principal and take ownership of inventory in these transactions, we report the related GMV as revenue and the related cost of merchandise sold under cost of revenues, resulting in a modest gross profit margin on such transactions and diluting margins of the Group. In view of the increased scale and the growing importance of our e-Commerce transactions business, and in order to help investors better understand our revenue growth and margin trends, we are disclosing this business as a new line of segment information in our financial reports from this quarter onwards.

Divisional and Product Highlights

IM Platform

Active user accounts of QQ IM, the largest online community in China, was 752 million at the end of the first quarter of 2012, representing year-on-year growth of 12%. PCU for the quarter increased by 22% year-on-year to 167 million. The first quarter saw improvement in per user engagement, as evidenced by the growth rate of PCU and daily user hours exceeding that of active user accounts. This was mainly driven by our focus on encouraging users to spend more time on our services, as well as growth in mobile usage.

Media Platforms

QQ.com expanded further in users and traffic, solidifying its position as the leading portal in China. Tencent Microblog, the leading social media platform in China, achieved significant growth and had 425 million registered user accounts and 67 million daily active user accounts at the end of the first quarter of 2012. We will continue to leverage cross-platform synergies to strengthen the media influence of QQ.com and Tencent Microblog, and enhance our differentiation.

IVAS

Our online communities sustained stable user growth during the first quarter of 2012. Qzone continued to lead the SNS space in China with 577 million active user accounts at the end of the quarter, representing a year-on-year growth of 10%. Pengyou, the leading real-name SNS platform in China, increased active user accounts by 30% year-on-year to 215 million at the end of the quarter.

We operate multiple open platforms touching a large user base across different sectors of the Internet market, including SNS, games, and microblog, making us a uniquely attractive partner for third-party application developers. As a result, item-based sales within applications on our open platforms experienced rapid growth over the last few quarters, and this revenue stream has become one of the significant contributors to our IVAS business.

Our online game business continued to register significant growth. During the first quarter of 2012, our major domestic game titles benefited from the Chinese New Year holidays and the winter break for students, and we saw user growth and improved monetisation. Internationally, LOL experienced robust growth in users across regions such as the United States, Europe, and Korea. Our QQ Game Open Platform achieved a record-high PCU of 8.8 million during the quarter, thanks to the increase in user activity driven by our open platform strategy, increased popularity of self-developed games as well as growth in mobile usage.

MVAS

In the first quarter of 2012, our MVAS business achieved solid revenue growth despite collection rate volatility. We have also continued to position ourselves for mobile Internet opportunities. As for the domestic regulatory environment, we have been chosen as one of the selected service providers for China Mobile's new co-operation model for MVAS. However, the impact of this new model remains uncertain.

Online Advertising

In the first quarter of 2012, we made progress in enhancing the monetisation of our traffic and developing new revenue streams, allowing us to significantly outperform the industry in terms of year-on-year revenue growth.

In brand display advertising, we achieved healthy market share gains among advertisers in industries such as food and beverages and B2C e-Commerce, reflecting our audience leadership and improving media influence stemming from years of content investment and growth of our microblog platform. Our online video platform achieved sequential revenue growth during the quarter despite negative seasonality due to audience share gains as we aired more TV drama serials on the platform.

In performance-based display advertising, advertisers such as e-Commerce companies and application developers responded favourably to our new targeted advertising system on our social networks. We believe that our industry-leading social traffic and inventory, our ability to display targeted advertising across a range of Internet services and our performance-oriented CPC pricing mechanisms position us as an appealing destination for such targeted advertising in China.

e-Commerce Transactions

In recent years, we have invested prudently in the e-Commerce industry as an appealing downstream opportunity to leverage our existing platforms. We believe our differentiating attributes within the e-Commerce market include: our massive logged-in user base; our existing billing and payment relationships with consumers; our insight into our users' interests; and our network's ability to enhance "word-of-mouth" effect by users.

We have now established a solid foundation in China's e-Commerce industry with significant presence in different e-Commerce formats, such as B2C, SME2C, lifestyle services and group buying. We will continue to invest prudently but consistently in our e-Commerce business, and leverage our unique advantages, with the aim of building a substantial business over the long-run.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Information

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

	As at 31 March 2012	As at 31 December 2011	Quarter- on-quarter change	As at 31 March 2011	Year- on-year change
Active IM user accounts	751.9	721.0	4.3%	674.3	11.5%
Peak simultaneous online IM user accounts (for the quarter)	167.4	152.7	9.6%	137.2	22.0%
Average daily IM user hours (for the last 16 days of the quarter)	2,629.4	2,363.9	11.2%	2,035.7	29.2%
Active Qzone user accounts	576.7	552.1	4.5%	525.6	9.7%
Peak simultaneous online QQ Game Open Platform user accounts (for the quarter)	8.8	8.4	4.8%	7.7	14.3%
Fee-based IVAS registered subscriptions	81.8	77.2	6.0%	72.3	13.1%
Fee-based MVAS registered subscriptions	34.5	31.4	9.9%	27.2	26.8%

- *QQ*. Our core IM platform achieved low double-digit year-on-year active user account growth in the first quarter of 2012, in line with the growth of the overall Internet market in China. Peak simultaneous online user accounts and average daily user hours increased at a faster pace, as our initiatives to encourage users to spend more time on our services, together with mobile activity, improved engagement per user.
- *Qzone*. The year-on-year growth of active user accounts was broadly in line with the increase in our active IM user accounts. Third-party applications on Qzone gained popularity during the quarter.
- *QQ Game Open Platform*. Peak simultaneous online user accounts of our QQ Game Open Platform registered healthy year-on-year growth. This was mainly driven by improved user activity as a result of our open platform strategy which allows us to offer a wider choice of games, increased popularity of self-developed games as well as growth in mobile usage.
- *IVAS subscriptions*. Registered subscriptions to our IVAS increased year-on-year due to growth in subscriptions for services such as QQ Game, QQ Membership and QQ Music.
- *MVAS subscriptions*. MVAS registered subscriptions increased significantly compared to the same period last year, riding on the growth in our bundled SMS packages, mobile book service and mobile game service.

First Quarter of 2012 Compared to Fourth Quarter of 2011

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

	Unaudited	
	Three months ended	
	31 March	31 December
	2012	2011
	RMB'000	RMB'000
Revenues	9,647,858	7,922,451
Cost of revenues	<u>(3,836,317)</u>	<u>(2,741,535)</u>
Gross profit	5,811,541	5,180,916
Interest income	166,733	137,623
Other (losses)/gains, net	(63,642)	69,725
Selling and marketing expenses	(469,200)	(743,657)
General and administrative expenses	<u>(1,754,074)</u>	<u>(1,553,038)</u>
Operating profit	3,691,358	3,091,569
Finance costs, net	(69,982)	(5,494)
Share of losses of associates	(9,753)	(63,721)
Share of profit/(losses) of jointly controlled entities	<u>1,380</u>	<u>(40,819)</u>
Profit before income tax	3,613,003	2,981,535
Income tax expense	<u>(650,673)</u>	<u>(430,332)</u>
Profit for the period	<u>2,962,330</u>	<u>2,551,203</u>
Attributable to:		
Equity holders of the Company	2,949,510	2,537,026
Non-controlling interests	<u>12,820</u>	<u>14,177</u>
	<u>2,962,330</u>	<u>2,551,203</u>
Non-GAAP profit attributable to equity holders of the Company	<u>3,281,064</u>	<u>2,899,588</u>

Revenues. Revenues increased by 22% to RMB9,648 million for the first quarter of 2012 from RMB7,922 million for the fourth quarter of 2011. The following table sets forth our revenues by line of business for the first quarter of 2012 and the fourth quarter of 2011:

	Unaudited			
	Three months ended			
	31 March 2012		31 December 2011	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	7,381,621	76.5%	6,401,763	80.8%
MVAS	913,842	9.5%	854,310	10.8%
Online advertising	540,113	5.6%	598,438	7.5%
e-Commerce transactions	752,817	7.8%	—	—
Others	59,465	0.6%	67,940	0.9%
Total revenues	<u>9,647,858</u>	<u>100.0%</u>	<u>7,922,451</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 15% to RMB7,382 million for the first quarter of 2012 from RMB6,402 million for the fourth quarter of 2011. Online game revenues increased by 19% to RMB5,321 million, reflecting user growth and improved monetisation across our major domestic game titles, including Cross Fire, QQ Dancer, DNF, LOL and QQ Speed, which benefited from the Chinese New Year holidays and the winter break for students. Internationally, we experienced robust user growth for LOL in regions such as the United States, Europe, and Korea. Revenues from our community and open platforms increased by 6% to RMB2,061 million, supported by consumer spending on applications on our open platforms, including those on Qzone and Pengyou. Effective from the first quarter of 2012, we have renamed community VAS revenues to community and open platform revenues to reflect the growing revenue contribution from our open platforms.
- Revenues from our MVAS increased by 7% to RMB914 million for the first quarter of 2012 from RMB854 million for the fourth quarter of 2011. This was primarily driven by our bundled SMS packages, mobile games and mobile books.
- Revenues from our online advertising business decreased by 10% to RMB540 million for the first quarter of 2012 from RMB598 million for the fourth quarter of 2011. This decline mainly reflected weaker seasonality due to reduced activities of advertisers around the Chinese New Year holidays. However, we achieved sequential revenue growth from performance advertising on our social networks, and our online video service.

- Revenues from our e-Commerce transactions business, which primarily consists of revenues generated from sale of merchandise on our e-Commerce platforms, amounted to RMB753 million for the first quarter of 2012. We have stepped up the scale of our B2C e-Commerce transactions business and now treat this business as a separate segment of our operations. As a result, a new line of segment information is presented from this quarter onwards. No comparative figures for the preceding quarters are presented since the amounts involved were insignificant. For those e-Commerce transactions in which we act as principal, we report GMV as revenue. For those e-Commerce transactions in which we act as agent (which represent the greater part of our e-Commerce transactions), we report our fees, rather than GMV, as revenue.

Cost of revenues. Cost of revenues increased by 40% to RMB3,836 million for the first quarter of 2012 from RMB2,742 million for the fourth quarter of 2011. This primarily reflected the recognition of cost of merchandise sold relating to our e-Commerce transactions business as well as an increase in sharing costs and staff costs. As a percentage of revenues, cost of revenues increased to 40% for the first quarter of 2012 from 35% for the fourth quarter of 2011. The following table sets forth our cost of revenues by line of business for the first quarter of 2012 and the fourth quarter of 2011:

	Unaudited			
	Three months ended			
	31 March 2012		31 December 2011	
		% of		% of
	Amount	segment	Amount	segment
		revenues		revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	2,408,823	32.6%	2,064,145	32.2%
MVAS	338,839	37.1%	290,077	34.0%
Online advertising	316,183	58.5%	306,657	51.2%
e-Commerce transactions	732,051	97.2%	–	–
Others	<u>40,421</u>	68.0%	<u>80,656</u>	118.7%
Total cost of revenues	<u>3,836,317</u>		<u>2,741,535</u>	

- Cost of revenues for our IVAS increased by 17% to RMB2,409 million for the first quarter of 2012 from RMB2,064 million for the fourth quarter of 2011. This primarily reflected increased sharing costs due to growth in revenues from our licensed games, increased staff costs, and increased bandwidth and server custody fees due to our expanded business scale.

- Cost of revenues for our MVAS increased by 17% to RMB339 million for the first quarter of 2012 from RMB290 million for the fourth quarter of 2011. This was mainly driven by an increase in staff costs. Mobile and telecommunications revenue sharing costs also increased as a result of business growth.
- Cost of revenues for our online advertising business increased by 3% to RMB316 million for the first quarter of 2012 from RMB307 million for the fourth quarter of 2011. This mainly reflected an increase in staff costs, partly offset by a decrease in commissions paid to advertising agencies as a result of lower revenues.
- Cost of revenues for our e-Commerce transactions business, which primarily consists of cost of merchandise sold, amounted to RMB732 million for the first quarter of 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB64 million for the first quarter of 2012, compared to other gains, net of RMB70 million for the fourth quarter of 2011. The change was mainly due to a donation of RMB60 million made to the Tencent Charity Fund and a decrease in government subsidies in the first quarter of 2012. It also reflected the non-recurrence of a deemed disposal gain of RMB249 million as a result of the acquisition of an additional stake in Gamegoo and an impairment provision of RMB243 million for selected investee companies, both of which were recognised in the fourth quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses decreased by 37% to RMB469 million for the first quarter of 2012 from RMB744 million for the fourth quarter of 2011. This primarily reflected a seasonal reduction in advertising and promotional spending following the end-of-year campaigns launched in the previous quarter. As a percentage of revenues, selling and marketing expenses decreased to 5% for the first quarter of 2012 from 9% for the fourth quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 13% to RMB1,754 million for the first quarter of 2012 from RMB1,553 million for the fourth quarter of 2011. This primarily reflected an increase in research and development expenses and staff costs as our business expanded. As a percentage of revenues, general and administrative expenses decreased to 18% for the first quarter of 2012 from 20% for the fourth quarter of 2011.

Income tax expense. Income tax expense increased by 51% to RMB651 million for the first quarter of 2012 from RMB430 million for the fourth quarter of 2011. In addition to the enhanced profit before income tax, this increase also reflected recognition of deferred tax liabilities in relation to withholding taxes applicable on retained earnings expected to be distributed by our PRC subsidiaries to their overseas parent companies.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 16% to RMB2,950 million for the first quarter of 2012 from RMB2,537 million for the fourth quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB3,281 million for the first quarter of 2012 from RMB2,900 million for the fourth quarter of 2011.

First Quarter of 2012 Compared to First Quarter of 2011

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

	Unaudited	
	Three months ended	
	31 March	31 March
	2012	2011
	RMB'000	RMB'000
Revenues	9,647,858	6,338,420
Cost of revenues	<u>(3,836,317)</u>	<u>(2,193,729)</u>
Gross profit	5,811,541	4,144,691
Interest income	166,733	100,662
Other (losses)/gains, net	(63,642)	339,069
Selling and marketing expenses	(469,200)	(300,453)
General and administrative expenses	<u>(1,754,074)</u>	<u>(897,466)</u>
Operating profit	3,691,358	3,386,503
Finance costs, net	(69,982)	(3,869)
Share of (losses)/profit of associates	(9,753)	37,854
Share of profit/(losses) of jointly controlled entities	<u>1,380</u>	<u>(4,297)</u>
Profit before income tax	3,613,003	3,416,191
Income tax expense	<u>(650,673)</u>	<u>(531,983)</u>
Profit for the period	<u>2,962,330</u>	<u>2,884,208</u>
Attributable to:		
Equity holders of the Company	2,949,510	2,870,374
Non-controlling interests	<u>12,820</u>	<u>13,834</u>
	<u>2,962,330</u>	<u>2,884,208</u>
Non-GAAP profit attributable to equity holders of the Company	<u>3,281,064</u>	<u>2,584,720</u>

Revenues. Revenues increased by 52% to RMB9,648 million for the first quarter of 2012 from RMB6,338 million for the first quarter of 2011. The following table sets forth our revenues by line of business for the first quarter of 2012 and the first quarter of 2011:

	Unaudited			
	Three months ended			
	31 March 2012		31 March 2011	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	7,381,621	76.5%	5,251,282	82.8%
MVAS	913,842	9.5%	777,792	12.3%
Online advertising	540,113	5.6%	280,894	4.4%
e-Commerce transactions	752,817	7.8%	—	—
Others	<u>59,465</u>	<u>0.6%</u>	<u>28,452</u>	<u>0.5%</u>
Total revenues	<u>9,647,858</u>	<u>100.0%</u>	<u>6,338,420</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 41% to RMB7,382 million for the first quarter of 2012 from RMB5,251 million for the first quarter of 2011. Online game revenues increased by 49% to RMB5,321 million. This was primarily attributable to the increased popularity of our existing major titles such as Cross Fire, QQ Dancer, DNF, and QQ Speed, the growth of QQ Game Open Platform as well as contributions from new titles such as LOL. Revenues from our community and open platforms increased by 23% to RMB2,061 million, mainly driven by growth in our open platforms and QQ Membership. Our open platforms benefited from the significant growth in item-based sales within applications, including those on Qzone and Pengyou. Revenues from QQ Membership grew on the back of an expanded subscriber base mainly as a result of our enhancements to privileges and value-added functions.
- Revenues from our MVAS increased by 17% to RMB914 million for the first quarter of 2012 from RMB778 million for the first quarter of 2011. This mainly reflected growth in revenues from our bundled SMS packages and mobile games.
- Revenues from our online advertising business increased by 92% to RMB540 million for the first quarter of 2012 from RMB281 million for the first quarter of 2011. In addition to the growth in brand display advertising on our IM client and portal, the business benefited from significant expansions in search advertising, online video advertising and performance advertising on our social networks.

- Revenues from our e-Commerce transactions business, which primarily consists of revenues generated from sale of merchandise on our e-Commerce platforms, amounted to RMB753 million for the first quarter of 2012.

Cost of revenues. Cost of revenues increased by 75% to RMB3,836 million for the first quarter of 2012 from RMB2,194 million for the first quarter of 2011. This primarily reflected the recognition of cost of merchandise sold relating to our e-Commerce transactions business and an increase in staff costs and sharing costs. As a percentage of revenues, cost of revenues increased to 40% for the first quarter of 2012 from 35% for the first quarter of 2011. The following table sets forth our cost of revenues by line of business for the first quarter of 2012 and the first quarter of 2011:

	Unaudited			
	Three months ended			
	31 March 2012		31 March 2011	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	2,408,823	32.6%	1,742,148	33.2%
MVAS	338,839	37.1%	297,500	38.2%
Online advertising	316,183	58.5%	118,104	42.0%
e-Commerce transactions	732,051	97.2%	–	–
Others	<u>40,421</u>	68.0%	<u>35,977</u>	126.4%
Total cost of revenues	<u>3,836,317</u>		<u>2,193,729</u>	

- Cost of revenues for our IVAS increased by 38% to RMB2,409 million for the first quarter of 2012 from RMB1,742 million for the first quarter of 2011. This primarily reflected an increase in sharing costs due to growth in revenues from our licensed games. Other costs also increased as our business volume expanded.
- Cost of revenues for our MVAS increased by 14% to RMB339 million for the first quarter of 2012 from RMB298 million for the first quarter of 2011. This was mainly driven by an increase in bandwidth and server custody fees as well as equipment depreciation. Mobile and telecommunications revenue sharing costs also increased due to business growth.

- Cost of revenues for our online advertising business increased by 168% to RMB316 million for the first quarter of 2012 from RMB118 million for the first quarter of 2011. This was primarily driven by the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. This was also driven by an increase in staff costs, sharing costs for our search advertising business and sales commissions paid to advertising agencies as a result of business expansion.
- Cost of revenues for our e-Commerce transactions business, which primarily consists of cost of merchandise sold, amounted to RMB732 million for the first quarter of 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB64 million for the first quarter of 2012, compared to other gains, net of RMB339 million for the first quarter of 2011. This primarily reflected the non-recurrence of a deemed disposal gain of RMB459 million related to the Riot Games Acquisition which was recognised in the first quarter of 2011.

Selling and marketing expenses. Selling and marketing expenses increased by 56% to RMB469 million for the first quarter of 2012 from RMB300 million for the first quarter of 2011. This mainly reflected an increase in advertising and promotional spending on products and platforms as well as staff costs. As a percentage of revenues, selling and marketing expenses were 5% for the first quarter of 2012, stable compared to the first quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 95% to RMB1,754 million for the first quarter of 2012 from RMB897 million for the first quarter of 2011. This primarily reflected an increase in research and development expenses, staff costs and other administrative expenses as a result of our business expansion. As a percentage of revenues, general and administrative expenses increased to 18% for the first quarter of 2012 from 14% for the first quarter of 2011.

Income tax expense. Income tax expense increased by 22% to RMB651 million for the first quarter of 2012 from RMB532 million for the first quarter of 2011. This primarily reflected the increase in profit before income tax, partially offset by an increase in the reversal of deferred tax liabilities arising from the Riot Games Acquisition.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 3% to RMB2,950 million for the first quarter of 2012 from RMB2,870 million for the first quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 27% to RMB3,281 million for the first quarter of 2012 from RMB2,585 million for the first quarter of 2011.

Other Financial Information

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2012	2011	2011
	<i>(RMB in thousands, unless specified)</i>		
EBITDA (a)	4,254,547	3,502,553	3,220,713
Adjusted EBITDA (a)	4,461,209	3,722,671	3,364,836
Adjusted EBITDA margin (b)	46.2%	47.0%	53.1%
Interest expense	67,578	27,959	16,685
Net cash (c)	20,818,507	17,667,030	18,230,561
Capital expenditures (d)	662,130	891,994	720,816

Note:

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

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

	31 March 2012 RMB'000	Unaudited Three months ended	
		31 December 2011 RMB'000	31 March 2011 RMB'000
Operating profit	3,691,358	3,091,569	3,386,503
Less: Interest income	(166,733)	(137,623)	(100,662)
Less: Other losses/(gains), net	63,642	(69,725)	(339,069)
Add: Depreciation of fixed assets and investment properties	424,170	390,135	220,731
Add: Amortisation of intangible assets	<u>242,110</u>	<u>228,197</u>	<u>53,210</u>
EBITDA	4,254,547	3,502,553	3,220,713
Equity-settled share-based compensation	<u>206,662</u>	<u>220,118</u>	<u>144,123</u>
Adjusted EBITDA	<u>4,461,209</u>	<u>3,722,671</u>	<u>3,364,836</u>

Non-GAAP Financial Measures

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

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

Unaudited three months ended 31 March 2012

	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Gain on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Operating profit	3,691,358	206,662	29,894	–	140,374	–	4,068,288
Profit for the period	2,962,330	206,662	29,894	–	111,692	–	3,310,578
Profit attributable to equity holders of the Company	2,949,510	203,792	26,487	–	101,275	–	3,281,064
Operating margin	38.3%						42.2%
Net margin	30.7%						34.3%

Unaudited three months ended 31 December 2011

	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Gain on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Operating profit	3,091,569	220,118	24,249	(249,449)	185,194	243,000	3,514,681
Profit for the period	2,551,203	220,118	24,249	(249,449)	140,554	243,000	2,929,675
Profit attributable to equity holders of the Company	2,537,026	216,959	22,299	(249,449)	129,753	243,000	2,899,588
Operating margin	39.0%						44.4%
Net margin	32.2%						37.0%

Unaudited three months ended 31 March 2011

	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Gain on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
Operating profit	3,386,503	144,123	9,091	(459,037)	39,230	–	3,119,910
Profit for the period	2,884,208	144,123	9,091	(459,037)	23,229	–	2,601,614
Profit attributable to equity holders of the Company	2,870,374	143,121	8,435	(459,037)	21,827	–	2,584,720
Operating margin	53.4%						49.2%
Net margin	45.5%						41.0%

Note:

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Gain on deemed disposal of previously held interest in associates
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for investment in associates, investment in jointly controlled entities and available-for-sale financial assets

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash positions as at 31 March 2012 and 31 December 2011 are as follows:

	Unaudited 31 March 2012 <i>RMB'000</i>	Audited 31 December 2011 <i>RMB'000</i>
Cash and cash equivalents	13,348,679	12,612,140
Term deposits with initial term of over three months	15,909,027	13,716,040
Restricted cash pledged for secured bank borrowings	<u>968,675</u>	<u>3,071,621</u>
	30,226,381	29,399,801
Long-term notes payable	(3,731,549)	(3,733,331)
Secured short-term borrowings	(955,600)	(2,958,720)
Unsecured short-term borrowings	<u>(4,720,725)</u>	<u>(5,040,720)</u>
Net cash	<u>20,818,507</u>	<u>17,667,030</u>

As at 31 March 2012, RMB6,020 million of our financial resources (31 December 2011: RMB5,919 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

		Unaudited	Audited
		31 March	31 December
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		5,847,891	5,884,952
Construction in progress		314,638	158,656
Investment properties		21,757	21,871
Land use rights		281,882	230,915
Intangible assets		4,119,882	3,779,976
Investment in associates	3	4,590,785	4,338,075
Investment in jointly controlled entities		63,283	61,903
Deferred income tax assets		204,520	198,058
Available-for-sale financial assets	4	5,838,319	4,343,602
Prepayments, deposits and other assets		<u>1,263,010</u>	<u>2,282,869</u>
		<u>22,545,967</u>	<u>21,300,877</u>
Current assets			
Inventories		191,949	—
Accounts receivable	5	2,344,835	2,020,796
Prepayments, deposits and other assets		2,493,145	2,211,917
Term deposits with initial term of over three months		15,909,027	13,716,040
Restricted cash		2,859,053	4,942,595
Cash and cash equivalents		<u>13,348,679</u>	<u>12,612,140</u>
		<u>37,146,688</u>	<u>35,503,488</u>
Total assets		<u>59,692,655</u>	<u>56,804,365</u>

		Unaudited	Audited
		31 March	31 December
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		198	198
Share premium		2,293,660	2,058,051
Shares held for share award scheme		(606,140)	(606,874)
Other reserves		990,850	302,091
Retained earnings		<u>29,659,904</u>	<u>26,710,368</u>
		32,338,472	28,463,834
Non-controlling interests		<u>618,676</u>	<u>624,510</u>
Total equity		<u>32,957,148</u>	<u>29,088,344</u>
LIABILITIES			
Non-current liabilities			
Long-term notes payable	8	3,731,549	3,733,331
Deferred income tax liabilities		987,585	939,534
Long-term payables		<u>1,285,096</u>	<u>1,859,808</u>
		<u>6,004,230</u>	<u>6,532,673</u>
Current liabilities			
Accounts payable	7	2,935,710	2,244,114
Other payables and accruals		4,273,372	5,014,281
Derivative financial instruments		40,853	20,993
Short-term borrowings	9	5,676,325	7,999,440
Current income tax liabilities		992,151	708,725
Other tax liabilities		228,051	179,499
Deferred revenue		<u>6,584,815</u>	<u>5,016,296</u>
		<u>20,731,277</u>	<u>21,183,348</u>
Total liabilities		<u>26,735,507</u>	<u>27,716,021</u>
Total equity and liabilities		<u>59,692,655</u>	<u>56,804,365</u>
Net current assets		<u>16,415,411</u>	<u>14,320,140</u>
Total assets less current liabilities		<u>38,961,378</u>	<u>35,621,017</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

		Unaudited	
		Three months ended	
		31 March	
		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues			
Internet value-added services		7,381,621	5,251,282
Mobile and telecommunications value-added services		913,842	777,792
Online advertising		540,113	280,894
e-Commerce transactions		752,817	—
Others		59,465	28,452
		9,647,858	6,338,420
Cost of revenues	11	(3,836,317)	(2,193,729)
Gross profit		5,811,541	4,144,691
Interest income		166,733	100,662
Other (losses)/gains, net	10	(63,642)	339,069
Selling and marketing expenses	11	(469,200)	(300,453)
General and administrative expenses	11	(1,754,074)	(897,466)
Operating profit		3,691,358	3,386,503
Finance costs, net		(69,982)	(3,869)
Share of (losses)/profit of associates		(9,753)	37,854
Share of profit/(losses) of jointly controlled entities		1,380	(4,297)
Profit before income tax		3,613,003	3,416,191
Income tax expense	12	(650,673)	(531,983)
Profit for the period		<u>2,962,330</u>	<u>2,884,208</u>
Attributable to:			
Equity holders of the Company		2,949,510	2,870,374
Non-controlling interests		12,820	13,834
		<u>2,962,330</u>	<u>2,884,208</u>

		Unaudited	
		Three months ended	
		31 March	
		2012	2011
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
- basic	13	<u>1.618</u>	<u>1.575</u>
- diluted	13	<u>1.587</u>	<u>1.540</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>2,962,330</u>	<u>2,884,208</u>
Other comprehensive income, net of tax:		
Net gains/(losses) from changes in fair value of available-for-sale financial assets	1,288,914	(682,436)
Currency translation differences	<u>6,076</u>	<u>207</u>
	<u>1,294,990</u>	<u>(682,229)</u>
Total comprehensive income for the period	<u>4,257,320</u>	<u>2,201,979</u>
Attributable to:		
Equity holders of the Company	4,244,489	2,188,145
Non-controlling interests	<u>12,831</u>	<u>13,834</u>
	<u>4,257,320</u>	<u>2,201,979</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2012

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2012	<u>198</u>	<u>2,058,051</u>	<u>(606,874)</u>	<u>302,091</u>	<u>26,710,368</u>	<u>28,463,834</u>	<u>624,510</u>	<u>29,088,344</u>
Comprehensive income								
Profit for the period	-	-	-	-	2,949,510	2,949,510	12,820	2,962,330
Other comprehensive income:								
- net gains from changes in fair value of available-for-sale financial assets	-	-	-	1,288,914	-	1,288,914	-	1,288,914
- currency translation differences	-	-	-	6,065	-	6,065	11	6,076
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,294,979</u>	<u>2,949,510</u>	<u>4,244,489</u>	<u>12,831</u>	<u>4,257,320</u>
Transaction with owners								
Capital injection	-	-	-	-	-	-	7,220	7,220
Employee share option schemes:								
- value of employee services	-	35,954	-	-	-	35,954	-	35,954
- proceeds from shares issued	-	49,775	-	-	-	49,775	-	49,775
Employee share award scheme:								
- value of employee services	-	170,708	-	-	-	170,708	-	170,708
- shares purchased for share award scheme	-	-	(4,182)	-	-	(4,182)	-	(4,182)
- vesting of awarded shares	-	(4,916)	4,916	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	(26)	26	-	-	-
Repurchase and cancellation of shares	-	(15,912)	-	-	-	(15,912)	-	(15,912)
Dividend	-	-	-	-	-	-	(18,180)	(18,180)
Total contributions by and distributions to owners for the period	<u>-</u>	<u>235,609</u>	<u>734</u>	<u>(26)</u>	<u>26</u>	<u>236,343</u>	<u>(10,960)</u>	<u>225,383</u>
Non-controlling interests arising from business combinations	-	-	-	-	-	-	(2,455)	(2,455)
Acquisition of an additional equity interest in non-wholly owned subsidiaries	-	-	-	(248,576)	-	(248,576)	(5,250)	(253,826)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	-	-	-	(357,618)	-	(357,618)	-	(357,618)
Total transactions with owners for the period	<u>-</u>	<u>235,609</u>	<u>734</u>	<u>(606,220)</u>	<u>26</u>	<u>(369,851)</u>	<u>(18,665)</u>	<u>(388,516)</u>
Balance at 31 March 2012	<u><u>198</u></u>	<u><u>2,293,660</u></u>	<u><u>(606,140)</u></u>	<u><u>990,850</u></u>	<u><u>29,659,904</u></u>	<u><u>32,338,472</u></u>	<u><u>618,676</u></u>	<u><u>32,957,148</u></u>

Unaudited

	Attributable to equity holders of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
Balance at 1 January 2011	<u>198</u>	<u>2,299,965</u>	<u>(258,137)</u>	<u>1,919,695</u>	<u>17,795,225</u>	<u>21,756,946</u>	<u>83,912</u>	<u>21,840,858</u>
Comprehensive income								
Profit for the period	—	—	—	—	2,870,374	2,870,374	13,834	2,884,208
Other comprehensive income:								
- net losses from changes in fair value of available-for-sale financial assets	—	—	—	(682,436)	—	(682,436)	—	(682,436)
- currency translation differences	—	—	—	207	—	207	—	207
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(682,229)</u>	<u>2,870,374</u>	<u>2,188,145</u>	<u>13,834</u>	<u>2,201,979</u>
Transaction with owners								
Employee share option schemes:								
- value of employee services	—	44,717	—	—	—	44,717	—	44,717
- proceeds from shares issued	—	25,449	—	—	—	25,449	—	25,449
Employee share award scheme:								
- value of employee services	—	99,543	—	—	—	99,543	—	99,543
- shares purchased for share award scheme	—	—	(101,598)	—	—	(101,598)	—	(101,598)
- vesting of awarded shares	—	(12,747)	12,747	—	—	—	—	—
Repurchase and cancellation of shares	—	(63,710)	—	—	—	(63,710)	—	(63,710)
Total contributions by and distributions to owners for the period	—	93,252	(88,851)	—	—	4,401	—	4,401
Non-controlling interests arising from business combination	—	—	—	—	—	—	187,092	187,092
Recognition of the financial liabilities in respect of the put option granted to non-controlling interests	—	—	—	(670,985)	—	(670,985)	—	(670,985)
Total transactions with owners for the period	<u>—</u>	<u>93,252</u>	<u>(88,851)</u>	<u>(670,985)</u>	<u>—</u>	<u>(666,584)</u>	<u>187,092</u>	<u>(479,492)</u>
Balance at 31 March 2011	<u>198</u>	<u>2,393,217</u>	<u>(346,988)</u>	<u>566,481</u>	<u>20,665,599</u>	<u>23,278,507</u>	<u>284,838</u>	<u>23,563,345</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	4,863,761	3,165,208
Net cash flows used in investing activities	(1,827,502)	(4,346,913)
Net cash flows (used in)/generated from financing activities	<u>(2,298,544)</u>	<u>1,692,995</u>
Net increase in cash and cash equivalents	737,715	511,290
Cash and cash equivalents at beginning of period	12,612,140	10,408,257
Exchange losses on cash and cash equivalents	<u>(1,176)</u>	<u>(36,593)</u>
Cash and cash equivalents at end of period	<u>13,348,679</u>	<u>10,882,954</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	9,590,889	7,294,552
Term deposits and highly liquid investments with initial term within three months	<u>3,757,790</u>	<u>3,588,402</u>
	<u>13,348,679</u>	<u>10,882,954</u>

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated statement of financial position as at 31 March 2012, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 16 May 2012.

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

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

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

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

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

Because of the growth in related business during the three months ended 31 March 2012, the Group discloses the following accounting policies which were not included in the principal accounting policies in the 2011 Financial Statements:

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

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

2 Segment information

During the three months ended 31 March 2012, the scale of e-Commerce transactions business of the Group increased significantly and the executive directors of the Company started to treat e-Commerce transactions business as a separate segment of the Group's operations. As a result, a new line of segment information is presented in current quarter. No comparative figure of the preceding quarter is presented since the amount involved was insignificant.

The Group has following reportable segments for the three months ended 31 March 2012:

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

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

There were no material inter-segment sales during the three months ended 31 March 2012 and 2011. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three months ended 31 March 2012 and 2011 is as follows:

Unaudited						
Three months ended 31 March 2012						
Online e-Commerce						
	IVAS	MVAS	advertising	transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>7,381,621</u>	<u>913,842</u>	<u>540,113</u>	<u>752,817</u>	<u>59,465</u>	<u>9,647,858</u>
Gross profit	<u>4,972,798</u>	<u>575,003</u>	<u>223,930</u>	<u>20,766</u>	<u>19,044</u>	<u>5,811,541</u>
Depreciation	247,920	25,774	23,734	1,757	4,283	303,468
Amortisation	41,891	–	40,821	–	–	82,712
Share of (losses)/ profit of associates	(660)	(4,655)	–	(11,762)	7,324	(9,753)
Share of profit of jointly controlled entities	<u>1,380</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,380</u>
Unaudited						
Three months ended 31 March 2011						
Online						
	IVAS	MVAS	advertising	Others	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues		<u>5,251,282</u>	<u>777,792</u>	<u>280,894</u>	<u>28,452</u>	<u>6,338,420</u>
Gross profit/(loss)		<u>3,509,134</u>	<u>480,292</u>	<u>162,790</u>	<u>(7,525)</u>	<u>4,144,691</u>
Depreciation		133,932	11,178	10,619	4,449	160,178
Amortisation		3,012	–	–	–	3,012
Share of profit of associates		37,142	712	–	–	37,854
Share of losses of jointly controlled entities		<u>(4,297)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(4,297)</u>

3 Investment in associates

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	RMB'000	RMB'000
At beginning of period	4,338,075	1,070,633
Acquisitions ((a) and (b))	297,168	722,504
Additional investments in existing associates	36,256	—
Transfer out as a result of step-up business combinations	—	(117,502)
Share of (losses)/profit of associates	(9,753)	37,854
Dividends received from associates	(2,698)	—
Disposal of an associate	<u>(68,263)</u>	<u>—</u>
At end of period	<u>4,590,785</u>	<u>1,713,489</u>

Note:

- (a) On 31 January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8% of its total outstanding shares, for a cash consideration of HKD247,760,000 (equivalent to approximately RMB201,578,000). ChinaVision is a company listed on the Main Board of Stock Exchange and principally engaged in production and licensing of film and television programmes, and printed media and television advertising business. Since the Group has the right to nominate a director to the board of ChinaVision, the investment in ChinaVision is accounted for as an investment in associate of the Group.
- (b) In addition to the above, the Group acquired some other associates for an aggregate consideration of RMB95,590,000 during the three months ended 31 March 2012. They are principally engaged in online community services and other Internet related businesses.

4 Available-for-sale financial assets

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of period	4,343,602	4,126,878
Additions	215,581	190,681
Gains/(losses) from changes in fair value of available-for-sale financial assets	<u>1,279,136</u>	<u>(682,436)</u>
At end of period	<u>5,838,319</u>	<u>3,635,123</u>
Market value of listed securities	<u>4,597,930</u>	<u>3,186,598</u>

5 Accounts receivable

	Unaudited	Audited
	31 March	31 December
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	1,284,615	1,103,261
31 - 60 days	637,450	443,555
61 - 90 days	184,386	246,501
Over 90 days	<u>238,384</u>	<u>227,479</u>
	<u>2,344,835</u>	<u>2,020,796</u>

Receivable balances as at 31 March 2012 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.

6 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

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

(ii) Post-IPO Option Scheme I

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

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

	Pre-IPO 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 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD194.4000	312,550	-	-	312,550
Exercised	USD0.2387	(33,560)	HKD12.1641	(904,077)	HKD47.1206	(403,240)	-	-	(1,340,877)
Lapsed	-	-	-	-	HKD42.9168	(31,170)	-	-	(31,170)
At 31 March 2011	USD0.0843	<u>529,633</u>	HKD12.9106	<u>11,901,686</u>	HKD56.5823	<u>28,673,308</u>	HKD158.5000	<u>1,000,000</u>	<u>42,104,627</u>
Exercisable as at 31 March 2011	USD0.0843	<u>529,633</u>	HKD11.1958	<u>10,165,266</u>	HKD41.7929	<u>6,726,619</u>	-	-	<u>17,421,518</u>
At 1 January 2012	-	-	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Exercised	-	-	HKD10.5545	(876,483)	HKD48.8900	(1,065,956)	-	-	(1,942,439)
Lapsed	-	-	-	-	HKD47.5284	(75,604)	-	-	(75,604)
At 31 March 2012	-	<u>-</u>	HKD12.5908	<u>7,885,454</u>	HKD60.4761	<u>25,014,528</u>	HKD158.5000	<u>1,000,000</u>	<u>33,899,982</u>
Exercisable as at 31 March 2012	-	<u>-</u>	HKD11.5700	<u>7,297,454</u>	HKD42.8178	<u>8,833,218</u>	-	-	<u>16,130,672</u>

During the three months ended 31 March 2012, no share option (during the three months ended 31 March 2011: Nil) was granted to any directors of the Company.

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Award Scheme and awarded shares for the three months ended 31 March 2012 and 2011 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2011	80	13,562,734
Purchased for award	618,960	—
Granted	(618,960)	618,960
Vested and exercised	<u>—</u>	<u>(100,907)</u>
At 31 March 2011	<u>80</u>	<u>14,080,787</u>
Exercisable as at 31 March 2011		<u>70,757</u>
At 1 January 2012	1,970,840	15,838,999
Purchased and withheld for award	37,118	—
Granted	(436,500)	436,500
Lapsed	208,216	(208,216)
Vested and exercised	<u>—</u>	<u>(173,391)</u>
At 31 March 2012	<u>1,779,674</u>	<u>15,893,892</u>
Exercisable as at 31 March 2012		<u>5,200</u>

During the three months ended 31 March 2012, no awarded share (during the three months ended 31 March 2011: 35,000) was granted to any directors of the Company.

7 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	31 March	31 December
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	1,584,712	1,514,155
31 - 60 days	887,269	351,587
61 - 90 days	196,898	108,337
Over 90 days	<u>266,831</u>	<u>270,035</u>
	<u>2,935,710</u>	<u>2,244,114</u>

8 Long-term notes payable

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

As at 31 March 2012, the carrying amount of the Notes was RMB3,731,549,000.

9 Short-term borrowings

	Unaudited	Audited
	31 March	31 December
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
RMB bank borrowings		
- Secured (a)	955,600	2,958,720
USD bank borrowings		
- Unsecured (b)	4,720,725	4,410,630
Bonds		
- Unsecured	<u>—</u>	<u>630,090</u>
	<u>5,676,325</u>	<u>7,999,440</u>

Movement in the short-term borrowings is analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of period	7,999,440	5,298,947
Additions of bank borrowings	315,045	2,003,120
Issuance of bonds	—	657,520
Repayments of bonds	(629,190)	—
Repayments of borrowings	(2,003,120)	(786,126)
Exchange difference	<u>(5,850)</u>	<u>(41,660)</u>
At end of period	<u>5,676,325</u>	<u>7,131,801</u>

Note:

- (a) Bank borrowings of carrying amounts of RMB955,600,000 were secured by pledge of bank deposits of RMB968,675,000.
- (b) Unsecured bank borrowings of carrying amount of RMB4,720,725,000 as at 31 March 2012 were denominated in USD. The aggregate principal amount was USD750,000,000 and interest rates were fixed at 1.43% to 2.09% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling some of the bank borrowings with an aggregate principal amount of USD375,000,000 upon the respective borrowing due dates. The Group did not adopt hedge accounting. As a result, these bank borrowings and the relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other (losses)/gains, net” in the consolidated income statement.

10 Other (losses)/gains, net

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	RMB'000	RMB'000
Gains on disposal/deemed disposal of an associate	11,543	459,037
Government subsidies	19,578	5,289
Losses from derivative financial instruments	(19,860)	(21,374)
Donation to Tencent Charity Fund	(60,000)	(100,000)
Others	(14,903)	(3,883)
	<u>(63,642)</u>	<u>339,069</u>

11 Expenses by nature

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	RMB'000	RMB'000
Employee benefits expenses (<i>Note</i>)	1,689,366	960,250
Content costs and agency fees	1,442,973	1,133,729
Mobile and telecommunications charges and bandwidth and server custody fees	775,417	591,323
Cost of merchandise sold	714,092	—
Promotion and advertising expenses	277,061	206,187
Depreciation of fixed assets (<i>Note</i>)	424,056	220,545
Amortisation of intangible assets	242,110	53,210
Operating lease rentals in respect of office buildings	142,847	59,011
Travelling and entertainment expenses	57,444	29,169
Other expenses	<u>294,225</u>	<u>138,224</u>
	<u>6,059,591</u>	<u>3,391,648</u>

Note:

Research and development expenses for the three months ended 31 March 2012 were RMB940,763,000 (for the three months ended 31 March 2011: RMB513,187,000) which included employee benefit expenses of RMB775,073,000 and depreciation of fixed assets of RMB107,764,000 (for the three months ended 31 March 2011: RMB439,569,000 and RMB53,203,000, respectively).

12 Income tax expense

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

(a) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three months ended 31 March 2012 and 2011.

(b) Hong Kong profits tax

No Hong Kong profits tax provision was made for the three months ended 31 March 2012 and 2011.

(c) PRC CIT

CIT provision was made 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 rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

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

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

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

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

(d) **United States corporate income tax**

No United States corporate income tax provision was made for the three months ended 31 March 2012 and 2011.

(e) **PRC withholding tax**

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

The income tax expense of the Group for the three months ended 31 March 2012 and 2011 are analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	605,155	427,674
Deferred income tax	<u>45,518</u>	<u>104,309</u>
	<u>650,673</u>	<u>531,983</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three months ended 31 March 2012 (for the three months ended 31 March 2011: 24%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
	RMB'000	<i>RMB'000</i>
Profit before income tax	3,613,003	3,416,191
Add: Share of losses/(profit) of associates and jointly controlled entities	<u>8,373</u>	<u>(33,557)</u>
	<u>3,621,376</u>	<u>3,382,634</u>
Tax calculated at a tax rate of 25% (for the three months ended 31 March 2011: 24%)	905,344	811,832
Effects of different tax rates available to different subsidiaries of the Group	(364,127)	(305,762)
Effects of tax holiday on assessable profit of subsidiaries	(67,407)	(123,694)
Income not subject to tax	(18,978)	(9,763)
Expenses not deductible for tax purposes	59,249	34,561
Withholding tax on earnings expected to be remitted by PRC subsidiaries	93,000	91,500
Unrecognised deferred income tax assets	<u>43,592</u>	<u>33,309</u>
Income tax expense	<u>650,673</u>	<u>531,983</u>

13 EPS

(a) Basic

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

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,949,510</u>	<u>2,870,374</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,823,002</u>	<u>1,822,726</u>
Basic EPS (RMB per share)	<u><u>1.618</u></u>	<u><u>1.575</u></u>

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three months ended 31 March 2012, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	Unaudited	
	Three months ended	
	31 March	
	2012	2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,949,510</u>	<u>2,870,374</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,823,002	1,822,726
Adjustments for share options (thousand shares)	24,924	31,556
Adjustments for awarded shares (thousand shares)	<u>10,917</u>	<u>9,420</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,858,843</u>	<u>1,863,702</u>
Diluted EPS (RMB per share)	<u>1.587</u>	<u>1.540</u>

14 Dividend

A final dividend in respect of the year ended 31 December 2011 of HKD0.75 per share (2010: HKD0.55 per share) was proposed pursuant to a resolution passed by the Board on 14 March 2012 and subject to the approval of the shareholders at the annual general meeting to be held on 16 May 2012. The Interim Financial Information does not reflect this dividend payable.

The Board did not propose any interim dividend for the three months ended 31 March 2012 (for the three months ended 31 March 2011: Nil).

15 Subsequent event

On 6 April 2012, the Group entered into a sales and purchase agreement, pursuant to which, the Group agreed to purchase 3,600,000 new preference shares of a company principally engaged in developing and operating mobile chatting applications, representing approximately 13.84% of its issued share capital, for a cash consideration of approximately RMB403,200,000. The transaction was completed on 25 April 2012.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 March 2012, the Group had 19,130 employees (31 March 2011: 11,429), 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 they are remunerated based on industry practice.

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

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the three months ended 31 March 2012 was RMB1,689 million (for the three months ended 31 March 2011: RMB960 million).

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

During the three months ended 31 March 2012, the Company repurchased 128,400 shares on the Stock Exchange for an aggregate consideration of approximately HKD19.6 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in the three months ended 31 March 2012	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid <i>HKD</i>
		Highest price paid <i>HKD</i>	Lowest price paid <i>HKD</i>	
January	<u>128,400</u>	153.0	151.9	<u>19,582,798</u>
Total	<u>128,400</u>			<u>19,582,798</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2012.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, have reviewed the Group's unaudited Interim Financial Information for the three months ended 31 March 2012.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2011 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three months ended 31 March 2012, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules effective as at 31 March 2012.

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

APPRECIATION

With the tremendous commitments of our employees and management, we have grown our Company organically in order to better serve our user community. The Board congratulates on their achievements and, in appreciation of their hard work as well as continuous support from our shareholders and stakeholders, wishes the Company goes from strength to strength in 2012.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 16 May 2012

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

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.

DEFINITIONS

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

Term	Definition
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“B2C”	business to consumer
“Board”	the board of directors of the Company
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Telecommunications Co. Ltd.
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“CPC”	cost per click
“DNF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Gamegoo”	Gamegoo Group Limited
“GMV”	gross merchandise volume
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“Korea”	the Republic of Korea
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LOL”	League of Legends
“Main Board”	the main board of the Stock Exchange
“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“Riot Games”	Riot Games, Inc.
“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games

“RMB”	the lawful currency of the PRC
“Share Award Scheme”	the share award scheme adopted by the Company on 13 December 2007
“SME2C”	small and medium enterprise to consumer
“SMS”	short message service
“SNS”	social networking service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Scheme
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services