Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)

2012 Annual Report

smart communication inspires

智慧溝通 靈感無限

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Jacobus Petrus Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

AUDIT COMMITTEE

Iain Ferguson Bruce *(Chairman)*
Ian Charles Stone
Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle *(Chairman)*
Iain Ferguson Bruce
Ian Charles Stone

INVESTMENT COMMITTEE

Lau Chi Ping Martin *(Chairman)*
Ma Huateng
Zhang Zhidong
Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng *(Chairman)*
Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone *(Chairman)*
Li Dong Sheng
Jacobus Petrus Bekker

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai
Banking Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

TENCENT GROUP HEAD OFFICE

Tencent Building
Kejizhongyi Avenue
Hi-tech Park
Nanshan District
Shenzhen, 518057
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place
No. 1 Queen's Road East
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

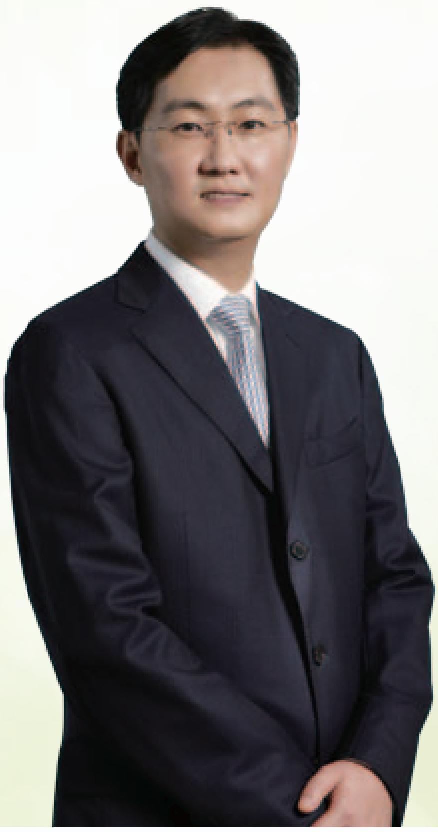
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenues	7,154,544	12,439,960	19,646,031	28,496,072	**43,893,711**
Gross profit	4,984,123	8,550,492	13,325,831	18,567,764	**25,686,351**
Profit before income tax	3,104,895	6,040,731	9,913,133	12,099,069	**15,051,015**
Profit for the year	2,815,650	5,221,611	8,115,209	10,224,831	**12,784,852**
Profit attributable to equity holders of the Company	2,784,577	5,155,646	8,053,625	10,203,083	**12,731,871**
Total comprehensive income for the year	2,815,650	5,221,611	9,936,338	8,956,702	**13,618,810**
Total comprehensive income attributable to equity holders of the Company	2,784,577	5,155,646	9,874,754	8,937,627	**13,566,608**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets					
Non-current assets	3,359,696	4,348,823	10,456,373	21,300,877	**38,746,663**
Current assets	6,495,861	13,156,942	25,373,741	35,503,488	**36,509,148**
Total assets	9,855,557	17,505,765	35,830,114	56,804,365	**75,255,811**
Equity and liabilities					
Equity attributable to the Company's equity holders	7,020,926	12,178,507	21,756,946	28,463,834	**41,297,507**
Non-controlling interests	98,406	120,146	83,912	624,510	**850,759**
Total equity	7,119,332	12,298,653	21,840,858	29,088,344	**42,148,266**
Non-current liabilities	644,628	644,033	967,211	6,532,673	**12,442,549**
Current liabilities	2,091,597	4,563,079	13,022,045	21,183,348	**20,664,996**
Total liabilities	2,736,225	5,207,112	13,989,256	27,716,021	**33,107,545**
Total equity and liabilities	9,855,557	17,505,765	35,830,114	56,804,365	**75,255,811**

Chairman's Statement



Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2012 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2012 was RMB12,732 million, an increase of 25% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2012 were RMB6.965 and RMB6.833 respectively.

BUSINESS REVIEW AND OUTLOOK

2012 was a year of challenge and change, during which Tencent sharpened its focus on mobile Internet experiences.

From a macro perspective, China experienced slower GDP growth amid economic uncertainties in Europe and the US. China's Internet user growth continued to decelerate during the year as the scale of Internet user base expanded further and penetration reached 42% at the end of 2012 according to China Internet Network Information Center, limiting the simple growth brought about by new Internet users. Nevertheless, engagement per user increased further as the Internet deepened its penetration into users' daily lives and the value chains of different business sectors in China. As a result, business opportunities available on the Internet continued to broaden. We have been and will continue making substantial investment in our platforms and services to better serve our users and to catalyse the emergence of these business opportunities.

During the year, there was a significant shift in user activity from PC to mobile, driven by rapid expansion of China's mobile Internet user base, enhanced capabilities of smartphones and increased adoption of compelling mobile applications. Offering a revolutionary user experience, the mobile Internet is reshaping existing business models and the industry value chain. Against this backdrop, Tencent and some peers have been aggressively investing in products and marketing to build their mobile user base, although business models on the mobile Internet remain uncertain and, in areas such as advertising and value-added services, monetisation lags behind traffic growth.

2012 witnessed the continued evolution of other major Internet sectors in China. For the online games sector, mobile games and web games increasingly supplemented client games as drivers of industry user growth, albeit from a relatively low base. In the online advertising sector, advertisers shifted part of their spending to video advertising and, more notably, to performance-based social advertising. For the e-Commerce sector, B2C competition was intense but showed signs of moderation towards the end of the year, while transaction volumes maintained rapid growth.

Overall Financial Performance

We achieved significant growth in revenues and earnings in 2012. Our diversified business portfolio, focus on building user platforms, and commitment to creating healthy industry value chains have enabled Tencent to remain resilient despite rapid and unpredictable value migration within the Internet industry.

– *IVAS.* Our online game business extended its leadership in China via new game genres, and achieved significant revenue contributions from international markets. For our community and open platforms, the year saw healthy revenue growth, primarily driven by a strong increase in item-based sales within applications on our open platforms.

– *MVAS.* The business benefited from revenue growth in mobile games and our bundled SMS packages. Mobile books also demonstrated promising growth potential.

– *Online advertising.* We achieved above-industry-average revenue growth rates, primarily due to performance-based social advertising, as well as market share gains in portal and online video advertising.

- *e-Commerce transactions.* In 2012, we stepped up the scale of our B2C e-Commerce transactions business. Despite a highly competitive environment, we achieved significant growth in transaction volume and revenues through the year.

In the fourth quarter of 2012, the year-on-year growth rates of our revenues and earnings remained robust.

- *IVAS.* On a year-on-year basis, our online game business benefited from increased activity of our major titles, higher contributions from international markets and new self-developed titles launched during 2012. Item-based sales on our open platforms enjoyed strong year-on-year revenue growth.

- *MVAS.* Overall year-on-year revenue growth rate of the business reduced mainly due to slower subscriptions growth for our bundled SMS packages. Mobile games and mobile books continued to grow significantly compared to the same period last year.

- *Online advertising.* The business sustained significant revenue growth on a year-on-year basis, mainly driven by performance-based social advertising, video advertising and search advertising on our e-Commerce platforms. Traditional brand display advertising also registered solid growth.

- *e-Commerce transactions.* Principal transactions grew sequentially as a result of seasonal promotions and geographic expansion in southern China from the original eastern China base. Transaction volume on our marketplaces also increased on a quarter-on-quarter basis.

Strategic Highlights

In 2012, we established strong presence in a wide range of mobile application categories such as communications, social networking, media, security and browser. We have developed some of China's most popular mobile applications, including Wireless QQ and Weixin. While we will continue to invest aggressively in developing and marketing independent mobile services such as our security product and web browser, we are also organically integrating new applications into Weixin, which can enhance our users' experience while leveraging their existing social connections.

We reinforced and extended our social leadership during the year, with continued user expansion on our core platforms. We also deepened the integration of these platforms to further improve user engagement and enhanced the mobilisation of PC-oriented platforms to cater for increasing usage of the mobile Internet. Meanwhile, our open platforms continued to grow and create value for users and third-party developers.

In May 2012, we announced a re-organisation of our business units into six new business groups and a wholly-owned subsidiary focusing on e-Commerce business. This allows us to optimise resource allocation, to reinforce our entrepreneurial spirit, execution and innovation, and to sharpen our focus on users' needs. Each business line continues to leverage company-wide synergies under the new organisational structure.

Our business is increasingly benefitting from investments we have made in companies whose products or services are complementary to our own. For example, Riot Games' LoL has attained widespread popularity, strengthening our game portfolio in China and broadening our game revenue internationally. During 2012, we continued to selectively invest in companies where we see opportunities for long-term strategic benefits, notably businesses which can supply first-class products into our platforms, and businesses which we see as driving change in the Internet industry. For example, we purchased minority stakes in Epic Games, a US-based development team with a long history of creating popular games and a market-leading game development engine, and in Kakao, a leading mobile messaging service provider in Korea.

We completed a USD600 million senior unsecured notes offering in September 2012. This is our second international bond issue, following our first tranche in December 2011, reflecting investors' confidence in our business model and financial performance. We remain firmly committed to maintaining our strong credit profile and investment grade credit ratings.

Divisional and Product Highlights

Communications Platforms

QQ IM, the largest online community in China, grew steadily in 2012. MAU reached 798 million at the end of 2012, representing a year-on-year growth rate of 11%, which was broadly in line with the Internet user growth rate in China. PCU increased by 16% year-on-year to 176 million. Driven by increasing adoption of the mobile Internet, our mobile user base grew more rapidly compared to our PC user base.

Weixin enjoyed substantial user growth in 2012, thanks to its innovative features and compelling user experience. It has quickly become a major communications and social platform for smartphone users in China. Beyond the domestic market, we have launched the product "WeChat" which leverages Weixin's technology to serve the international markets. Recently, total registered user accounts of Weixin and WeChat have exceeded 300 million.

Social Platforms

Our leading social networks registered solid growth, with increase in the scale and activity of mobile users. MAU of Qzone increased by 9% year-on-year to 603 million at the end of 2012, while MAU of Pengyou increased by 22% to 247 million. Weixin Moments, a feature within Weixin which enables users to share experiences with friends on their Weixin contact lists, enjoyed rapid user adoption.

Media Platforms

In 2012, our media platforms expanded further with enhanced media influence and brand position. QQ.com maintained its position as the most-visited portal in China with solid traffic growth, leveraging the opportunities presented by the London Olympic Games. We also extended our vertical channels, such as news and finance, to the mobile Internet via vertical-specific smartphone applications. Tencent Microblog reached 87 million DAU at the end of 2012. As the growth of microblog users in China decelerates, we are exploring integration points between Tencent Microblog and Weixin to deepen our differentiation. Tencent Video gained significant audience share during the year riding on content enrichment and user experience enhancement, and has become one of the leading online video platforms in China in terms of unique visitors and video views.

IVAS

Our IVAS registered subscriptions count declined during 2012, primarily due to stringent measures we launched in the second quarter, which aimed to improve the quality of our subscriber base by cleaning up certain user accounts acquired through mobile channels, for whom fee collection was unlikely. To cater for users' increasing activity on mobile, we are enriching the mobile-related features and privileges of our IVAS subscription services.

We operate multiple open platforms providing third-party application developers with access to a large user base across our diverse product portfolio, including Qzone, QQ Game, and Tencent Microblog. In 2012, we increased significantly the number of third-party applications on our open platforms by collaborating with more developers and enhancing the support we provide to them. With increased user base and user activity, we achieved rapid growth in item-based sales within applications. To position for future growth opportunities, we are extending our open platforms to the mobile Internet and enriching our platforms with a greater diversity of applications.

Our online game business extended its domestic leadership, supported by growth in our major titles and contribution from self-developed titles launched during the year, including Legend of Yulong and Legend of Xuanyuan. We also achieved significant growth in international markets riding on the success of LoL. Our QQ Game Platform benefited from increased user activity and its PCU reached 8.8 million in the fourth quarter of 2012. In the future, we will focus on strengthening our market leadership by further enriching our game portfolio and by increasing our penetration into the web game and mobile game sectors. We will also continue to explore opportunities in international markets.

MVAS

In 2012, our MVAS business registered steady revenue increase, mainly driven by our bundled SMS packages and mobile games. In addition, mobile books registered strong revenue growth, albeit from a relatively low base.

During the year, we increased our focus on mobile games and expanded our game portfolio as we believe that the sector presents one of the key business opportunities on the mobile Internet. In addition, our mobile browser and mobile security product enhanced their market positions with significant user growth.

For certain key services such as QQ IM, Qzone and games, we managed the PC and mobile versions separately in the past. To deliver a unified user experience across platforms, we are now aligning the product development and management of these services between PC and mobile versions.

Online Advertising

Our online advertising business achieved strong revenue growth in 2012, underpinned by growth in brand display advertising and performance-based social advertising. In addition, search advertising registered growth.

In brand display advertising, we achieved healthy revenue growth and market share gains against a challenging macro environment. We also leveraged the London Olympic Games to better penetrate selected up-scale brand advertisers. Riding on the rapid user and traffic growth of Tencent Video, our online video advertising revenues grew strongly during the year. Traditional brand display advertising experienced solid growth along with increased traffic and the enhanced media influence of our platforms.

In performance-based social advertising, we benefited significantly from the launch of our targeted advertising system on social networks, which was well-received by advertisers such as e-Commerce companies and application developers. Supported by greater impression volume and improved click-through rates, performance-based social advertising has become a significant revenue contributor to our online advertising business.

In search advertising, we benefited from the rapid growth of e-Commerce search and new contributions from mobile search. We are in the process of revamping our search business and will focus on improving our basic search experience and operations.

e-Commerce Transactions

In 2012, we stepped up the scale of our B2C e-Commerce transactions business in certain product categories, such as consumer electronics, and registered significant growth in transaction volume. During the year, we expanded our geographical coverage and increased investments in logistics and fulfillment infrastructure. Our business structure was also re-organised to enable more focused and efficient management.

Although the e-Commerce industry is highly competitive, we believe that it is an appealing downstream opportunity to leverage our competitive advantages which 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. Looking ahead, we will continue to expand our geographic presence in China, to improve user experience by investing in our business infrastructure and to explore new opportunities such as mobile commerce.

Outlook for 2013

During 2013, we intend to:

– Extend our communications and social leadership from PC to smartphone via applications such as Wireless QQ and Weixin, and enrich user experience by integrating additional services into these applications. Such additional services may include content applications, games, and location-based activities, among others.

– Take advantage of the disruptive opportunities which the mobile Internet creates to expand our product range and reach with users beyond what we have achieved on PC. In China, we are investing aggressively in our mobile security software and mobile browser services. Internationally, we are stepping up our marketing investment to acquire users for WeChat.

– Serve our users relevant content, products, and advertising by making appropriately targeted recommendations at the right time and under the right circumstances. We believe our logged-in relationship with users, together with our users' desire to share experiences with friends via our communications and social platforms, will enable us to provide highly relevant recommendations and customisation, which represent competitive advantages in downstream activities such as e-Commerce, digital entertainment, and media content. We will continue to invest heavily in such downstream activities, including e-Commerce and advertising, so as to fully capture the revenue opportunities surrounding our platforms.

In view of the increasing integration between the PC and mobile Internet, we will combine the IVAS and MVAS segments in our financial reports and merge related revenue categories under IVAS and MVAS from the first quarter of 2013 onwards. We believe that this adjustment in financial reporting better reflects current market trends and our future business development.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.00 per share (2011: HKD0.75 per share) for the year ended 31 December 2012, subject to the approval of the shareholders at the AGM. Such proposed dividend will be payable on 30 May 2013 to the shareholders whose names appear on the register of members of the Company on 23 May 2013.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation and wholehearted gratitude to our employees for their dedication, commitment and their unabated innovation which keep the Group competitive and strong. The same thanks should also extend to our shareholders and stakeholders for their support and confidence which are highly valued both in the past and for the years to come.

Ma Huateng
Chairman

Hong Kong, 20 March 2013

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 December 2012	As at 30 September 2012	Quarter-on-quarter change	As at 31 December 2011	Year-on-year change
	(in millions, unless specified)				
Monthly active IM user accounts	**798.2**	783.9	1.8%	721.0	10.7%
Peak simultaneous online IM user accounts (for the quarter)	**176.4**	167.3	5.4%	152.7	15.5%
Average daily IM user hours (for the last 16/15 days of the quarter)	**2,798.9**	2,744.4	2.0%	2,363.9	18.4%
Monthly active Qzone user accounts	**602.7**	592.8	1.7%	552.1	9.2%
Peak simultaneous online QQ Game Platform user accounts (for the quarter)	**8.8**	9.4	-6.4%	8.4	4.8%
Fee-based IVAS registered subscriptions	**70.9**	73.8	-3.9%	77.2	-8.2%
Fee-based MVAS registered subscriptions	**33.6**	33.7	-0.3%	31.4	7.0%

– *QQ IM.* In the fourth quarter of 2012, the user base of our core IM platform experienced organic growth compared to the same period last year and the previous quarter, mainly driven by the increase in Internet penetration and the expansion of mobile Internet user base in China.

– *Qzone.* MAU of Qzone registered organic growth, both compared to the same period last year and the previous quarter.

– *QQ Game Platform.* Peak simultaneous online user accounts of QQ Game Platform registered organic growth compared to the same period last year. The quarter-on-quarter decrease was primarily due to weaker seasonality and reduced promotional activities.

– *IVAS subscriptions.* IVAS registered subscriptions decreased as compared to the same period last year and the previous quarter. This mainly reflected stringent measures we launched in the second quarter of 2012, which aim to improve the quality of our subscriber base by cleaning up certain user accounts acquired through telecommunications operators, for whom fee collection was unlikely.

– *MVAS subscriptions.* MVAS registered subscriptions increased compared to the same period last year, primarily driven by growth in our bundled SMS packages and mobile books. Sequentially, MVAS registered subscriptions remained broadly stable as growth in mobile books was offset by a decrease in our bundled SMS packages and the closure of certain niche applications.

FOURTH QUARTER OF 2012 COMPARED TO THIRD QUARTER OF 2012

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

	Unaudited Three months ended	
	31 December 2012 RMB'000	30 September 2012 RMB'000
Revenues	**12,153,053**	11,565,556
Cost of revenues	**(5,272,571)**	(4,787,093)
Gross profit	**6,880,482**	6,778,463
Interest income	**266,351**	205,781
Other losses, net	**(202,248)**	(14,791)
Selling and marketing expenses	**(1,094,775)**	(819,790)
General and administrative expenses	**(2,123,735)**	(2,025,298)
Operating profit	**3,726,075**	4,124,365
Finance costs, net	**(62,802)**	(99,478)
Share of losses of associates	**(28,856)**	(21,188)
Share of losses of jointly controlled entities	**(12,410)**	(6,089)
Profit before income tax	**3,622,007**	3,997,610
Income tax expense	**(151,201)**	(756,465)
Profit for the period	**3,470,806**	3,241,145
Attributable to:		
Equity holders of the Company	**3,463,593**	3,218,693
Non-controlling interests	**7,213**	22,452
	3,470,806	3,241,145
Non-GAAP profit attributable to equity holders of the Company	**4,067,756**	3,551,337

Revenues. Revenues increased by 5% to RMB12,153 million for the fourth quarter of 2012 from the third quarter of 2012. The following table sets forth our revenues by line of business for the fourth quarter of 2012 and the third quarter of 2012:

	Unaudited			
	Three months ended			
	31 December 2012		30 September 2012	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, unless specified)			
IVAS	**8,455,911**	**69.6%**	8,371,026	72.4%
MVAS	**933,901**	**7.7%**	946,218	8.2%
Online advertising	**947,258**	**7.8%**	1,015,266	8.8%
e-Commerce transactions	**1,683,562**	**13.8%**	1,133,901	9.8%
Others	**132,421**	**1.1%**	99,145	0.8%
Total revenues	**12,153,053**	**100.0%**	11,565,556	100.0%

– Revenues from our IVAS business increased by 1% to RMB8,456 million for the fourth quarter of 2012 from the third quarter of 2012. Online game revenues amounted to RMB5,990 million, broadly stable compared to the previous quarter. We registered growth in revenues from international markets and new self-developed titles. These factors were largely offset by the impact of weaker seasonality in China and our focus on future expansion packs for several major titles. Revenues from our community and open platforms climbed by 3% to RMB2,466 million. This primarily reflected an increase in revenues from item-based sales within applications on our open platforms. Revenues from QQ Membership also increased as a result of promotional activities.

– Revenues from our MVAS business decreased by 1% to RMB934 million for the fourth quarter of 2012 from the third quarter of 2012. This mainly reflected a decrease in revenues from our bundled SMS packages, partially offset by revenue growth from our mobile games and mobile books.

– Revenues from our online advertising business decreased by 7% to RMB947 million for the fourth quarter of 2012 from the third quarter of 2012. This primarily reflected a decrease in brand display advertising revenues driven by the absence of the positive impact arising from the London Olympic Games, as well as weaker seasonality, partially offset by increased revenues from performance-based social advertising on our social networks and search advertising on our e-Commerce platforms.

– Revenues from our e-Commerce transactions business increased by 48% to RMB1,684 million for the fourth quarter of 2012 from the third quarter of 2012. This mainly reflected an increase in volume of principal e-Commerce transactions as a result of seasonal promotional activities and geographic expansion in southern China from the original eastern China base. Fees generated from transactions on our marketplaces also increased.

Cost of revenues. Cost of revenues increased by 10% to RMB5,273 million for the fourth quarter of 2012 from the third quarter of 2012. This mainly reflected greater cost of merchandise sold and higher bandwidth and server custody fees, partially offset by lower sharing and content costs. As a percentage of revenues, cost of revenues increased to 43% for the fourth quarter of 2012 from 41% for the third quarter of 2012. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2012 and the third quarter of 2012:

	Unaudited Three months ended			
	31 December 2012		30 September 2012	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, unless specified)			
IVAS	**2,800,463**	**33.1%**	2,741,307	32.7%
MVAS	**381,494**	**40.8%**	389,083	41.1%
Online advertising	**483,688**	**51.1%**	511,545	50.4%
e-Commerce transactions	**1,539,903**	**91.5%**	1,084,637	95.7%
Others	**67,023**	**50.6%**	60,521	61.0%
Total cost of revenues	**5,272,571**		4,787,093	

- Cost of revenues for our IVAS business increased by 2% to RMB2,800 million for the fourth quarter of 2012 from the third quarter of 2012. This mainly reflected an increase in bandwidth and server custody fees as well as equipment depreciation as a result of our business expansion. Sharing and content costs declined mainly due to a mix shift towards self-developed games.

- Cost of revenues for our MVAS business decreased by 2% to RMB381 million for the fourth quarter of 2012 from the third quarter of 2012. This was broadly in line with the change in revenues.

- Cost of revenues for our online advertising business decreased by 5% to RMB484 million for the fourth quarter of 2012 from the third quarter of 2012. This mainly reflected the absence of content costs related to the London Olympic Games as well as lower commissions payable to advertising agencies accompanying the decrease in revenues, partially offset by an increase in bandwidth and server custody fees.

- Cost of revenues for our e-Commerce transactions business increased by 42% to RMB1,540 million for the fourth quarter of 2012 from the third quarter of 2012. This was primarily driven by increased cost of merchandise sold due to growth in principal e-Commerce transactions.

Other losses, net. Other losses, net amounted to RMB202 million for the fourth quarter of 2012, compared to RMB15 million for the third quarter of 2012. This primarily reflected the absence of a special dividend income of RMB390 million from our investee company Mail.ru which was recognised in the previous quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 34% to RMB1,095 million for the fourth quarter of 2012 from the third quarter of 2012. This primarily reflected seasonal e-Commerce promotions, increased marketing of online games as well as more intense marketing initiatives for WeChat in Asian markets, partially offset by a decrease in the spending on our online media platforms due to the absence of the London Olympic Games as compared to the previous quarter. As a percentage of revenues, selling and marketing expenses increased to 9% for the fourth quarter of 2012 from 7% for the third quarter of 2012.

General and administrative expenses. General and administrative expenses increased by 5% to RMB2,124 million for the fourth quarter of 2012 from the third quarter of 2012. This was mainly driven by increases in staff costs and administrative expenses as a result of our business expansion. As a percentage of revenues, general and administrative expenses was 17% for the fourth quarter of 2012, broadly stable compared to the third quarter of 2012.

Finance costs, net. Finance costs, net decreased by 37% to RMB63 million for the fourth quarter of 2012 from the third quarter of 2012. This primarily reflected the recognition of foreign exchange gain on our foreign currency denominated debts resulting from exchange rate movements in the fourth quarter of 2012, partially offset by higher interest expense.

Income tax expense. Income tax expense amounted to RMB151 million for the fourth quarter of 2012, compared to RMB756 million for the third quarter of 2012. This mainly reflected a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate, partially 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 attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 8% to RMB3,464 million for the fourth quarter of 2012 from the third quarter of 2012. Non-GAAP profit attributable to equity holders of the Company increased by 15% to RMB4,068 million for the fourth quarter of 2012 from the third quarter of 2012.

YEAR ENDED 31 DECEMBER 2012 COMPARED TO YEAR ENDED 31 DECEMBER 2011

The following table sets forth the comparative figures for the years ended 31 December 2012 and 2011:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Revenues	**43,893,711**	28,496,072
Cost of revenues	**(18,207,360)**	(9,928,308)
Gross profit	**25,686,351**	18,567,764
Interest income	**835,671**	468,990
Other (losses)/gains, net	**(283,900)**	420,803
Selling and marketing expenses	**(2,993,437)**	(1,920,853)
General and administrative expenses	**(7,765,272)**	(5,283,154)
Operating profit	**15,479,413**	12,253,550
Finance (costs)/income, net	**(347,518)**	35,505
Share of losses of associates	**(54,386)**	(24,255)
Share of losses of jointly controlled entities	**(26,494)**	(165,731)
Profit before income tax	**15,051,015**	12,099,069
Income tax expense	**(2,266,163)**	(1,874,238)
Profit for the year	**12,784,852**	10,224,831
Attributable to:		
Equity holders of the Company	**12,731,871**	10,203,083
Non-controlling interests	**52,981**	21,748
	12,784,852	10,224,831
Non-GAAP profit attributable to equity holders of the Company	**14,286,423**	10,940,208

Revenues. Revenues increased by 54% to RMB43,894 million for the year ended 31 December 2012 from the year ended 31 December 2011. The following table sets forth our revenues by line of business for the years ended 31 December 2012 and 2011:

	Year ended 31 December			
	2012		2011	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, unless specified)			
IVAS	**31,995,183**	**72.9%**	23,042,758	80.8%
MVAS	**3,722,968**	**8.5%**	3,270,841	11.5%
Online advertising	**3,382,328**	**7.7%**	1,992,216	7.0%
e-Commerce transactions	**4,427,806**	**10.1%**	–	–
Others	**365,426**	**0.8%**	190,257	0.7%
Total revenues	**43,893,711**	**100.0%**	28,496,072	100.0%

- Revenues from our IVAS business increased by 39% to RMB31,995 million for the year ended 31 December 2012 from the year ended 31 December 2011. Online game revenues increased by 44% to RMB22,849 million. This was primarily driven by growth in our major titles, contributions from new titles launched in 2012, increased contributions from international markets, and continued growth in our QQ Game Platform. Revenues from our community and open platforms increased by 27% to RMB9,146 million, mainly riding on growth in our open platforms and QQ Membership subscription service. Revenues from our open platforms grew primarily due to a significant increase in usage of third-party applications, and consequently sales of virtual items within such applications. Revenues from QQ Membership benefited from the expansion in our IM user base as well as enhancements in privileges and value-added functions.

- Revenues from our MVAS business increased by 14% to RMB3,723 million for the year ended 31 December 2012 from the year ended 31 December 2011. This was primarily driven by growth in revenues from mobile games and our bundled SMS packages. Mobile books also contributed to the growth of the business.

- Revenues from our online advertising business increased by 70% to RMB3,382 million for the year ended 31 December 2012 from the year ended 31 December 2011. This mainly reflected new revenue contribution from performance-based social advertising and growth in video advertising. Traditional brand display advertising and search advertising also contributed to our business growth.

- Revenues from our e-Commerce transactions business amounted to RMB4,428 million for the year ended 31 December 2012.

Cost of revenues. Cost of revenues increased by 83% to RMB18,207 million for the year ended 31 December 2012 from the year ended 31 December 2011. This mainly reflected the recognition of cost of merchandise sold relating to our e-Commerce transactions business, as well as increases in sharing and content costs and staff costs. As a percentage of revenues, cost of revenues increased to 41% for the year ended 31 December 2012 from 35% for the year ended 31 December 2011. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2012 and 2011:

	Year ended 31 December			
	2012		2011	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, unless specified)			
IVAS	**10,595,967**	**33.1%**	7,633,624	33.1%
MVAS	**1,468,351**	**39.4%**	1,259,756	38.5%
Online advertising	**1,732,704**	**51.2%**	794,956	39.9%
e-Commerce transactions	**4,192,596**	**94.7%**	–	–
Others	**217,742**	**59.6%**	239,972	126.1%
Total cost of revenues	**18,207,360**		9,928,308	

– Cost of revenues for our IVAS business increased by 39% to RMB10,596 million for the year ended 31 December 2012 from the year ended 31 December 2011. This was mainly driven by sharing costs for licensed game titles. Staff costs as well as bandwidth and server custody fees also increased as our business scale grew.

– Cost of revenues for our MVAS business increased by 17% to RMB1,468 million for the year ended 31 December 2012 from the year ended 31 December 2011. This primarily reflected increases in bandwidth and server custody fees, equipment depreciation as well as sharing costs.

– Cost of revenues for our online advertising business increased by 118% to RMB1,733 million for the year ended 31 December 2012 from the year ended 31 December 2011. This mainly reflected the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. It also reflected increases in staff costs, sharing costs for our search advertising business and commissions payable to advertising agencies.

– Cost of revenues for our e-Commerce transactions business amounted to RMB4,193 million for the year ended 31 December 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB284 million for the year ended 31 December 2012, compared to other gains, net of RMB421 million for the year ended 31 December 2011. The change primarily reflected the absence of deemed disposal gains of RMB708 million recognised in the previous year as a result of the Riot Games Acquisition and the Gamegoo Acquisition, and an increase in impairment provision against selected investee companies. These factors were partially offset by the recognition of a special dividend income of RMB390 million from our investee company Mail.ru and an increase in subsidies and tax rebates in the year ended 31 December 2012.

Selling and marketing expenses. Selling and marketing expenses increased by 56% to RMB2,993 million for the year ended 31 December 2012 from the year ended 31 December 2011. This mainly reflected an increase in advertising and promotional activities on products and platforms such as online games and mobile applications, as well as spending related to the London Olympic Games. Staff costs also increased along with our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for the year ended 31 December 2012, broadly stable compared to the year ended 31 December 2011.

General and administrative expenses. General and administrative expenses increased by 47% to RMB7,765 million for the year ended 31 December 2012 from the year ended 31 December 2011. This was primarily driven by increases in research and development expenses, staff costs and administrative expenses, partially offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of revenues, general and administrative expenses decreased to 18% for the year ended 31 December 2012 from 19% for the year ended 31 December 2011.

Finance (costs)/income, net. We recorded finance costs, net of RMB348 million for the year ended 31 December 2012, compared to finance income, net of RMB36 million for the year ended 31 December 2011. The change was mainly driven by higher interest expense and the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the year ended 31 December 2012.

Income tax expense. Income tax expense increased by 21% to RMB2,266 million for the year ended 31 December 2012 from the year ended 31 December 2011. This primarily reflected: 1) higher profit before income tax; 2) 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; and 3) lower reversal of deferred tax liabilities arising from the Riot Games Acquisition. These factors were partially offset by a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 25% to RMB12,732 million for the year ended 31 December 2012 from the year ended 31 December 2011. Non-GAAP profit attributable to equity holders of the Company increased by 31% to RMB14,286 million for the year ended 31 December 2012 from the year ended 31 December 2011.

Other Financial Information

	Year ended 31 December		Unaudited Three months ended		
			31 December	30 September	31 December
	2012	2011	**2012**	2012	2011
	(RMB in thousands, unless specified)				
EBITDA (a)	**17,540,340**	13,298,239	**4,362,868**	4,591,603	3,502,553
Adjusted EBITDA (a)	**18,445,132**	14,030,930	**4,640,940**	4,784,020	3,722,671
Adjusted EBITDA margin (b)	**42.0%**	49.2%	**38.2%**	41.4%	47.0%
Interest expense	**326,562**	72,537	**103,536**	86,104	27,959
Net cash (c)	**27,381,274**	17,667,030	**27,381,274**	23,492,375	17,667,030
Capital expenditures (d)	**4,493,430**	3,689,199	**1,783,830**	1,132,314	891,994

Note:

(a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.

(b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.

(c) Net cash represents year/period end balance and is calculated as cash and cash equivalents, short-term and long-term deposits, and restricted cash pledged for secured bank borrowings, minus total borrowings and long-term notes payable.

(d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the years/periods indicated:

	Year ended 31 December		Unaudited Three months ended 31 December	Unaudited Three months ended 30 September	Unaudited Three months ended 31 December
	2012	2011	**2012**	2012	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000
Operating profit	**15,479,413**	12,253,550	**3,726,075**	4,124,365	3,091,569
Less: Interest income	**(835,671)**	(468,990)	**(266,351)**	(205,781)	(137,623)
Add: Other losses/(gains), net	**283,900**	(420,803)	**202,248**	14,791	(69,725)
Add: Depreciation of fixed assets and investment properties	**1,880,078**	1,208,261	**530,977**	480,101	390,135
Add: Amortisation of intangible assets	**732,620**	726,221	**169,919**	178,127	228,197
EBITDA	**17,540,340**	13,298,239	**4,362,868**	4,591,603	3,502,553
Equity-settled share-based compensation	**904,792**	732,691	**278,072**	192,417	220,118
Adjusted EBITDA	**18,445,132**	14,030,930	**4,640,940**	4,784,020	3,722,671

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 year/period, non-GAAP net margin and non-GAAP profit attributable to equity holders of the Company, have been presented in this annual report. 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 years ended 31 December 2012 and 2011, the fourth quarters of 2012 and 2011, and the third quarter of 2012 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2012							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in thousands, unless specified)							
Operating profit	**15,479,413**	**904,792**	**107,600**	**5,150**	**247,272**	**699,000**	**(390,472)**	**17,052,755**
Profit for the year	**12,784,852**	**904,792**	**107,600**	**5,150**	**286,830**	**699,000**	**(390,472)**	**14,397,752**
Profit attributable to equity holders	**12,731,871**	**890,285**	**94,884**	**5,150**	**255,705**	**699,000**	**(390,472)**	**14,286,423**
Operating margin	**35.3%**							**38.9%**
Net margin	**29.1%**							**32.8%**

	Year ended 31 December 2011							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in thousands, unless specified)							
Operating profit	12,253,550	732,691	82,080	(708,486)	607,851	243,000	–	13,210,686
Profit for the year	10,224,831	732,691	82,080	(708,486)	431,434	243,000	–	11,005,550
Profit attributable to equity holders	10,203,083	724,266	75,749	(708,486)	402,596	243,000	–	10,940,208
Operating margin	43.0%							46.4%
Net margin	35.9%							38.6%

	Unaudited three months ended 31 December 2012							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in thousands, unless specified)							
Operating profit	**3,726,075**	**278,072**	**24,765**	**–**	**40,267**	**251,000**	**–**	**4,320,179**
Profit for the period	**3,470,806**	**278,072**	**24,765**	**–**	**65,065**	**251,000**	**–**	**4,089,708**
Profit attributable to equity holders	**3,463,593**	**275,016**	**21,833**	**–**	**56,314**	**251,000**	**–**	**4,067,756**
Operating margin	**30.7%**							**35.5%**
Net margin	**28.6%**							**33.7%**

	Unaudited three months ended 30 September 2012							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in thousands, unless specified)							
Operating profit	4,124,365	192,417	24,860	5,150	38,494	448,000	(390,472)	4,442,814
Profit for the period	3,241,145	192,417	24,860	5,150	66,013	448,000	(390,472)	3,587,113
Profit attributable to equity holders	3,218,693	189,660	21,921	5,150	58,385	448,000	(390,472)	3,551,337
Operating margin	35.7%							38.4%
Net margin	28.0%							31.0%

	Unaudited three months ended 31 December 2011							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in thousands, unless specified)							
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	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%

Note:

(a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives

(b) Losses/(gains) on deemed disposal of previously held interests in associates and/or available-for-sale financial assets

(c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax

(d) Impairment provision for interests in associates, jointly controlled entities and/or available-for-sale financial assets

(e) Special dividend income from Mail.ru

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash positions as at 31 December 2012 and 30 September 2012 are as follows:

	Audited 31 December 2012 RMB'000	Unaudited 30 September 2012 RMB'000
Cash and cash equivalents	**13,383,398**	13,441,768
Short-term deposits	**13,805,675**	14,281,401
Long-term deposits	**10,891,718**	8,591,724
	38,080,791	36,314,893
Borrowings	**(3,182,751)**	(5,231,325)
Long-term notes payable	**(7,516,766)**	(7,591,193)
Net cash	**27,381,274**	23,492,375

As at 31 December 2012, RMB8,055 million of our financial resources (30 September 2012: RMB10,171 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.

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 10 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 75 of this annual report.

The directors have recommended the payment of a final dividend of HKD1.00 per share for the year ended 31 December 2012. The dividend is expected to be payable on 30 May 2013 to the shareholders whose names appear on the register of members of the Company on 23 May 2013. The total dividend for the year under review is HKD1.00 per share.

RESERVES

The Company may pay dividends out of share premium, retained earnings and any other reserves in respect of prior profits provided that immediately following the payment of such dividends the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2012, the Company had distributable reserves amounting to RMB4,669 million (2011: RMB1,591 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 19 and Note 20 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 19 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2012 are set out in Note 10 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in Note 25 and Note 26 to the consolidated financial statements.

DONATION

The donation made by the Group in the year was RMB120 million to the Tencent Charity Fund.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2012, the Company repurchased 154,400 shares on the Stock Exchange for an aggregate consideration of approximately HKD25 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 2012	No. of shares purchased	Purchase consideration per share: Highest price paid HKD	Purchase consideration per share: Lowest price paid HKD	Aggregate consideration paid HKD
January	128,400	153.0	151.9	19,582,798
May	26,000	205.0	204.4	5,326,269
Total	154,400			24,909,067

Save as disclosed above and in Note 19 to the consolidated financial statements, 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 2012.

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

As at 31 December 2012, there were a total of 5,140,000 outstanding share options granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Exercise price HKD	Number of shares issuable under the options: As at 1 January 2012	Granted during the year	Exercised during the year	As at 31 December 2012	Exercise period
Lau Chi Ping Martin	4 April 2007	25.26	600,000	–	600,000 (Note 5)	–	4 April 2008 to 23 March 2014 (Note 1)
	5 July 2007	33.05	2,000,000	–	1,000,000 (Note 5)	1,000,000	5 July 2009 to 4 July 2014 (Note 2)
	5 July 2007	33.05	3,000,000	–	–	3,000,000	5 July 2010 to 4 July 2014 (Note 3)
	24 March 2010	158.50	1,000,000	–	–	1,000,000	24 March 2015 to 23 March 2020 (Note 4)
		Total	6,600,000	–	1,600,000	5,000,000	
Li Dong Sheng	4 April 2007	25.26	40,000	–	–	40,000	4 April 2008 to 23 March 2014 (Note 1)
Iain Ferguson Bruce	4 April 2007	25.26	60,000	–	20,000 (Note 5)	40,000	4 April 2008 to 23 March 2014 (Note 1)
Ian Charles Stone	4 April 2007	25.26	60,000	–	–	60,000	4 April 2008 to 23 March 2014 (Note 1)
		Grand Total	6,760,000	–	1,620,000	5,140,000	

Note:

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

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

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

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

5. The closing price immediately before the dates on which the options were exercised by each of the directors were as follows:

Name of director	**Weighted average closing price HKD**
Lau Chi Ping Martin	233.9
Iain Ferguson Bruce	221.4

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

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
1.	Purposes	To recognise the contribution that certain individuals have made to the Group, to attract the best available personnel and to promote the success of the Group's business			
2.	Qualifying participants	Any eligible employee, including executive directors of the Company	Any employee, consultant or director of any company within the Group	Any employee (whether full time or part time), executive or officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity	Any senior executive or senior officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 88,903,654 shares, 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall be 36,018,666 shares, 2% of the relevant class of securities of the Company in issue as at 13 May 2009. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme III and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
4.	Maximum entitlement of each participant	The number of ordinary shares in respect of which options may be granted is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	All the options are exercisable in installments from the commencement of the relevant vesting period until 31 December 2011, but on the condition that the Company has been listed in a sizeable securities market. The Board may at their discretion determine the specific vesting and exercise periods.	The option period is determined by the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the options.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 10-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
6.	Acceptance of offer	Options granted must be accepted within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Subscription price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
8.	Remaining life of the scheme	It expired on 31 December 2011.	It shall be valid and effective for a period of ten years, commencing on 24 March 2004.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.

Note:

The total number of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III is 86,247,332, which is approximately 4.65% of the issued share capital of the Company as at the date of the annual report.

MOVEMENTS IN THE SHARE OPTION

Details of the movements in the share options during the year are set out in Note 21 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 21 to the consolidated financial statements.

SHARE AWARD SCHEME

The Company adopted the Share Award Scheme in which eligible persons (including any director) of the Group will be entitled to participate. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the adoption date. The maximum number of shares which can be awarded under the Share Award Scheme and to an Awarded Person are limited to two percent (i.e. 35,755,232 shares) and one percent (i.e. 17,877,616 shares) of the issued share capital of the Company respectively as at the date of adoption.

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

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

The Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the Awarded Persons satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Awarded Persons, the relevant Awarded Shares will be transferred to the Awarded Persons on or about the relevant vesting dates.

During the year, a total of 7,569,380 Awarded Shares were granted and no Awarded Shares were granted to the directors of the Company. Details of the movements in the Share Award Scheme during the year are set out in Note 21 to the consolidated financial statements.

As at 31 December 2012, there were a total of 28,000 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	**Date of grant**	**As at 1 January 2012**	**Granted during the year**	**Vested during the year**	**As at 31 December 2012**	**Vesting period**
Iain Ferguson Bruce	17 March 2011	20,000	–	4,000	16,000	17 March 2012 to 17 March 2016
Ian Charles Stone	17 March 2011	15,000	–	3,000	12,000	17 March 2012 to 17 March 2016
	Total	35,000	–	7,000	28,000	

DIRECTORS AND SENIOR MANAGEMENT

The directors and senior management of the Company during the year and up to the date of this report were:

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong

Non-Executive Directors

Jacobus Petrus Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

Mr Antonie Andries Roux, who was a non-executive director of the Company, passed away on 24 June 2012 and ceased to be a non-executive director of the Company on the same date. In accordance with Article 87 of the Articles of Association, Messrs Zhang Zhidong and Ian Charles Stone will retire at the AGM and, being eligible, will offer themselves for re-election. In addition, in accordance with Article 86(3) of the Articles of Association, Mr Jacobus Petrus Bekker, who was appointed on 14 November 2012, will hold office until the AGM and, being eligible, will offer himself for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ma Huateng, age 41, is an executive director, Chairman of the Board and CEO of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 5th Shenzhen Municipal People's Congress and the 12th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 19 years of experience in the telecommunications and Internet industries. He is also a director of Advance Data Services Limited which holds shares of the Company.

Lau Chi Ping Martin, age 39, is an executive director with effect from 21 March 2007. Mr Lau was appointed as the President of the Company in February 2006 to assist Mr Ma, Chairman of the Board and CEO, in managing the day-to-day operation of the Company. In February 2005, he joined the Company as the Chief Strategy and Investment Officer of the Company, and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong.

Zhang Zhidong, age 41, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 16 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which holds shares of the Company.

Jacobus Petrus Bekker, age 60, has been a non-executive director since November 2012. Mr Bekker is the managing director and CEO of Naspers Limited, a company listed on the Johannesburg Stock Exchange since 1997 and the controlling shareholder of the Company. Mr Bekker is one of the founding members of M-Net/ MultiChoice South Africa pay-television business in 1985. He was also a founder of the cellular telephony business MTN. Mr Bekker led the MIH group until 1997 when he became CEO of Naspers Limited. He served on the local organising committee for the 2010 FIFA World Cup and the Council of the University of Stellenbosch. Mr Bekker obtained a Bachelor of Arts degree in law and an honours degree in languages at the University of Stellenbosch in 1974 and 1975 respectively. He also obtained a Bachelor of Laws degree from University of the Witwatersrand in 1978 and an MBA from Columbia University in 1984. Mr Bekker was awarded an honorary doctorate degree in commerce from the University of Stellenbosch.

Charles St Leger Searle, age 49, has been a non-executive director since June 2001. Mr Searle is currently CEO of MIH Internet Listed Assets. Prior to joining the MIH group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with MIH. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 19 years of experience in the telecommunications and Internet industries.

Li Dong Sheng, age 55, has been an independent non-executive director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 18 years of experience in the information technology field.

Iain Ferguson Bruce, age 72, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 48 years' experience in the accounting profession. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Paul Y. Engineering Group Limited, a construction and engineering services company, Sands China Ltd., an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed companies in Hong Kong. Mr Bruce is also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed in Singapore, of China Medical Technologies, Inc., a China-based medical device company that is listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce is an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited.

Ian Charles Stone, age 62, has been an independent non-executive director since April 2004. Mr Stone is currently an Advisor on International Projects for PCCW Limited and CEO of SITC (a PCCW joint venture) in Saudi Arabia. Since 2001 in PCCW he has been CEO of UK Broadband in UK and then PCCW Mobile in Hong Kong, followed by being the Managing Director of the International Projects business. Mr Stone has more than 42 years of experience in the telecom and mobile industries. He was CEO of SmarTone between 1999 and 2001 prior to which held various senior positions in telecom businesses of the First Pacific Group in Hong Kong and Philippines. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom, including as Managing Director of CSL and Commercial Director of Hong Kong Telecom. Mr Stone is a fellow member of the Hong Kong Institute of Directors.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 41, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science Degree in Computer Science from Shenzhen University in 1993 and a Master of Science Degree in Computer Science from Nanjing University in 1996.

Chen Yidan, age 42, Chief Administration Officer, oversees administration, legal affairs, human resources and charity fund of the Company. Mr Chen is also responsible for the Group's management system, intellectual property rights and government relations. Mr Chen is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Chen worked in the Shenzhen Entry-Exit Inspection and Quarantine Bureau for several years. Mr Chen received a Bachelor of Science Degree in Applied Chemistry from Shenzhen University in 1993 and a Master of Law Degree in Economic Law from Nanjing University in 1996. Mr Chen will cease to be the Chief Administration Officer with effect from 20 March 2013 and is appointed as Advisor Emeritus of the Company with effect from 21 March 2013.

Ren Yuxin, age 37, Chief Operating Officer and President of Interactive Entertainment Group and Mobile Internet Group, joined the Company in 2000 and had served as General Manager for the value-added services development division and General Manager for Interactive Entertainment business division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the Interactive Entertainment Group, Mobile Internet Group and Social Network Group. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Ltd.. Mr Ren received a Bachelor of Science Degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA from China Europe International Business School (CEIBS) in 2008.

Xiong Minghua, age 47, Co-Chief Technology Officer, joined the Company in 2005. He is responsible for product strategy planning of the overall platform, new product innovation, research and development of core technologies, and management for engineering excellence of the Group. Mr Xiong has been responsible for research and investment in Internet technology innovation and forefront of the industry development trend since May 2012. Prior to joining the Company, Mr Xiong worked at Microsoft for 9 years and was responsible for the product management of Internet Explorer, Windows and MSN. He also established the MSN China Development Center. Prior to that, he worked at IBM Internet Division. Mr Xiong received a Bachelor of Engineering Degree in Information System Engineering from National University of Defense Technology in 1987 and a Master of Science Degree in Information Retrieval from Chinese Defense Science and Technology Information Center (CDSTIC) in Beijing in 1990.

James Gordon Mitchell, age 39, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 2011. He has responsibility for areas such as the Company's strategic planning, strategic implementation, and investor relationships since 2012. Prior to joining the Company, Mr Mitchell had worked in investment banking for 16 years. Most recently, Mr Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr Mitchell received a Bachelor Degree from Oxford University and holds a Chartered Financial Analyst Certification.

Lau Seng Yee, age 46, Senior Executive Vice President and President of Online Media Group, joined the Company in 2006 and is responsible for overseeing the Company's online media business, and the development of the Company's online advertising business model, as well as the branding strategies for the Company. Mr Lau is a seasoned professional in the media industry with more than 20 years of solid experience working, with a rare 18 years of on-ground China market experience. In 2007, Mr Lau sat in the advisory board for ad:tech, the globally renowned organization for Online Marketing. Mr Lau held the post of Vice President of China Advertising Association since 2007, as well as the Visiting Professor of Shanghai Normal University. In 2010, Mr Lau was appointed as the Adjunct Professor of School of Journalism and Communication of Xiamen University. Prior to joining the Company, Mr Lau was the Managing Partner of Publicis China and CEO for BBDO China. Before that, he also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr Lau received an EMBA from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr Lau was honored by New York based AdAge publication as one of "The World's 21 Most Influential People in Marketing and Media Industry, 2009-2010".

Tong Tao Sang, age 39, Senior Executive Vice President and President of Social Network Group, joined the Company in 2005 and has been responsible for the management of product platform as well as research and development of Internet business since October 2008. Since May 2012, Mr Tong has been responsible for the development of social networking platform and open-platform. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr Tong received a Bachelor of Science Degree in Computer Science from University of Michigan, Ann Arbor in 1994 and a Master of Science Degree in Electrical Engineering from Stanford University in 1997.

Lu Shan, age 38, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as General Manager for IM Product Division, Vice President for Platform Research and Development of the Company and Senior Vice President for Operations Platform System. Since March 2008, Mr Lu has been responsible for overseeing the Operations Platform System of the Company. Since May 2012, Mr Lu has been in charge of management of the technical and operational platform, search related products, technology development and operations. Prior to joining the Company, he worked for Liming Network Systems. Mr Lu received a Bachelor of Science Degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998.

Wu Xiaoguang, age 37, Senior Executive Vice President and CEO of Tencent E-Commerce Holdings Limited, joined the Company in 1999, he led the development and product planning for the Group's core product, the QQ IM client software and has served as Project Manager for the research and development team of QQ, General Manager for IM product, General Manager for Internet business division and Senior Vice President of Internet Services Division. Since May 2012, Mr Wu has been appointed as CEO of Tencent E-Commerce Holdings Limited, responsible for the development and management of e-Commerce business. Mr Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. He received a Bachelor of Science Degree in Weather Dynamics from Nanjing University in 1996 and an EMBA from China Europe International Business School (CEIBS) in 2008.

David A M Wallerstein, age 38, Senior Executive Vice President, joined the Company in 2001. He oversees the Company's international business initiatives through identifying cooperation with multinational partners and is responsible for the Group's operations outside the PRC. Prior to joining the Company, Mr Wallerstein was the Vice President, Business Development of MIH in China, and was involved in Internet strategy and mergers and acquisitions activities in China. Prior to that, Mr Wallerstein worked as a management consultant in China's telecommunications and IT industries. Mr Wallerstein received a Master's Degree in Political Economy from UC Berkeley and a Bachelor's Degree from the Jackson School at the University of Washington.

Liu Chengmin, age 41, Senior Executive Vice President, joined the Company in 2003 as General Manager for telecommunication business division and mobile communication business division. Since October 2005, Mr Liu has been responsible for the development and operation of the Company's wireless business and the management of its regional markets in China. Since May 2012, Mr Liu is now assisting the management of the operation and development of the mobile internet business and operation of search business. Prior to joining the Company, Mr Liu worked for Huawei Technologies Co., Ltd. in its domestic marketing and sales department. Mr Liu received a Master of Science Degree in Mechanics from Harbin Industrial University.

Zhang Xiaolong, age 43, Senior Vice President, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin and QQ Mail. He is also responsible for the management and review of major innovation projects. Prior to joining the Company, Mr Zhang developed Foxmail independently in 1997 as the 1st generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr Zhang received his Master's Degree in Telecommunications from Huazhong University of Science and Technology in 1994.

John Shek Hon Lo, age 44, Senior Vice President and Chief Financial Officer, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr Lo was appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr Lo received a Bachelor of Business in Accounting from Curtin University of Technology and an EMBA from Kellogg Graduate School of Management, Northwestern University and HKUST.

Guo Kaitian, age 40, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, public relations, charity fund, procurement as well as the functional management of the branches in Beijing, Shanghai and Chengdu. Mr Guo received a Bachelor of Law Degree from Zhongnan University of Economics and Law in 1996.

Xi Dan, age 37, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr Xi was responsible for HR management in ZTE Corporation and has more than 16 years of experience in IT and Internet industries. Mr Xi received a Bachelor of Science Degree in Computer Science from Shenzhen University in 1996 and a MBA Degree from Tsinghua University in 2005.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs Ma Huateng and Zhang Zhidong has entered into a service contract with the Company for a term of less than 3 years from 25 March 2013 to 31 December 2015. The term of each service contract can be extended by agreement between the Company and the relevant director. The Company may terminate the service contracts by three months' written notice at any time, subject to paying the director his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination becomes effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years ending 31 December 2015. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programs and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2012, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long/short position in the shares and underlying shares of the Company

Name of Director	Long/short position	Nature of interests	Number of shares/underlying shares held	Percentage of issued share capital
Ma Huateng	Long position	Corporate (Note 1)	189,892,880	10.25%
Zhang Zhidong	Long position	Corporate (Note 2)	66,000,000	3.56%
Lau Chi Ping Martin	Long position	Personal	9,603,600 (Note 3)	0.52%
Li Dong Sheng	Long position	Personal	40,000 (Note 4)	0.002%
Iain Ferguson Bruce	Long position	Personal	92,000 (Note 5)	0.005%
Ian Charles Stone	Long position	Personal	75,000 (Note 6)	0.004%

Note:

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

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

3. The interest comprises 4,603,600 shares and 5,000,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

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

5. The interest comprises 36,000 shares and 56,000 underlying shares in respect of the 40,000 share options granted pursuant to the Post-IPO Option Scheme I and 16,000 awarded shares granted pursuant to the Share Awarded Scheme. Details of the share options and awarded shares granted to this director are set out above under "Share Option Schemes" and "Share Award Scheme" respectively.

6. The interest comprises 3,000 shares and 72,000 underlying shares in respect of the 60,000 share options granted pursuant to the Post-IPO Option Scheme I and 12,000 awarded shares granted pursuant to the Share Awarded Scheme. Details of the share options and awarded shares granted to this director are set out above under "Share Option Schemes" and "Share Award Scheme" respectively.

(B) Long position in the shares in associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB6,857,130 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2012.

CONNECTED TRANSACTIONS

Reference is made to the waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004. The Company's independent non-executive directors had reviewed the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2012 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Cyber Shenzhen, Tencent Chengdu, Tencent Shanghai and Tencent Wuhan. The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by Tencent Computer, Shiji Kaixuan or the New OPCOs to the holders of their equity interests and any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period the terms of which are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to the New OPCOs.

The Auditor had carried out procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of Tencent Computer, Shiji Kaixuan and the New OPCOs as at 31 December 2012 to the WFOEs and that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan or the New OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2012, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the TCS CFC, the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established the TCS Co-operation Committee according to this agreement. During the year, revenue sharing amounting to approximately RMB14,862,923,000, RMB1,885,814,000, RMB3,902,301,000, RMB846,322,000, RMB1,113,910,000, and RMB119,989,000 were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, and Tencent Wuhan, respectively. In addition, during the year, Internet data center service fee amounting to approximately RMB349,800,000 was paid or payable by Tencent Computer to Cyber Tianjin.

2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, no services was transacted under such arrangements, save as disclosed elsewhere in this section.

3. Pursuant to the amended and restated intellectual property transfer agreement dated 28 February 2004 entered into between Tencent Technology and Tencent Computer, Tencent Computer shall assign to Tencent Technology its principal present and future intellectual property rights, free from encumbrances (except for licences granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no intellectual property transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

4. Pursuant to the intellectual property transfer agreement dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan, Shiji Kaixuan shall assign to Cyber Tianjin its principal present and future intellectual property rights, free from encumbrance (except for licences granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no intellectual property transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive license to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name license was transacted under such arrangements, save as disclosed elsewhere in this section.

6. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a nonexclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

7. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a nonexclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the agreement or the TCS CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

8. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Cooperation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, revenue sharing amounting to approximately RMB9,000, RMB21,000, RMB173,000, and RMB186,000 was paid or payable by Beijing Emark to Tencent Technology, Cyber Tianjin, Tencent Beijing and Tencent Wuhan, respectively. During the year, revenue sharing amounting to approximately RMB178,033,000, RMB69,640,000, RMB463,364,000, and RMB6,012,000 was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin, Tencent Beijing, and Tencent Wuhan, respectively. Revenue sharing amounting to approximately RMB46,058,000, RMB76,579,000, RMB128,061,000, RMB356,474,000, and RMB17,543,000 was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu and Tencent Wuhan respectively. Revenue sharing amounting to approximately RMB3,028,000, RMB5,000, RMB12,819,000, RMB37,702,000, and RMB12,000 was paid or payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu and Tencent Wuhan respectively. Revenue sharing amounting to approximately RMB128,000 was paid or payable by Guangzhou Yunxun to Tencent Technology.

Save as the related parties transaction disclosed in Note 41(a) to the Consolidated Financial Statements, no related parties transactions disclosed in the Consolidated Financial Statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long/short position in the shares in the Company

Name of shareholder	Long/short position	Nature of interest	Number of shares	Percentage of issued share capital
MIH TC	Long position	Corporate (Note 1)	630,240,380	34.01%
Advance Data Services Limited	Long position	Corporate (Note 2)	189,892,880	10.25%

Note:

1. As MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH (Mauritius) Limited and MIH Holdings Limited. Naspers Limited, MIH (Mauritius) Limited and MIH Holdings Limited are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO.

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

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 31 December 2012, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the five largest customers of the Group accounted for approximately 8.2% of the Group's total revenues while the largest customer of the Group accounted for approximately 1.9% of the Group's total revenues. In addition, for the year ended 31 December 2012, the five largest suppliers of the Group accounted for approximately 37.3% of the Group's total purchases while the largest supplier of the Group accounted for approximately 18.3% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued capital) had an interest in any of the major customers or suppliers noted above.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2012. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the 2011 annual report and the 2012 interim report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012.

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

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The directors of the Company have complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2012, the Group had 24,160 employees (2011: 17,446). The number of employees employed by the Group varies from time to time depending on needs and the 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 2012 was RMB7,724 million (2011: RMB4,879 million).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the AGM

The register of members will be closed from Monday, 13 May 2013 to Wednesday, 15 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, 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 Friday, 10 May 2013.

(B) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 22 May 2013 to Thursday, 23 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order 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 Tuesday, 21 May 2013.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 20 March 2013

Corporate Governance Report

Strong corporate governance and ethical business practices are core values of the Group. The Board views effective corporate governance practices as priority, with the aim of providing our investors a thorough understanding of the Group's management and how the different businesses of the Group are managed. Our belief is that investors will recognise significant long-term value when the Group's businesses are conducted in an open and responsible manner. Ethical business practices go hand in hand with strong corporate governance, and we believe that running our businesses in an ethical manner will create trust with the public and ultimately create value for investors.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in former Appendix 14 to the Listing Rules from 1 January 2012 to 31 March 2012 (the "Former Code") and has complied with the applicable code provisions as set out in the CG Code, except for the deviation from the code provisions A.2.1 regarding the segregation of the role of the chairman and chief executive and A.4.2 regarding the retirement and re-election of directors.

The Board continues to monitor and review the Company's corporate governance practices and makes necessary changes at an appropriate time.

BOARD OF DIRECTORS

Responsibilities

The Board's fundamental responsibility is to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board oversees management's efforts to promote the Company's success while operating in an effective and responsible manner. The Board also formulates the Company's overall business strategy and monitors management's execution of this strategy.

By discharging its responsibilities, the Board has defined the business and governance issues for which it needs to be responsible, and these matters reserved for the Board have been separately defined, and are reviewed periodically, to ensure that the Company maintains the proper level of corporate governance. In this regard, the Board:

- determines the Group's mission, provides its strategic direction and is responsible for the approval of strategic plans
- approves the annual business plan and budget proposed by management
- retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual budget and business plan
- appoints the CEO, who reports to the Board, and ensures that succession is planned
- approves the Company's financial statements, quarterly, interim and annual reports

- determines the Group's communication policy
- determines director selection, orientation and evaluation
- ensures that the Group has appropriate risk management, internal control and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders
- establishes Board sub-committees with clear terms of reference and responsibilities as appropriate
- defines levels of delegation in respect of specific matters, with required authority to Board sub-committees and management
- monitors non-financial aspects pertaining to the business of the Group
- considers and, if appropriate, declares the payment of dividends to shareholders
- regularly evaluates its own performance and effectiveness

The Board delegates the responsibility of day-to-day business and operations to the Company's senior management team, which includes its chief officers, the president and executive vice-presidents. The senior management team meets once every two weeks or as frequent as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Company as well as its subsidiaries and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

To better serve the long term interests of our stakeholders, the Board dedicates certain matters which require particular time, attention and expertise to be devoted to its Committees. The Board has determined that these matters are better dealt with by the Committees as they require independent oversight and specialists input. As such, the Board has established five Committees to assist the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. Each of the Committees has terms of reference which clearly specifies its powers and authorities. All Committees report back to the Board and make recommendations to the Board if necessary.

The Company's governance structure of these Committees can be summarised as follows:

Audit Committee

- handles the relationship with the Company's external auditor
- reviews the Company's financial information
- exercises oversight of the Company's financial reporting system and internal control procedures

Corporate Governance Committee

- reviews the Company's corporate governance matters and makes recommendations to the Board
- reviews and monitors the training and continuous professional development of the directors of the Company and senior management team
- reviews and monitors the Company's policies and practices on the compliance with legal and regulatory requirements
- develops, reviews and monitors the code of conduct and compliance manual (if any) applicable to employees and directors
- reviews the Shareholders Communication Policy and makes recommendations to the Board where appropriate to enhance effective communications between the Company and its shareholders
- reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report

Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals
- ensures compliance of the Listing Rules and any other relevant laws and regulations of any mergers, acquisitions and disposals

Nomination Committee

- reviews and monitors the structure, size and composition of the Board in light of the Company's strategy
- identifies individuals and makes recommendations to the Board to be new Board members, by taking into account of the individual's experience, knowledge, skills, qualifications and characters, as well as the Listing Rules requirements
- reviews and makes recommendations to the Board on individuals nominated to be a director by shareholders
- assesses the independence of independent non-executive directors

Remuneration Committee

- reviews and approves proposals about the policy and structure of remuneration of directors and senior management team
- ensures these remuneration proposals are aligned to corporate goals and objectives
- ensures that no director or any of his or her associates is involved in deciding his own remuneration

The work of the Committees during the year 2012 is set out on pages 59 to 62.

All directors have full and timely access to all relevant information as well as advice and services of the Company's general counsel and the Company Secretary, with a view to ensuring the Board procedures and all applicable rules and regulations are followed. All directors may also obtain independent professional advice at the Company's expenses for carrying out their functions.

We believe ongoing education and training, as well as participation in director education programs, is important for maintaining a current and effective Board. In order to ensure the directors are aware of their responsibilities as directors of the Company, and for the Company to take advantage of their rich mix of knowledge and experience, it is our practice that new directors have to undergo an orientation programme and the existing directors have to attend a comprehensive, formal and tailored training on their duties and responsibilities as directors provided by external professional advisors that includes written materials, oral presentations and meetings with senior management team. New directors would also receive a directors' handbook on their responsibilities under the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company, which was last updated in November 2012. Trainings will be provided by external advisors on a regular basis in relation to any updates of laws and regulations which relate to the Director's responsibilities and the Company's business to update the directors on the new amendments to the CG Code and Listing Rules.

Maintaining a high level of corporate governance and integrity cannot depend solely on the Board's efforts, each of the Group's employees is also required to contribute to such cause. The Company thus distributes a code of conduct policy which emphasises on honesty and respect is distributed to all employees and forms part of their service contracts. This handbook is updated when necessary.

In addition, the Board has adopted various practices to bring the Group to a high level of corporate governance and in compliance with the CG Code.

The Listing Rules and the CG Code have been amended in 2012. We welcome these changes as we believe as time evolves, the investor community expects a higher level of corporate governance and transparency of listed companies. We have improved and implemented the following changes to our corporate governance practices to address these amendments:

- Formulation of a shareholders communication policy which was approved by the Board on 14 March 2012
- Trainings have been and will continue to be provided to directors on a timely basis, including briefing the directors on any updates to the Listing Rules and the laws
- Corporate Governance Committee was established on 14 March 2012
- Company Secretary attends trainings in compliance with the Listing Rules requirements
- Informal updates and structured monthly updates on the Company's performance, position and prospects are provided to the directors

Chairman and CEO

Mr Ma Huateng serves as the Chairman and CEO of the Company. This is at variance with code provision A.2.1 of the Former Code and the CG Code, which provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

In view of the ever-changing business environment in which our Group operates, the Chairman and CEO must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a segregation of the role of the Chairman and CEO may create unnecessary costs for the daily operation of the Group.

Besides, all major decisions have been made in consultation with members of the Board and appropriate Committees, as well as the senior management team. Chief officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer Board's enquiries. In addition, directors are encouraged to participate actively in all Board and Committee meetings of which they are members, and the Chairman ensures that adequate time is available for discussion for all items. During the year ended 31 December 2012, the Chairman held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of the executive directors, presenting diversified perspectives for the Chairman to consider.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

Composition

The Board currently comprises a total of eight directors, with three executive directors, two non-executive directors and three independent non-executive directors. During the year ended 31 December 2012 and up to the date of this annual report, the changes to the composition of the Board were as follows:

- Mr Antonie Andries Roux passed away on 24 June 2012 and ceased to be an non-executive director on the same date
- Mr Jacobus Petrus Bekker was appointed as a non-executive director with effect from 14 November 2012

A list of directors and their respective biographies are set out on pages 37 to 39 of this annual report.

In order for the Group to take advantage of the skills and experiences and in order for the directors to ensure that they give sufficient time and attention to the Group's affairs, we request the directors to disclose to the Company quarterly the number and the nature of offices held in public companies or organisations and other significant commitments. The Board's composition is in compliance with the new requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the balance between the executive directors and non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group.

The Board values the importance of independent judgment and advice provided by non-executive directors to safeguard the interests of the shareholders. The non-executive directors contribute diversified qualifications and experience to the Group by expressing their views and actively participate in Board and Committee meetings and to bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, with the shareholders' interests being the utmost important factor. Further, in compliance with Rule 3.10 of the Listing Rules, one of our independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise, who provides valuable advice from time to time to the Board. The Company has also received from each independent non-executive director a confirmation of his independence and the Nomination Committee of the Company has conducted an annual review and considers that all independent non-executive directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules. No independent non-executive director has served the Company for more than nine years.

As part of our corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, independent non-executive directors are identified as such in all corporate communications containing the names of the directors. In addition, an updated list of directors identifying the independent non-executive directors and the roles and functions of the directors is maintained on the Company Website and the Stock Exchange's website.

Appointments, Re-election and Removal

The Board is the core of the Group's success, and with the right membership of the Board, we can benefit from the right set of skills and experience to take the Company forward. Therefore, it is essential for the Company to maintain the established formal, considered and transparent procedure for the appointment of new directors to the Board. It is our corporate governance practice and in accordance with the Articles of Association that all directors (except for the Chairman) should be subject to re-election at regular intervals and the resignation and removal of any director should be explained with reasons. In the 2012 Annual General Meeting, two directors (Mr Li Dong Sheng and Mr Iain Ferguson Bruce) retired and were re-elected.

Code provision A.4.2 of CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Since the Chairman, in accordance with the Articles of Association, whilst holding such office is not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year, code provision A.4.2 of CG Code is deviated. The Chairman is one of the founders of the Group and he plays a key role in the growth and development of the Group. At present, the Chairman's continuing presence in the Board is vital to assure sustainable development of the Group. Given the importance of the Chairman's role in the development of the Group, the Board considers that the relevant provision in the Articles of Association has no material impact on the operation of the Group as a whole.

As Mr Ian Charles Stone, who was re-elected in 2009 Annual General Meeting, was not considered at the 2012 Annual General Meeting, code provision A.4.2 of CG Code is deviated. Mr Ian Charles Stone's re-election will be considered at the AGM. The Board considers that such deviation from code provision A.4.2 of CG Code does not have any material impact on the operation of the Group as a whole.

Board Activity

The Board meets four times during the year as a minimum and, during the year of 2012, it met five times. The attendance of each director at Board and Committee meetings, whether in person or by means of electronic communication, is detailed in the table below:

		Attendance/No. of Board or Committee Meetings			
Name of Director	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee
Executive directors					
Ma Huateng	5/5			1/1	
Lau Chi Ping Martin	5/5				
Zhang Zhidong	5/5				
Non-executive directors					
Antonie Andries Roux[1]	0/2				1/1
Jacobus Petrus Bekker[2]	2/2				1/1
Charles St Leger Searle	5/5	5/5	1/1	1/1	
Independent non-executive directors					
Li Dong Sheng	1/5			0/1	0/2
Iain Ferguson Bruce	4/5	5/5	1/1	1/1	
Ian Charles Stone	5/5	5/5	1/1	1/1	2/2

1 Mr Antonie Andries Roux passed away and ceased to be a non-executive director on 24 June 2012.

2 Mr Jacobus Petrus Bekker was appointed as a non-executive director on 14 November 2012.

At the Board meetings, the Board discussed on a wide range of matters, including the Group's overall strategies, financial and operational performances, approved the annual, interim and quarterly results of the Group, the appointments of director, business prospects, regulatory compliance and corporate governance, and other significant matters. The Company Secretary, in consultation with the Chairman and the senior management team, prepares the agendas for each meeting and all directors are given the opportunity to include matters for discussion in the agenda. The Company Secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. The Company Secretary sends the agendas, board papers and relevant information relating to the Group to each of the directors at least three days in advance of each Board meeting and Committee meetings, and to keep the directors updated on the Group's financial performance and latest developments. If any director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. If there is a potential conflict of interest involving a substantial shareholder or a director, that particular matter will be discussed in a physical meeting instead of being dealt with by written resolutions, and such director will abstain from voting on matters in which he has an interest. The directors may approach the Company's senior management team when necessary. The directors may also retain independent professional advisors at the Company's expense if necessary.

The Company Secretary ensures that there is a good and timely flow of information to the Board. She advises the Chairman and the Board on all governance-related matters and provides general advice to the Board. The Company Secretary is responsible for taking minutes of all Board and Committee meetings. The directors receive the draft minutes for comments shortly after each meeting and final minutes are available for review and inspection by the directors at any time.

THE COMMITTEES

As described above, the Board has established five Committees which have delegated responsibilities and report back to the Board: the Audit Committee, the Corporate Governance Committee, the Investment Committee, the Nomination Committee, and the Remuneration Committee. The roles and functions of these Committees are set out in their respective terms of reference. All relevant terms of reference (except for the Investment Committee) are available on the Company Website and the Stock Exchange's website.

Audit Committee

The Audit Committee comprises only non-executive directors. Its members are Mr Iain Ferguson Bruce, Mr Ian Charles Stone (both are independent non-executive directors) and Mr Charles St Leger Searle. Mr Iain Ferguson Bruce chairs the Audit Committee and together with Mr Charles St Leger Searle, have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than twice a year; in 2012 the Audit Committee met five times. Individual attendance of each Audit Committee member is set out on page 58. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Head of Internal Audit and the Head of Internal Control and the external auditor at the invitation of the Audit Committee.

The Audit Committee's main work during the year 2012 included reviewing:

- the 2011 annual report, including the Corporate Governance Report, Directors' Report and the financial statements, as well as the related results announcement
- the 2012 interim report and interim results announcement
- the 2012 first and third quarters results announcement
- compliance with the CG Code, the Listing Rules and relevant laws
- in relation to the external auditor, their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement
- the plans (including those for 2012), resources and work of the Company's internal auditors
- the adequacy of resources, qualification and training of the Group's Finance Department
- the effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group

PricewaterhouseCoopers (PwC) is the Group's external auditor. The Audit Committee annually reviews the relationship the Company has with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied about this relationship. As such, the Audit Committee has recommended their reappointment at the forthcoming AGM.

The Audit Committee's terms of reference were updated and effective on 1 April 2012 to ensure they continue to meet the needs of the Company and to ensure compliance with the CG Code amendments.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle, Mr Iain Ferguson Bruce and Mr Ian Charles Stone. The Corporate Governance Committee is chaired by Mr Charles St Leger Searle (appointed as the chairman of the Corporate Governance Committee on 15 August 2012).

The Corporate Governance Committee met once in 2012. Individual attendance of each Corporate Governance Committee member is set out on page 58.

During 2012, the Corporate Governance Committee discussed on the arrangements made for directors to attend training sessions as well as reviewed the Company's corporate governance matters, and, in light of the changes to the Listing Rules and CG Code, made recommendations to the Board.

Investment Committee

The Investment Committee comprises a majority of executive directors. Its members are Mr Lau Chi Ping Martin, Mr Ma Huateng, Mr Zhang Zhidong and Mr Charles St Leger Searle. The Investment Committee is chaired by Mr Lau Chi Ping Martin.

The Investment Committee considered various acquisitions and disposals by the Group and passed resolutions on its decisions during 2012.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its members are Mr Ma Huateng, Mr Li Dong Sheng, Mr Iain Ferguson Bruce, Mr Ian Charles Stone and Mr Charles St Leger Searle. The Nomination Committee is chaired by Mr Ma Huateng.

The Nomination Committee met once in 2012. Individual attendance of each Nomination Committee member is set out on page 58.

During 2012, the Nomination Committee reviewed board composition and director succession. The Nomination Committee has also identified, discussed, considered and made recommendation to the Board on the proposed appointment of Mr Jacobus Petrus Bekker as a non-executive director.

The Nomination Committee's terms of reference were approved and effective on 1 April 2012 to ensure they continue to meet the needs of the Company and to ensure compliance with the CG Code amendments.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors. Its members are Mr Ian Charles Stone, Mr Li Dong Sheng (both are independent non-executive directors) and Mr Jacobus Petrus Bekker (appointed as a member of the Remuneration Committee on 14 November 2012). Mr Ian Charles Stone chairs the Remuneration Committee.

The Remuneration Committee met twice in 2012. Individual attendance of each Remuneration Committee member is set out on page 58.

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of each member of the senior management team and make recommendations to the Board on the remuneration packages of each director.

During 2012, the Remuneration Committee:

- reviewed and recommended to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with similar scale to ensure that the Company's remuneration packages is competitive to recruit the best talents in the industry and to retain key staffs
- reviewed and recommended to the Board for approval the remuneration of the non-executive director appointed during the year
- assessed performance and, reviewed and approved amendments to the remuneration packages for the executive directors and members of the senior management team
- reviewed and approved compensation awards granted to senior management team, to recognise their valuable contributions to the Company and to provide incentives for future performances

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual and his associates were involved in determining his or her own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, Company's goals and strategy. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles.

In respect of non-executive directors, the Remuneration Committee has reviewed fees payable taking into account the particular nature of their duties, relevant guidance available and the requirements of the Listing Rules.

The Remuneration Committee's terms of reference were updated and effective on 1 April 2012 to ensure they continue to meet the needs of the Company and to ensure compliance with the CG Code amendments.

ACCOUNTS, RISKS AND INTERNAL CONTROL

As part of the Board's responsibility, the Board ensures that a balanced and clear assessment of the Group's performance and prospects are presented. The directors acknowledge that it is their responsibility to prepare the accounts that give a true and fair view of the Group's financial position on a going-concern basis and other announcements and financial disclosures. To assist the Board in discharging its responsibilities, the senior management team provides updates to the Board from time to time, including the Group's business and financial position, to give the directors a balanced and understandable assessment of the performance, position and prospects of the Group. The senior management team also provides all necessary and relevant information to the Board, giving the directors sufficient explanation and information it needs to discharge their responsibilities. The Company auditor's statement in respect of their reporting responsibilities is set out in the Auditor's Report.

The Board also has the responsibility to oversee the risks undertaken by the Group, and to actively consider, analyse and formulate strategies to control the risks the Group is exposed to, and determines the level of risk the Company wishes to and is able to take. The senior management team monitors these risks and develops effective systems and mechanisms to mitigate risks to an acceptable level as determined by the Board. The senior management team reports to the Board periodically and whenever necessary on the risks the Group faces and the actions taken to mitigate them.

An adequate and effective internal control system is key to mitigate risk and to safeguard shareholders' interests and the Group's assets against any unauthorised use or disposition. The internal control system should also ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and to ensure that the Group is in compliance with relevant legislation and regulations. The Board is responsible for maintaining such internal control system. The Board has established a set of procedures to provide effective internal controls, which includes:

- establishing a distinct organisational structure with defined lines of authority and control responsibilities. Relevant group, division or department heads actively participate in the preparation of strategic plans for achieving annual operational and financial targets. These plans serve as the foundation for the preparation of the Group's annual budget by which resources are allocated in accordance with identified and prioritised business opportunities. The Board approves the annual operating plan and budget on an annual basis

- if there are any variances against the annual budget, these variances will be analysed and actions will be taken if necessary to rectify any deficiencies noted
- IA performs independent review of the operational areas and presents its findings and prospective audit plan to the Audit Committee on a quarterly basis
- IC facilitates the senior management team to ensure controls in operational processes are efficient and effective, and regularly communicates with the Audit Committee

The IA and IC provide valuable support to the Company's internal control system. The IA reviews different business and functional operations and activities of the Group with a special focus on high risk areas. The IA also conducts ad hoc reviews in areas of concern identified by the senior management team. If the IA identifies any deficiencies, the relevant group, division or department heads will be notified on such deficiencies and will be rectified, following up with the implementation of audit recommendations. If the IA considers that the deficiency is a significant internal control weakness, such matter will be brought to the attention of the Audit Committee and the Board if necessary. The IC oversees the overall risk management and the effectiveness of internal control based on the COSO Framework. The IC also provides advice on the setting up and implementation of policies and processes to promote effective internal control. The overall risk management and internal control status will be reported to the Audit Committee.

The Audit Committee reviews the internal control system annually on behalf of the Board. The Board is satisfied that the Company's accounting and financial reporting function is adequately resourced with staff of appropriate qualifications and experience, and they receive appropriate and sufficient training and development. Based on the report from the Audit Committee, the Board is satisfied that the Company's internal audit function is adequately resourced to manage the Group's risks and safeguard the Group's assets, and that the external audit process has been effective. The Board, with the recommendation of the Audit Committee, is satisfied that the Group has complied with the provisions regarding internal controls as required under the CG Code and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the internal control system.

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and on-going communication with shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, business and financial information. The Company also encourages shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, the Company has developed and maintains a shareholders communication policy which is available on the Company Website.

The Company's general meetings provide a transparent and open platform for the Company's shareholders to communicate with the Board. The Chairman, other members of the Board and relevant members of the senior management team, under usual circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. Except for the absence of Mr Zhang Zhidong, Mr Antonie Andries Roux, Mr Li Dong Sheng and Mr Jacobus Petrus Bekker (who was appointed after the 2012 Annual General Meeting was held), all directors attended the 2012 Annual General Meeting. The Company's external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor's report and auditor independence. The Company's shareholders may also propose candidates for election as a director of the Company according to the procedures set out in the Company Website.

Pursuant to the Articles of Association, any one or more shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

In order to ensure that shareholders' interests and rights are adequately protected, separate resolutions will be proposed for each substantially separate issue at the general meetings, and all resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure the shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholder on the voting procedures can be answered before the poll voting started. An external scrutineer will be appointed to monitor and count the votes cast by poll. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Apart from participating in the Company's general meetings, the Company's shareholders are provided with contact details of the Company, such as telephone number, email address and postal address which are also available on the Company Website, in order to enable them to make any query that they may have. Shareholders may send their enquiries to the Board directly through these means. Shareholders may also contact the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, if they have any enquiries about their shareholdings and entitlements to dividends.

DISCLOSURES OF OTHER INFORMATION

The Company is required to disclosure certain information pursuant to the Listing Rules and the CG Code. We set out these information below which has not been covered above.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for securities transactions by the directors. The Company has also adopted a securities trading code for employees for securities transactions by employees who are likely to be in possession of insider information relating to the Company, the terms of which are no less exact than those of the Model Code. The Company has made specific enquiries with the directors and the directors have confirmed they have complied with the Model Code throughout 2012.

Appointment Terms of Non-Executive Directors

Each non-executive director, whether independent or not, is appointed for a term of one year and is subject to retirement by rotation at least once every three years. A director appointed to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders at the first general meeting after his appointment.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the directors.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 66. During the year ended 31 December 2012, the remuneration paid/payable to the Company's external auditor, PwC, was RMB15,050,000 and RMB7,107,000 for audit services and non-audit services respectively. The non-audit services conducted by the external auditor include providing professional service on internal control, mergers and acquisitions, tax issues, the USD600 million senior unsecured notes offering by the Company and on the Company's electronic procurement procedures.

pwc 羅兵咸永道

To the shareholders of Tencent Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 68 to 181, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2013

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	**7,402,766**	5,884,952
Construction in progress	7	**533,691**	158,656
Investment properties		**21,674**	21,871
Land use rights	8	**794,439**	230,915
Intangible assets	9	**4,719,075**	3,779,976
Interests in associates	11	**7,310,266**	4,433,374
Investment in jointly controlled entities		**35,409**	61,903
Deferred income tax assets	28	**168,906**	198,058
Available-for-sale financial assets	13	**5,632,590**	4,343,602
Prepayments, deposits and other assets	16	**1,236,129**	2,187,570
Long-term deposits	17	**10,891,718**	–
		38,746,663	21,300,877
Current assets			
Inventories	14	**568,084**	–
Accounts receivable	15	**2,353,959**	2,020,796
Prepayments, deposits and other assets	16	**3,877,800**	2,211,917
Short-term deposits	17	**13,805,675**	13,716,040
Restricted cash	23	**2,520,232**	4,942,595
Cash and cash equivalents	18	**13,383,398**	12,612,140
		36,509,148	35,503,488
Total assets		**75,255,811**	56,804,365

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	**199**	198
Share premium	19	**2,879,990**	1,950,876
Shares held for share award scheme	19	**(667,464)**	(606,874)
Other reserves	20	**815,697**	409,266
Retained earnings		**38,269,085**	26,710,368
		41,297,507	28,463,834
Non-controlling interests		**850,759**	624,510
Total equity		**42,148,266**	29,088,344
LIABILITIES			
Non-current liabilities			
Borrowings	25	**2,105,643**	–
Long-term notes payable	26	**7,516,766**	3,733,331
Deferred income tax liabilities	28	**1,311,562**	939,534
Long-term payables	24	**1,508,578**	1,859,808
		12,442,549	6,532,673

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Current liabilities			
Accounts payable	22	**4,211,733**	2,244,114
Other payables and accruals	23	**6,301,449**	5,014,281
Derivative financial instruments		**–**	20,993
Borrowings	25	**1,077,108**	7,999,440
Current income tax liabilities		**419,872**	708,725
Other tax liabilities	37(b)	**540,095**	179,499
Deferred revenue	27	**8,114,739**	5,016,296
		20,664,996	21,183,348
Total liabilities		**33,107,545**	27,716,021
Total equity and liabilities		**75,255,811**	56,804,365
Net current assets		**15,844,152**	14,320,140
Total assets less current liabilities		**54,590,815**	35,621,017

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 68 to 181 were approved by the Board of Directors on 20 March 2013 and were signed on its behalf:

Ma Huateng
Director

Zhang Zhidong
Director

Statement of Financial Position – The Company

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Fixed assets		**152**	243
Intangible assets		**10,309**	4,958
Investments in subsidiaries	10(a)	**9,419,254**	5,782,381
Contribution to Share Scheme Trust	10(c)	**11,467**	896
		9,441,182	5,788,478
Current assets			
Amounts due from subsidiaries	10(b)	**4,906,150**	1,260,180
Prepayments, deposits and other receivables		**25,422**	3,706
Cash and cash equivalents	18	**165,534**	187,791
		5,097,106	1,451,677
Total assets		**14,538,288**	7,240,155
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	**199**	198
Share premium	19	**2,879,990**	1,950,876
Shares held for share award scheme	19	**(667,464)**	(606,874)
Retained earnings		**2,456,290**	246,667
Total equity		**4,669,015**	1,590,867

Statement of Financial Position – The Company

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term notes payable	26	**7,516,766**	3,733,331
Current liabilities			
Amounts due to subsidiaries	10(b)	**2,308,028**	1,829,429
Other payables and accruals		**44,479**	86,528
		2,352,507	1,915,957
Total liabilities		**9,869,273**	5,649,288
Total equity and liabilities		**14,538,288**	7,240,155
Net current assets/(liabilities)		**2,744,599**	(464,280)
Total assets less current liabilities		**12,185,781**	5,324,198

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 68 to 181 were approved by the Board of Directors on 20 March 2013 and were signed on its behalf:

Ma Huateng
Director

Zhang Zhidong
Director

Consolidated Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenues			
Internet value-added services		**31,995,183**	23,042,758
Mobile and telecommunications value-added services		**3,722,968**	3,270,841
Online advertising		**3,382,328**	1,992,216
e-Commerce transactions		**4,427,806**	–
Others		**365,426**	190,257
	5	**43,893,711**	28,496,072
Cost of revenues	29, 32	**(18,207,360)**	(9,928,308)
Gross profit		**25,686,351**	18,567,764
Interest income	30	**835,671**	468,990
Other (losses)/gains, net	31	**(283,900)**	420,803
Selling and marketing expenses	32	**(2,993,437)**	(1,920,853)
General and administrative expenses	32	**(7,765,272)**	(5,283,154)
Operating profit		**15,479,413**	12,253,550
Finance (costs)/income, net	36	**(347,518)**	35,505
Share of losses of associates		**(54,386)**	(24,255)
Share of losses of jointly controlled entities		**(26,494)**	(165,731)
Profit before income tax		**15,051,015**	12,099,069
Income tax expense	37(a)	**(2,266,163)**	(1,874,238)
Profit for the year		**12,784,852**	10,224,831
Attributable to:			
Equity holders of the Company		**12,731,871**	10,203,083
Non-controlling interests		**52,981**	21,748
		12,784,852	10,224,831

Consolidated Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	39(a)	**6.965**	5.609
– diluted	39(b)	**6.833**	5.490
Dividend per share			
Final dividend proposed	40	**HKD1.00**	HKD0.75

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit for the year	**12,784,852**	10,224,831
Other comprehensive income, net of tax:		
Net gains/(losses) from changes in fair value of available-for-sale financial assets	**823,893**	(1,233,873)
Currency translation differences	**10,065**	(34,256)
	833,958	(1,268,129)
Total comprehensive income for the year	**13,618,810**	8,956,702
Attributable to:		
Equity holders of the Company	**13,566,608**	8,937,627
Non-controlling interests	**52,202**	19,075
	13,618,810	8,956,702

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company							
	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	Total equity RMB'000
Balance at 1 January 2012	198	1,950,876	(606,874)	409,266	26,710,368	28,463,834	624,510	29,088,344
Comprehensive income								
Profit for the year	–	–	–	–	12,731,871	12,731,871	52,981	12,784,852
Other comprehensive income:								
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	823,893	–	823,893	–	823,893
– currency translation differences	–	–	–	10,844	–	10,844	(779)	10,065
Total comprehensive income for the year	–	–	–	834,737	12,731,871	13,566,608	52,202	13,618,810
Transaction with owners								
Capital injection	–	–	–	–	–	–	21,920	21,920
Employee share option schemes:								
– value of employee services	–	95,099	–	59,431	–	154,530	21,715	176,245
– proceeds from shares issued	1	238,492	–	–	–	238,493	–	238,493
Employee share award scheme:								
– value of employee services	–	676,699	–	45,292	–	721,991	6,556	728,547
– shares purchased for share award scheme	–	–	(121,534)	–	–	(121,534)	–	(121,534)
– vesting of awarded shares	–	(60,944)	60,944	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	65,265	(65,265)	–	–	–
Repurchase and cancellation of shares	–	(20,232)	–	–	–	(20,232)	–	(20,232)
Dividends (Note 40)	–	–	–	–	(1,107,889)	(1,107,889)	(117,483)	(1,225,372)
Total contributions by and distributions to owners for the year	1	929,114	(60,590)	169,988	(1,173,154)	(134,641)	(67,292)	(201,933)
Non-controlling interests arising from business combinations (Note 41)	–	–	–	–	–	–	249,181	249,181
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(240,676)	–	(240,676)	(7,842)	(248,518)
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 year	1	929,114	(60,590)	(428,306)	(1,173,154)	(732,935)	174,047	(558,888)
Balance at 31 December 2012	199	2,879,990	(667,464)	815,697	38,269,085	41,297,507	850,759	42,148,266

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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	Total equity RMB'000
	Attributable to equity holders of the Company							
Balance at 1 January 2011	198	2,299,965	(258,137)	1,919,695	17,795,225	21,756,946	83,912	21,840,858
Comprehensive income								
Profit for the year	–	–	–	–	10,203,083	10,203,083	21,748	10,224,831
Other comprehensive income:								
– net losses from changes in fair value of available-for-sale financial assets	–	–	–	(1,233,873)	–	(1,233,873)	–	(1,233,873)
– currency translation differences	–	–	–	(31,583)	–	(31,583)	(2,673)	(34,256)
Total comprehensive income for the year	–	–	–	(1,265,456)	10,203,083	8,937,627	19,075	8,956,702
Transaction with owners								
Capital injection	–	–	–	–	–	–	9,800	9,800
Employee share option schemes:								
– value of employee services	–	110,322	–	48,911	–	159,233	–	159,233
– proceeds from shares issued	–	159,729	–	–	–	159,729	–	159,729
Employee share award scheme:								
– value of employee services	–	517,870	–	58,264	–	576,134	–	576,134
– shares purchased for share award scheme	–	–	(438,714)	–	–	(438,714)	–	(438,714)
– vesting of awarded shares	–	(89,977)	89,977	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	439,650	(439,650)	–	–	–
Repurchase and cancellation of shares	–	(1,047,033)	–	–	–	(1,047,033)	–	(1,047,033)
Dividends	–	–	–	–	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	–	–	–	10,000	(10,000)	–	–	–
Total contributions by and distributions to owners for the year	–	(349,089)	(348,737)	556,825	(1,287,940)	(1,428,941)	(46,731)	(1,475,672)
Non-controlling interests and deemed consideration arising from business combinations	–	–	–	(154,732)	–	(154,732)	581,725	426,993
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	23,919	–	23,919	(13,471)	10,448
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	–	–	–	(670,985)	–	(670,985)	–	(670,985)
Total transactions with owners for the year	–	(349,089)	(348,737)	(244,973)	(1,287,940)	(2,230,739)	521,523	(1,709,216)
Balance at 31 December 2011	198	1,950,876	(606,874)	409,266	26,710,368	28,463,834	624,510	29,088,344

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	42(a)	**21,654,234**	15,194,370
Income tax paid		**(2,224,777)**	(1,836,263)
Net cash flows generated from operating activities		**19,429,457**	13,358,107
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(434,679)**	(1,444,442)
Purchase of fixed assets, construction in progress and investment properties		**(3,656,886)**	(4,059,717)
Proceeds from disposals of fixed assets	42(a)	**4,100**	599
Payments for interests in associates		**(3,668,207)**	(3,528,714)
Payments for investment in jointly controlled entities		**–**	(194,915)
Purchase/prepayment of intangible assets		**(869,011)**	(788,375)
Purchase/prepayment of land use rights		**(312,829)**	(5,950)
Purchase of available-for-sale financial assets		**(556,564)**	(1,706,752)
Proceeds from disposal of interests in associates		**110,940**	–
Payments for loan to jointly controlled entities		**(34,001)**	(15,764)
Receipt from maturity of term deposits with initial term of over three months		**18,531,774**	5,989,298
Placement of term deposits with initial term over three months		**(29,513,127)**	(7,979,595)
Refund of/(payments for) restricted cash		**3,062,576**	(2,055,486)
Interest received		**625,839**	415,055
Dividends received		**439,867**	20,000
Net cash flows used in investing activities		**(16,270,208)**	(15,354,758)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from short-term borrowings	**982,915**	6,682,837
Repayment of short-term borrowings	**(8,024,071)**	(3,765,941)
Payment for derivative financial instruments in relation to short-term borrowings	**(41,760)**	(93,761)
Proceed from long-term borrowings	**2,215,305**	–
Net proceed from issuance of long-term notes	**3,767,767**	3,760,928
Proceeds from issuance of ordinary shares	**238,493**	159,729
Payments for repurchase of shares	**(20,232)**	(1,047,033)
Payment for purchase of shares for share award scheme	**(121,534)**	(438,714)
Proceeds from capital injection from non-controlling interests	**21,920**	9,800
Dividends paid to the Company's shareholders	**(1,107,889)**	(838,290)
Dividends paid to non-controlling interests	**(117,483)**	(56,531)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(179,409)**	–
Net cash flows (used in)/generated from financing activities	**(2,385,978)**	4,373,024
Net increase in cash and cash equivalents	**773,271**	2,376,373
Cash and cash equivalents at beginning of the year	**12,612,140**	10,408,257
Exchange losses on cash and cash equivalents	**(2,013)**	(172,490)
Cash and cash equivalents at end of the year	**13,383,398**	12,612,140

The notes on pages 80 to 181 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the "Company") was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

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

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the "Registered Shareholders").

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer without making any payment; and
- the right to control the management and financial and operating policies of Tencent Computer.

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a subsidiary and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as subsidiaries of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 20 March 2013.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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 the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The new or revised standards and amendments to the existing standards, which are mandatory for the financial year of the Group beginning 1 January 2012, are either not currently relevant or have no material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

The following new and revised standards have been issued but are not effective for the financial year beginning 1 January 2012, and have not been early adopted by the Group.

- IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces certain parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2015.

- IFRS 10 'Consolidated Financial Statements' builds on the existing principles by identifying the concept of control as the determining factor for whether an entity should be included in the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control in situations where assessment is difficult. The Group is yet to assess the full impact of IFRS 10 and will adopt this standard from 1 January 2013. According to the preliminary assessment made, management of the Group does not expect the adoption of IFRS 10 would have material impact on the Group's consolidated financial statements.

- IFRS 11 'Joint Arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full impact of IFRS 11 and will adopt this standard from 1 January 2013. According to the preliminary assessment made, management of the Group does not expect the adoption of IFRS 11 would have material impact on the Group's consolidated financial statements.

- IFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of IFRS 12 and will adopt this standard from 1 January 2013.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- IFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and will adopt this standard from 1 January 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective and would be expected to have a material impact on the Group.

2.2 Subsidiaries

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting rights but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders.

Subsidiaries are fully consolidated from the date on which control is established to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, unrealised gain or losses between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the acquisition-date fair value of any previous equity interest in the acquiree, and the amount of any non-controlling interests in the acquiree over the identifiable net assets acquired is recorded as goodwill (Note 2.11). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

For a business combination achieved in stages, the Group applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interests.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(ii) *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(iii) *Partial disposals*

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, a jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

(b) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 10(c)), a controlled special purpose entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within "Other gains/(losses), net" in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for using the equity method, which is similar to that for associates in Note 2.3 above. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that investments in jointly controlled entities are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount within "Other gains/(losses), net" in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Investment in associate/jointly controlled entity achieved in stages

The cost of an associate/a jointly controlled entity acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when it becomes an associate/a jointly controlled entity. A gain or loss on remeasurement of the previously held interest is taken to the income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.10 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the income statement on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Intangible assets (Cont'd)

(b) Other intangible assets

Other intangible assets mainly include licence, licensed online contents, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally two to seven years) using the straight-line method or other method reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2.12 Shares held for share award scheme

The consideration paid by the Share Scheme Trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment to share premium.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are classified as "Accounts receivable", "Deposits and other receivables", "Loans to associates", "Term deposits", "Restricted cash" and "Cash and cash equivalents" in the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets (Cont'd)

(b) Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale financial assets equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets (Cont'd)

(b) Assets classified as available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within "Other gains/(losses), net".

2.18 Inventories

Inventories, mainly consisting of merchandise available for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.20 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial maturities of three months or less.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.22 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

2.24 Borrowings and long-term notes

Borrowings and long-term notes issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over their period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long-term notes are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option scheme and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model – Black-Scholes valuation model (the "BS Model"), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the "Investments in subsidiaries" in the Company's statement of financial position.

At each reporting period end, the Group and the Company revise their estimates of the number of options and awarded shares that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the consolidated income statement of the Group and in the "Investments in subsidiaries" of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition

The Group principally derives revenues from provision of IVAS, MVAS, online advertising services and e-Commerce transactions services in the PRC.

(a) IVAS and MVAS

Revenues from IVAS are derived principally from the provision of online games, community value-added services and applications across various Internet platforms.

MVAS revenues are derived principally from providing users with bundled SMS packages, mobile games, and other mobile value-added services such as mobile music and mobile books.

The IVAS and MVAS can be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenue" in the statement of financial position (see Note 27). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship.

Certain IVAS and MVAS are directly delivered to the Group's customers through the platforms of various subsidiaries of telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Network Communications Corporation Limited ("China Unicom") and China Telecommunications Corporation ("China Telecom"). These operators collect the relevant service fees (the "Internet and Mobile Service Fees") on behalf of the Group and are entitled to certain percentages commission fee (defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(a) IVAS and MVAS (Cont'd)

The Group also opens its Internet platforms to third-party game/application developers. The Group enters into cooperation agreements with third-party game/application developers, pursuant to which the games/applications designed, developed and hosted by third-party developers are available to the users on the Group's Internet platforms. The respective third-party game/application developers are responsible for the users' experiences. Under the terms of the cooperation agreements, the Group pays the third-party developers a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in these games/applications. The Group recognises the related revenue on a net basis because it acts as an agent in the arrangement. The Group also defers the related revenue over an estimated period of the respective products/items as there is an implicit obligation of the Group to maintain and allow access of the users of the games/applications operated by third-party game/application developers through its platforms.

Revenues derived from games/applications hosted by third-party developers on the Group's Internet platform is presented within revenue from IVAS.

(b) Online advertising

Online advertising revenues are mainly derived from display advertising on instant messaging clients, portals, social networks and other platforms, and search advertising through the self-developed search engines of the Group. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For advertising contracts based on the actual time period that the advertisements appear on the Group's instant messaging clients, portals and other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(c) e-Commerce transactions business

Revenues derived from e-Commerce transactions business primarily arise from sales of merchandise through the Group's Internet platforms. The Group recognises revenues from merchandise sales transaction and related costs on a gross basis when it acts as a principal. Following the guidance under IAS 18 "Revenue", whether the Group acts as a principal is based on a number of criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing prices, whether it has latitude in selecting suppliers, in a transaction. When the Group is not a principal and is instead acting as an agent, revenues are recognised on a net basis which is based on a pre-determined percentage of the sales.

For merchandise sold under e-Commerce transactions business, the customers place their orders online with a commitment made at a fixed selling price. Payment for the purchased merchandise is made either before delivery or upon delivery. When the Group is acting as a principal, revenues, net of discounts and return allowances and value-added tax, are recognised when the merchandise is physically delivered to the respective customers. Return allowances, which reduce the gross amount of revenues, are estimated based on historical experience.

2.29 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives, not exceeding five years.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group including the executive directors of the Group.

(a) Market risk

i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments, the Group holds some monetary assets denominated in USD, HKD or EUR subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD or EUR as management considers that such risk could not be effectively reduced in a low-cost way.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

As at 31 December 2012, the Group and the Company's non-RMB monetary assets and liabilities are listed below:

Group

	Denomination currency	As at 31 December 2012 RMB'000	2011 RMB'000
Monetary assets			
Non-current assets	USD	**718**	–
Current assets	USD	**7,818,738**	5,645,223
Current assets	HKD	**285,222**	304,835
Current assets	EUR	**417,766**	194,705
Monetary liabilities			
Non-current liabilities	USD	**10,645,843**	5,529,637
Current liabilities	USD	**2,276,453**	6,600,412
Current liabilities	HKD	**22,606**	52,086

Company

	Denomination currency	As at 31 December 2012 RMB'000	2011 RMB'000
Monetary assets			
Current assets	USD	**1,278,151**	1,307,290
Current assets	HKD	**3,805,001**	140,681
Monetary liabilities			
Non-current liabilities	USD	**7,516,766**	3,733,331

During the year ended 31 December 2012, the Group reported exchange losses of approximately RMB20,956,000 (2011: exchange gains of RMB108,042,000) as a result of RMB appreciation. The losses were recorded in "Finance (costs)/income, net" in the consolidated income statement for the year ended 31 December 2012.

At 31 December 2012, if USD, EUR and HKD had strengthened/weakened by 5% (2011: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB221,123,000 lower/higher (2011: RMB301,869,000 lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR and HKD.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets and derivative financial instruments. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management, including the executive directors and with the involvement of non-executive directors on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2011: 5%) higher/lower as at 31 December 2012, the other comprehensive income would have been approximately RMB272,330,000 (2011: RMB212,909,000) higher/lower.

iii) Interest rate risk

The Group has interest-bearing assets including receivables in associates and a jointly controlled entity, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 11, 16, 17 and 18.

The Group's interest rate risk arises from borrowings and long-term notes issued by the Group. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates and long-term notes expose the Group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

Other financial assets and liabilities do not have material interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk (Cont'd)

For the year ended 31 December 2012, if the average interest rate on variable interest-bearing borrowings had been 5% (2011: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB4,990,000 (2011: RMB3,165,000) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) placed with banks and financial institutions, other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For accounts receivable, a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's MVAS and IVAS might be adversely affected in terms of recoverability of receivables.

To manage this risk, the Group maintains frequent communication with the telecommunication operators to ensure the co-operation is effective. In view of the history of co-operation with the telecommunication operators and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 15 for details).

For accounts receivable from advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments representing a certain percentage of the total service fees for each advertising service are required.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalent. For the year ended 31 December 2012, in order to improve liquidity, the Group also issued long-term notes (see Note 26).

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2012					
Long-term notes payable	**301,704**	**301,704**	**4,501,989**	**3,834,941**	**8,940,338**
Long-term payables	**–**	**283,803**	**1,151,622**	**194,641**	**1,630,066**
Borrowings	**1,160,656**	**244,058**	**1,963,660**	**–**	**3,368,374**
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	**8,216,085**	**–**	**–**	**–**	**8,216,085**
Total	**9,678,445**	**829,565**	**7,617,271**	**4,029,582**	**22,154,863**
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Long-term payables	–	316,622	641,070	1,002,541	1,960,233
Borrowings	7,999,440	–	–	–	7,999,440
Derivative financial instruments	20,993	–	–	–	20,993
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	7,155,609	–	–	–	7,155,609
Total	15,350,892	491,472	4,946,160	1,002,541	21,791,065

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2012					
Long-term notes payable	**301,704**	**301,704**	**4,501,989**	**3,834,941**	**8,940,338**
Amounts due to subsidiaries	**2,308,028**	**–**	**–**	**–**	**2,308,028**
Other payables and accruals	**44,479**	**–**	**–**	**–**	**44,479**
Total	**2,654,211**	**301,704**	**4,501,989**	**3,834,941**	**11,292,845**
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Amounts due to subsidiaries	1,829,429	–	–	–	1,829,429
Other payables and accruals	86,528	–	–	–	86,528
Total	2,090,807	174,850	4,305,090	–	6,570,747

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Total liabilities	**33,107,545**	27,716,021
Total assets	**75,255,811**	56,804,365
Gearing ratio	**44%**	49%

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as at 31 December 2012:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	4,083,100	–	1,549,490	5,632,590

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2011:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,318,794	–	1,024,808	4,343,602
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	20,993	–	20,993

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Available-for-sale financial assets RMB'000
Opening balance	**1,024,808**
Additions	**556,564**
Transfer to interests in associates	**(31,139)**
Net gains recognised in other comprehensive income	**53,967**
Impairment provision	**(54,710)**
Closing balance	**1,549,490**

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	Available-for-sale financial assets RMB'000
Opening balance	257,845
Additions	802,963
Impairment provision	(36,000)
Closing balance	1,024,808

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Recognition of revenues and accounts receivable related to IVAS and MVAS

For IVAS and MVAS delivered through the platforms of telecommunication operators, the Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. For those Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

As at 31 December 2012, the balance of accounts receivable to be confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB706,139,000 (2011: RMB746,471,000).

Were the actual outcome to differ by 5% (2011: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB35,307,000 (2011: RMB37,324,000) if unfavourable; or
- increase the revenue and accounts receivable by RMB35,307,000 (2011: RMB37,324,000) if favourable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.26(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 21).

The fair value of options granted for the year ended 31 December 2012 determined using the BS Model was approximately HKD14,572,000 (equivalent to approximately RMB11,902,000) (2011: HKD63,000,000 (equivalent to approximately RMB52,290,000)).

In addition, the Group also granted awarded shares to its employees at fair value of HKD1,861,663,000 (equivalent to approximately RMB1,519,969,000) during 2012 (2011: HKD1,157,928,000 (equivalent to approximately RMB957,258,000)).

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods ("Expected Retention Rate of Grantees") in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2012, the Expected Retention Rate of Grantees was assessed to be 91% (2011: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2011: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB64,414,000 (2011: RMB65,143,000).

(c) The estimates of the lifespan of virtual products/items provided in the Group's Internet platform

As mentioned in Note 2.28(a), the end users purchase certain virtual products/items provided in the Group's Internet platforms and the relevant revenue is recognised based on the lifespan of the virtual products/items. The Group uses the available information, including the historical user pattern and behavior and the stipulated period of validity of the relevant virtual products/items, to estimate the lifespan of these products/items.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis than in prior periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax liabilities in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the group would need to:

- Increase the income tax liabilities by RMB20,994,000 (2011: RMB35,436,000) and the deferred tax liabilities by RMB65,578,000 (2011: RMB46,977,000), if unfavourable; or
- Decrease the income tax liabilities by RMB20,994,000 (2011: RMB35,436,000) and the deferred tax liabilities by RMB65,578,000 (2011: RMB46,977,000), if favourable.

(e) Estimation of put option liabilities

The Group granted some put options to the non-controlling interest owners that they have the right to request the Group to repurchase their equity interest in certain non-wholly owned subsidiaries when certain conditions are met. The repurchase prices were determined by making reference to the revenue or profit to be generated by those subsidiaries in future periods. The Group will initially recognise a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognised as income or expenses in the income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies

Recognition of deferred tax assets

Certain intra-group software and technology sales have been transacted within the Group. The self-developed software and technology purchased by two subsidiary companies, Tencent Computer and Shiji Kaixuan Technology Limited ("Shiji Kaixuan"), from other group companies have been initially recorded at the purchase prices as costs and then amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements, while these transactions were eliminated at the group level.

The Amortisation has been treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan for tax reporting purposes while the costs of purchase of these assets were eliminated in preparation of the consolidated financial statements of the Group. As a result, deferred tax assets have been recognised, based on temporary differences arising from the accounting base (at the group level, which is zero) and the tax base of the software and technology involved in these intra-group transactions, at the respective enacted corporate income tax rates of Tencent Computer and Shiji Kaixuan.

As at 31 December 2012, the relevant deferred tax assets were approximately RMB161,589,000 (2011: RMB197,010,000) (Note 28), which are expected to be recovered by the tax profits to be generated from Tencent Computer and Shiji Kaixuan in future.

5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

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

The Group has following reportable segments for the years ended 31 December 2012 and 2011:

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

5 SEGMENT INFORMATION (Cont'd)

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

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

There were no material inter-segment sales during the years ended 31 December 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.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

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

	Year ended 31 December 2012					
	IVAS	MVAS	Online advertising	e-Commerce transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	31,995,183	3,722,968	3,382,328	4,427,806	365,426	43,893,711
Gross profit	21,399,216	2,254,617	1,649,624	235,210	147,684	25,686,351
Depreciation	1,117,278	113,670	106,603	9,513	17,208	1,364,272
Amortisation	199,681	–	198,963	–	–	398,644
Share of (losses)/profit of associates	(76,934)	(8,230)	–	(32,982)	63,760	(54,386)
Share of losses of jointly controlled entities	(26,494)	–	–	–	–	(26,494)

5 SEGMENT INFORMATION (Cont'd)

	Year ended 31 December 2011				
	IVAS RMB'000	MVAS RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Segment revenues	23,042,758	3,270,841	1,992,216	190,257	28,496,072
Gross profit/(losses)	15,409,134	2,011,085	1,197,260	(49,715)	18,567,764
Depreciation	724,418	66,249	58,605	34,666	883,938
Amortisation	67,056	–	–	–	67,056
Share of losses of associates	(23,513)	(742)	–	–	(24,255)
Share of losses of jointly controlled entities	(165,731)	–	–	–	(165,731)

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. For the year ended 31 December 2012, the geographical information on the total revenues is as follows:

	2012 RMB'000	2011 RMB'000
Revenues		
– Mainland China	**41,735,101**	28,027,516
– Others	**2,158,610**	468,556
	43,893,711	28,496,072

5 SEGMENT INFORMATION (Cont'd)

The Group also conduct operations in United States, Europe and other regions, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Operating assets		
– Mainland China	**51,535,029**	42,019,485
– Others	**3,174,486**	2,826,406
Investments		
– Mainland China	**4,817,738**	4,409,589
– Hong Kong	**6,381,699**	3,538,071
– United States	**2,938,082**	206,962
– Europe	**3,973,735**	2,658,526
– Others	**2,435,042**	1,145,326
	75,255,811	56,804,365

As at 31 December 2012, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China were RMB26,536,881,000 (2011: RMB13,620,472,000), and located in other areas were RMB6,408,286,000 (2011: RMB3,138,745,000).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2012.

Turnover consists of revenues generated by the Group, which were RMB43,893,711,000 and RMB28,496,072,000 for the years ended 31 December 2012 and 2011, respectively.

6 FIXED ASSETS

	Buildings RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2012						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952
Year ended 31 December 2012						
Opening net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952
Business combinations	–	693	19,431	497	2,890	23,511
Other additions	626,146	2,388,420	147,189	19,756	196,541	3,378,052
Disposals	–	–	(2,731)	–	(169)	(2,900)
Depreciation	(95,975)	(1,610,374)	(64,351)	(5,947)	(102,957)	(1,879,604)
Exchange difference	–	(2,070)	524	–	301	(1,245)
Closing net book amount	2,077,338	4,646,609	284,336	20,403	374,080	7,402,766
At 31 December 2012						
Cost	2,358,059	8,227,107	415,310	32,884	584,775	11,618,135
Accumulated depreciation	(280,721)	(3,578,170)	(131,463)	(12,481)	(210,963)	(4,213,798)
Exchange difference	–	(2,328)	489	–	268	(1,571)
Net book amount	2,077,338	4,646,609	284,336	20,403	374,080	7,402,766

6 FIXED ASSETS (Cont'd)

	Buildings RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2011						
Cost	1,368,462	3,185,873	125,816	7,636	130,305	4,818,092
Accumulated depreciation	(106,924)	(1,314,636)	(37,158)	(5,681)	(60,865)	(1,525,264)
Net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
Year ended 31 December 2011						
Opening net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
Business combinations	–	17,388	1,113	415	122	19,038
Other additions	363,067	3,030,367	129,038	4,947	256,018	3,783,437
Disposals	–	(1,870)	(104)	(37)	(282)	(2,293)
Depreciation	(77,438)	(1,046,924)	(34,396)	(1,183)	(47,791)	(1,207,732)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Closing net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952
At 31 December 2011						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952

For the year ended 31 December 2012, depreciation of RMB1,364,272,000 (2011: RMB883,938,000), RMB20,907,000 (2011: RMB13,377,000) and RMB494,425,000 (2011: RMB310,417,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

7 CONSTRUCTION IN PROGRESS

	2012 RMB'000	2011 RMB'000
Opening net book amount	**158,656**	386,943
Additions	**640,012**	500,268
Transfer to fixed assets	**(264,977)**	(728,555)
Closing net book amount	**533,691**	158,656

8 LAND USE RIGHTS

	2012 RMB'000	2011 RMB'000
Opening net book amount	**230,915**	229,890
Additions	**571,066**	5,950
Amortisation	**(7,542)**	(4,925)
Closing net book amount	**794,439**	230,915

The land use rights all relate to land in the PRC with remaining lease period of 44 to 49 years. For the year ended 31 December 2012, RMB7,542,000 (2011: RMB4,925,000) of the amortisation was charged as general and administrative expenses.

9 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software and technology RMB'000	Licences RMB'000	Licensed online contents RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012						
Cost	2,694,696	629,661	1,355,071	–	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	–	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	–	(1,490)	(83,814)
Net book amount	2,615,778	368,980	707,199	–	88,019	3,779,976
Year ended 31 December 2012						
Opening net book amount	2,615,778	368,980	707,199	–	88,019	3,779,976
Business combinations	318,067	121,717	55,228	–	115,870	610,882
Other additions	–	163,767	100,251	796,737	3,970	1,064,725
Amortisation	–	(176,011)	(242,065)	(265,283)	(49,261)	(732,620)
Exchange difference	(4,926)	1,251	(77)	–	(136)	(3,888)
Closing net book amount	2,928,919	479,704	620,536	531,454	158,462	4,719,075
At 31 December 2012						
Cost	3,012,763	915,145	1,510,550	796,737	402,475	6,637,670
Accumulated amortisation	–	(436,360)	(886,863)	(265,283)	(242,387)	(1,830,893)
Exchange difference	(83,844)	919	(3,151)	–	(1,626)	(87,702)
Net book amount	2,928,919	479,704	620,536	531,454	158,462	4,719,075

9 INTANGIBLE ASSETS (Cont'd)

	Goodwill RMB'000	Computer software and technology RMB'000	Licences RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011					
Cost	302,701	377,838	222,130	42,364	945,033
Accumulated amortisation	–	(146,841)	(208,115)	(17,096)	(372,052)
Net book amount	302,701	230,997	14,015	25,268	572,981
Year ended 31 December 2011					
Opening net book amount	302,701	230,997	14,015	25,268	572,981
Business combinations	2,391,995	110,031	663,549	239,084	3,404,659
Other additions	–	141,792	469,392	1,187	612,371
Amortisation	–	(113,508)	(436,683)	(176,030)	(726,221)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Closing net book amount	2,615,778	368,980	707,199	88,019	3,779,976
At 31 December 2011					
Cost	2,694,696	629,661	1,355,071	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Net book amount	2,615,778	368,980	707,199	88,019	3,779,976

Amortisation of RMB333,976,000 (2011: RMB659,165,000) and RMB398,644,000 (2011: RMB67,056,000) were charged as general and administrative expenses and cost of revenues respectively for the year ended 31 December 2012.

9 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of IVAS.

The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs to sell. The management calculates fair value less costs to sell based on ratios of EV (enterprise value)/EBITDA (earnings before interest, tax, depreciation and amortisation) of several public comparable companies multiplied by the EBITDA of the related CGU and a discount for the lack of marketability.

The key assumptions used for the calculations of fair value less costs to sell in 2012 are as follows:

	2012
EV/EBITDA	**6.0-8.0x**
Discount for the lack of marketability	**25%**

The public comparable companies are considered with factors such as industry similarity, company size, profitability and financial risk.

Based on the assessment made by management, no provision for impairment on goodwill was necessary as at 31 December 2012.

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in subsidiaries:		
– Investments in equity interests – at cost, unlisted	**69,384**	69
– Deemed investments arising from share-based compensation (Note (i))	**2,599,653**	1,827,855
– Advance to subsidiaries (Note (ii))	**6,750,217**	3,954,457
	9,419,254	5,782,381

The following is a list of principal subsidiaries of the Company as at 31 December 2012:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	**Indirect**	Direct	Indirect	
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	**–**	**100% (Note (iii))**	–	100%	Provision of Internet and mobile and telecommunications value-added services, Internet advertisement services and e-Commerce transactions business
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	**–**	**100%**	–	100%	Development of computer software and provision of information technology services

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	–	100% (Note (iii))	–	100%	Provision of Internet advertisement service
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	–	89.9%	–	91.8%	Development and operation of online games

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Note:

(i) The amount represents share-based compensation expenses arising from grants of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.

(ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.

(iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as consolidating subsidiaries of the Company.

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2012 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2012, the amounts due from subsidiaries were neither past due nor impaired.

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(c) Consolidation of a special purpose entity

In connection with the implementation of the share award scheme of the Group mentioned in Note 21(b), the Company has set up a special purpose entity ("Share Scheme Trust"), and its particulars are as follows:

Special purpose entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible persons of the Scheme

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2012, the Company contributed approximately RMB121,534,000 (2011: RMB314,064,000) to the Share Scheme Trust for financing its acquisition of the Company's shares.

(d) Disposal of a subsidiary

In October 2012, the Group entered into an agreement with a third party, a company listed in Shanghai Stock Exchange (the "Buyer"), to sell all its equity interest (65.79%) in Beijing Manyougu Information Technology Company Limited ("Manyougu") to the Buyer ("Manyougu Disposal"). Manyougu is a subsidiary of the Group, which is principally engaged in online game development in PRC.

Manyougu Disposal is, among others, subject to an approval by China Securities Regulatory Committee (the "CSRC") of the PRC and a successful non-public issuance of the shares of the Buyer for financing the transaction. As at 31 December 2012, the Manyougu Disposal had not been approved by the CSRC. Therefore, the Group continued to consolidate the financial statements of Manyougu and did not treat Manyougu as a disposal group and assets held for sale.

Pursuant to the agreement, the consideration for Manyougu Disposal is determined by certain multiple of the net profit to be generated by Manyougu in 2012 and the coming years.

11 INTERESTS IN ASSOCIATES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in associates (Note (a))		
– Listed shares	**1,481,056**	1,299,869
– Unlisted shares	**4,829,057**	2,464,158
	6,310,113	3,764,027
Investments in redeemable preference shares of associates (Note (b))	**838,226**	574,048
Loans to associates (Note (c))	**161,927**	95,299
	7,310,266	4,433,374

Note:

(a) Investments in associates

	2012	2011
	RMB'000	RMB'000
At beginning of the year	**3,764,027**	1,070,633
Additions (Note (i), (ii), (iii) and (iv))	**2,969,858**	3,066,411
Decrease as a result of step-up business combinations	**(43,391)**	(257,585)
Share of losses of associates	**(54,386)**	(24,255)
Dividends received from associates	**(32,798)**	(20,000)
Disposal of associates	**(98,338)**	–
Impairment provision (Note (v))	**(194,859)**	(71,177)
At end of the year	**6,310,113**	3,764,027

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

Note:

(i) In January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited ("ChinaVision"), representing approximately 8.0% of its then issued share capital, for a cash consideration of HKD247,760,000 (equivalent to approximately RMB201,578,000). ChinaVision is a company listed on the main board of the Stock Exchange, and is principally engaged in production and licensing of film and television programmes, and printed media and television advertising businesses. Since the Group has the right to nominate a director to the board of ChinaVision, ChinaVision is accounted for as an associate of the Group.

(ii) In April 2012, the Group acquired 3,600,000 preference shares of Kakao Corp. ("Kakao"), a company principally engaged in developing and operating mobile messaging applications, representing approximately 13.8% of its then issued share capital, for a cash consideration of KRW72,000,000,000 (equivalent to approximately RMB401,053,000). Since the Group has significant influence in Kakao through its representative in the board of directors, Kakao is accounted for as an associate of the Group.

(iii) In July 2012, the Group acquired certain equity shares of Epic Games, Inc. ("Epic Games"), representing approximately 48.4% of its then issued share capital, for a cash consideration of USD330,000,000 (equivalent to approximately RMB2,087,217,000). Epic Games is a US incorporated company principally engaged in developing game engine technology, as well as game titles for personal computers, consoles and mobile devices. Since the Group has the right to nominate directors to the board of Epic Games, Epic Games is accounted for as an associate of the Group.

(iv) In addition to the above, the Group acquired some other associates or made additional investments in existing associates for an aggregate consideration of RMB280,010,000 during the year ended 31 December 2012. They are principally engaged in provision of online community services, online game development and other Internet-related businesses.

(v) During the year ended 31 December 2012, the Group made impairment provision of RMB194,859,000 (2011: RMB71,177,000) for investments in associates based on the assessment with reference to business performance and recoverable value of associates.

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates who are listed companies, are shown in aggregate as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profits/(Losses) RMB'000	Fair value of listed companies as at 31 December 2012 RMB'000
2012					
Listed companies:					
16.07% equity interest in eLong, Inc. ("eLong") (Note)	602,516	69,705	128,111	(1,123)	515,939
15.23% equity interest in Kingsoft Corporation Limited ("Kingsoft") (Note)	934,013	147,126	214,852	21,941	789,900
8.00% equity interest in ChinaVision (Note)	206,233	44,875	67,869	13,102	145,659
	1,742,762	261,706	410,832	33,920	1,451,498
Non-listed companies	5,273,938	444,881	1,191,374	(88,306)	
	7,016,700	706,587	1,602,206	(54,386)	

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

	Assets	Liabilities	Revenues	Profits/(losses)	Fair value of listed companies as at 31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011					
Listed companies:					
16.15% equity interest in eLong	576,958	33,065	55,452	(4,554)	524,178
15.28% equity interest in Kingsoft	871,194	115,218	70,055	14,159	419,441
	1,448,152	148,283	125,507	9,605	943,619
Non-listed companies	2,931,836	467,678	1,373,702	(33,860)	
	4,379,988	615,961	1,499,209	(24,255)	

Note:

Although the Group holds less than 20% equity interest in these investees, the Group treated them as associates because the Group is able to exercise its significant influence on these investees through its representatives on their respective boards of directors.

(b) Investments in redeemable preference shares of associates

The Group held certain redeemable preference shares of the associates, which are principally engaged in online community services, online game development and other Internet-related businesses. The redemption prices of the relevant shares are agreed at not less than their original subscription prices.

During the year ended 31 December 2012, the Group also made impairment provision of RMB449,431,000 (2011: RMB94,000,000) for the investments in redeemable preference shares of certain associates based on the assessment with reference to business performance and recoverable value of associates.

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(c) Loans to associates

As at 31 December 2012, the carrying amount of the loans to associates of the Group amounted to RMB161,927,000 (2011: RMB95,299,000). The aggregate principal amount of the loans to associates is RMB159,993,000, which is required to be repaid in 2 years (2011: RMB92,631,000). These loans bear interest rates of 4.0% to 6.0% or are interest-free.

The Group presented the loans to its associates as a component of "Interests in associates" in 2012. The comparative figures have also been reclassified to conform to the presentation. Such reclassification has no impact on the Group's net profit for the comparative year, as well as net assets of the Group as at 31 December 2011.

(d) Transactions with associates

During the year ended 31 December 2012, the Group entered into cooperation agreements with certain associates, pursuant to which the associates operate their games/applications on the Group's Internet platforms, which are available to the users of the Group. The Group pays the associates a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in their games/applications. In the whole arrangement, the Group acts as an agent and recognises the related revenue on a net basis. In 2012, the revenue recorded by the Group from the above cooperation with associates was not material.

As at 31 December 2012 and 2011, the Group was entitled to certain call options and conversion options associated with its interests in associates. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

12 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Assets			
At 31 December 2012			
Available-for-sale financial assets (Note 13)	**–**	**5,632,590**	**5,632,590**
Interests in associates (Note 11)	**1,000,153**	**–**	**1,000,153**
Accounts receivable (Note 15)	**2,353,959**	**–**	**2,353,959**
Deposits and other receivables	**1,784,593**	**–**	**1,784,593**
Term deposits (Note 17)	**24,697,393**	**–**	**24,697,393**
Restricted cash	**2,520,232**	**–**	**2,520,232**
Cash and cash equivalents (Note 18)	**13,383,398**	**–**	**13,383,398**
Total	**45,739,728**	**5,632,590**	**51,372,318**
At 31 December 2011			
Available-for-sale financial assets	–	4,343,602	4,343,602
Interests in associates	669,347	–	669,347
Accounts receivable	2,020,796	–	2,020,796
Deposits and other receivables	1,338,174	–	1,338,174
Term deposits	13,716,040	–	13,716,040
Restricted cash	4,942,595	–	4,942,595
Cash and cash equivalents	12,612,140	–	12,612,140
Total	35,299,092	4,343,602	39,642,694

12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities			
At 31 December 2012			
Long-term notes payable (Note 26)	**–**	**7,516,766**	**7,516,766**
Long-term payables (Note 24)	**–**	**1,508,578**	**1,508,578**
Accounts payable (Note 22)	**–**	**4,211,733**	**4,211,733**
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	**–**	**4,004,352**	**4,004,352**
Borrowings (Note 25)	**–**	**3,182,751**	**3,182,751**
Total	**–**	**20,424,180**	**20,424,180**
At 31 December 2011			
Long-term notes payable	–	3,733,331	3,733,331
Long-term payables	–	1,859,808	1,859,808
Accounts payable	–	2,244,114	2,244,114
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	–	4,911,495	4,911,495
Borrowings	–	7,999,440	7,999,440
Derivative financial instruments	20,993	–	20,993
Total	20,993	20,748,188	20,769,181

12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company

	Loans and receivables RMB'000
Assets	
At 31 December 2012	
Amounts due from subsidiaries (Note 10(b))	**4,906,150**
Deposits and other receivables	**24,424**
Cash and cash equivalents (Note 18)	**165,534**
Total	**5,096,108**
At 31 December 2011	
Amounts due from subsidiaries	1,260,180
Deposits and other receivables	2,702
Cash and cash equivalents	187,791
Total	1,450,673

12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company (Cont'd)

	Other financial liabilities at amortised cost RMB'000
Liabilities	
At 31 December 2012	
Long-term notes payable (Note 26)	**7,516,766**
Amounts due to subsidiaries	**2,308,028**
Other payables and accruals	**44,479**
Total	**9,869,273**
At 31 December 2011	
Long-term notes payable	3,733,331
Amounts due to subsidiaries	1,829,429
Other payables and accruals	86,528
Total	5,649,288

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 RMB'000	2011 RMB'000
At beginning of the year	4,343,602	4,126,878
Additions	556,564	1,487,645
Transfer to interests in associates	(31,139)	–
Gains/(losses) from changes in fair value	818,273	(1,234,921)
Impairment provision	(54,710)	(36,000)
At end of the year, all non-current	5,632,590	4,343,602

Available-for-sale financial assets include the following:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Listed equity interests:		
7.76% (2011: 7.76%) equity interest in Mail.ru Group Limited	3,519,038	2,658,527
4.60% (2011: 4.60%) equity interest in Huayi Bros. Media Group	396,150	439,518
3.98% (2011: 3.98%) equity interest in Hangzhou Shunwang Technology Co., Ltd.	135,866	129,961
5.01% (2011: 5.01%) equity interest in Media Asia Group Holdings Limited	32,046	90,788
Market value of listed securities	4,083,100	3,318,794
Unlisted equity interests	1,549,490	1,024,808
	5,632,590	4,343,602

As at 31 December 2012, there were certain call or conversion options embedded in available-for-sale financial assets invested by the Group. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

14 INVENTORIES

The inventories are mainly merchandise purchased for the Group's e-Commerce transactions business.

The cost of inventories is recognised as expense and included in "cost of merchandise sold" amounted to RMB4,066,513,000 for the year ended 31 December 2012.

15 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
0 - 30 days	**1,406,915**	1,103,261
31 - 60 days	**552,772**	443,555
61 - 90 days	**257,286**	246,501
Over 90 days	**136,986**	227,479
	2,353,959	2,020,796

Accounts receivable were mainly denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Telecommunications operators	**1,236,770**	1,178,445
Online advertising customers	**811,171**	673,844
Others	**306,018**	168,507
	2,353,959	2,020,796

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.

As at 31 December 2012, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2012.

16 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current assets:		
Prepayment for land use rights	**–**	258,237
Prepayment for purchase of building	**243,754**	510,425
Prepayment for licensed content	**575,452**	458,009
Loan to a jointly controlled entity	**49,765**	15,764
Running royalty fees for online games	**96,993**	945,135
Others	**270,165**	–
	1,236,129	2,187,570
Included in current assets:		
Running royalty fees for online games	**1,640,229**	405,915
Prepaid expenses	**502,743**	483,592
Rental deposits and other deposits	**119,976**	112,714
Interest receivables	**353,202**	143,370
Refundable value-added tax	**588,903**	270,028
Others	**672,747**	796,298
	3,877,800	2,211,917
	5,113,929	4,399,487

The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2012.

Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

17 TERM DEPOSITS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2012 was 3.87% (2011: 2.95%).

An analysis of the Group's term deposits denominated in RMB and USD with initial term of over three months as at 31 December 2012 are listed as below:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current assets:		
RMB term deposits	**10,891,000**	–
USD term deposits	**718**	–
	10,891,718	–
Included in current assets:		
RMB term deposits	**10,448,140**	13,714,364
USD term deposits	**3,357,535**	1,676
	13,805,675	13,716,040
	24,697,393	13,716,040

The directors of the Company considered that the carrying value of the term deposits with initial term of over three months approximated their fair value as at 31 December 2012. Term deposits with initial term of over three months were neither past due nor impaired.

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances and cash	**8,460,459**	7,833,767	**165,534**	187,791
Term deposits and highly liquid investments with initial term within three months	**4,922,939**	4,778,373	**–**	–
	13,383,398	12,612,140	**165,534**	187,791
Maximum exposure to credit risk	**13,383,018**	12,611,379	**165,534**	187,791

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2012 and 2011 were 2.21% and 1.16%, respectively.

Approximately RMB8,686,880,000 (2011: RMB6,694,164,000) of the total balance of the Group was denominated in RMB and it was deposited with banks in the PRC. The Company had no material cash balance denominated in RMB.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2011: 10,000,000,000 shares) with par value of HKD0.0001 per share (2011: HKD0.0001 per share).

As at 31 December 2012, the total number of issued ordinary shares of the Company was 1,853,333,230 shares (2011: 1,839,814,008 shares) which included 19,349,672 shares (2011: 17,809,839 shares) held under the share award scheme (Note 21(b)). They were all fully paid up.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME (Cont'd)

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Total RMB'000
At 1 January 2012	**1,839,814,008**	**198**	**1,950,876**	**(606,874)**	**1,344,200**
Employee share option schemes:					
– value of employee services	–	–	95,099	–	95,099
– number of shares issued and proceeds received (Note (i))	9,295,222	1	238,492	–	238,493
Employee share award scheme:					
– value of employee services	–	–	676,699	–	676,699
– shares purchased for share award scheme (Note (ii))	–	–	–	(121,534)	(121,534)
– shares allotted for share award scheme (Note (iv))	4,378,400	–	–	–	–
– shares vested from share award scheme and transferred to the grantees (Note (iii))	–	–	(60,944)	60,944	–
Repurchase and cancellation of shares	(154,400)	–	(20,232)	–	(20,232)
At 31 December 2012	**1,853,333,230**	**199**	**2,879,990**	**(667,464)**	**2,212,725**

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME (Cont'd)

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Total RMB'000
At 1 January 2011	1,835,730,235	198	2,299,965	(258,137)	2,042,026
Employee share option schemes:					
– value of employee services	–	–	110,322	–	110,322
– number of shares issued and proceeds received	7,624,113	–	159,729	–	159,729
Employee share award scheme:	–	–	–	–	–
– value of employee services	–	–	517,870	–	517,870
– shares purchased for share award scheme	–	–	–	(438,714)	(438,714)
– shares allotted for share award scheme	4,045,360	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(89,977)	89,977	–
Repurchase and cancellation of shares	(7,585,700)	–	(1,047,033)	–	(1,047,033)
At 31 December 2011	1,839,814,008	198	1,950,876	(606,874)	1,344,200

Note:

(i) During the year ended 31 December 2012, 9,295,222 Post-IPO options with exercise prices ranging from HKD3.6650 to HKD189.0000 were exercised.

(ii) During the year ended 31 December 2012, the Share Scheme Trust acquired and withheld 651,901 ordinary shares of the Company for a total consideration of HKD149,378,000 (equivalent to approximately RMB121,534,000), which had been deducted from shareholders' equity.

(iii) During the year ended 31 December 2012, the Share Scheme Trust transferred 3,490,468 ordinary shares of the Company (2011: 2,572,145 shares) to the share awardees upon vesting of the awarded shares.

(iv) During the year ended 31 December 2012, the Company allotted 4,378,400 ordinary shares (2011: 4,045,360 shares) to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.

(v) As at 31 December 2012, included in "Shares held for share award scheme", 405,230 shares (2011: 1,970,840 shares) held by the Share Scheme Trust had not yet been granted to employees.

(vi) The Group combined the presentation of share-based compensation reserve relating to the Company's share option schemes and share award scheme with the Company's share premium in 2012. The comparative figures have been reclassified to conform to the presentation of the current year. Such reclassification has no impact on the Group's net profit for the comparative year, as well as on the Group's net assets as at 31 December 2011.

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

20 OTHER RESERVES

	Capital reserve (Note (i)) RMB'000	Available-for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Share-based compensation reserve (Note (iii)) RMB'000	Total RMB'000
Balance at 1 January 2012	**(771,798)**	**587,256**	**(31,583)**	**505,811**	**12,405**	**107,175**	**409,266**
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	**(357,618)**	**–**	**–**	**–**	**–**	**–**	**(357,618)**
Value of employee services:							
– Employee share option schemes	**–**	**–**	**–**	**–**	**–**	**59,431**	**59,431**
– Employee share award schemes	**–**	**–**	**–**	**–**	**–**	**45,292**	**45,292**
Acquisition of additional equity interests in non-wholly owned subsidiaries	**(240,676)**	**–**	**–**	**–**	**–**	**–**	**(240,676)**
Profit appropriations to statutory reserves	**–**	**–**	**–**	**65,265**	**–**	**–**	**65,265**
Net gains from changes in fair value of available-for-sale financial assets	**–**	**823,893**	**–**	**–**	**–**	**–**	**823,893**
Currency translation differences	**–**	**–**	**10,844**	**–**	**–**	**–**	**10,844**
Balance at 31 December 2012	**(1,370,092)**	**1,411,149**	**(20,739)**	**571,076**	**12,405**	**211,898**	**815,697**
Balance at 1 January 2011	20,000	1,821,129	–	66,161	12,405	–	1,919,695
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(670,985)	–	–	–	–	–	(670,985)
Non-controlling interests and deemed consideration arising from business combinations	(154,732)	–	–	–	–	–	(154,732)
Value of employee services:							
– Employee share option schemes	–	–	–	–	–	48,911	48,911
– Employee share award schemes	–	–	–	–	–	58,264	58,264
Acquisition of additional equity interests in non-wholly owned subsidiaries	23,919	–	–	–	–	–	23,919
Profit appropriations to statutory reserves	–	–	–	439,650	–	–	439,650
Net losses from changes in fair value of available-for-sale financial assets	–	(1,233,873)	–	–	–	–	(1,233,873)
Currency translation differences	–	–	(31,583)	–	–	–	(31,583)
Transfer from retained earnings	10,000	–	–	–	–	–	10,000
Balance at 31 December 2011	(771,798)	587,256	(31,583)	505,811	12,405	107,175	409,266

20 OTHER RESERVES (Cont'd)

Note:

(i) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(ii) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(iii) This share-based compensation reserve arises from share option schemes and share award schemes adopted by non-wholly owned subsidiaries (Note 21(d)).

21 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and Post-IPO Option Scheme III, under which the directors may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		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 2012	**–**	**–**	**HKD12.3871**	**8,761,937**	**HKD59.9665**	**26,156,088**	**HKD158.5000**	**1,000,000**	**35,918,025**
Granted	**–**	**–**	**–**	**–**	**HKD248.8000**	**165,800**	**–**	**–**	**165,800**
Exercised	**–**	**–**	**HKD13.8099**	**(4,090,290)**	**HKD45.4858**	**(5,204,932)**	**–**	**–**	**(9,295,222)**
Lapsed	**–**	**–**	**HKD11.5430**	**(75,158)**	**HKD44.6799**	**(483,859)**	**–**	**–**	**(559,017)**
At 31 December 2012	**–**	**–**	**HKD11.1348**	**4,596,489**	**HKD65.4953**	**20,633,097**	**HKD158.5000**	**1,000,000**	**26,229,586**
Exercisable as at 31 December 2012	**–**	**–**	**HKD11.1348**	**4,596,489**	**HKD45.0314**	**9,931,574**	**–**	**–**	**14,528,063**
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	–	–	–	–	HKD191.1886	771,175	–	–	771,175
Exercised	USD0.0935	(563,180)	HKD13.8888	(4,038,282)	HKD44.9126	(3,022,651)	–	–	(7,624,113)
Lapsed	USD0.1967	(13)	HKD6.0210	(5,544)	HKD64.9539	(387,604)	–	–	(393,161)
At 31 December 2011	–	–	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Exercisable as at 31 December 2011	–	–	HKD11.4611	8,173,937	HKD42.9814	8,996,582	–	–	17,170,519

21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options (Cont'd)

During the year ended 31 December 2012, no share option (2011: Nil) was granted to any directors of the Company.

As a result of the options exercised during the year ended 31 December 2012, 9,295,222 ordinary shares (2011: 7,624,113 ordinary shares) were issued by the Company (Note 19). The weighted average price of the shares at the time these options were exercised was HKD231.04 (equivalent to approximately RMB187.98) per share (2011: HKD187.26 per share (equivalent to approximately RMB155.40 per share)).

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2012 and 31 December 2011 are as follows:

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2012**	31 December 2011
10 years commencing from the adoption date of			
24 March 2004	HKD3.6650-HKD8.3500	**2,362,976**	4,164,319
(Post-IPO Option Scheme I)	HKD11.5500-HKD25.2600	**2,233,513**	4,597,618
		4,596,489	8,761,937
7 years commencing from	HKD31.7500-HKD43.5000	**9,718,200**	12,715,582
the date of grant of options	HKD45.5000-HKD90.3000	**7,125,022**	9,733,781
(Post-IPO Option Scheme II)	HKD128.4000-HKD248.8000	**3,789,875**	3,706,725
		20,633,097	26,156,088
10 years commencing from the date of grant of options(Post-IPO Option Scheme III)	HKD158.5000	**1,000,000**	1,000,000
		26,229,586	35,918,025

21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. The weighted average fair value of options granted during the year ended 31 December 2012 was HKD87.89 per option (equivalent to approximately RMB71.78 per option) (2011: HKD81.69 per option (equivalent to approximately RMB67.81 per option)).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model, which are summarised as below:

	2012	2011
Weighted average share price at the grant date	**HKD248.80**	HKD191.19
Risk free rate	**0.40%**	1.35%-2.31%
Dividend yield	**0.36%**	0.36%
Expected volatility (Note)	**48.1%**	49.10%-49.90%

Note:

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

The outstanding share options as of 31 December 2012 were divided into two or five tranches on an equal basis as at their grant date. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme

The Company has adopted a share award scheme (the "Share Award Scheme"), which is managed by an independent trustee appointed by the Group (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 years ended 31 December 2012 and 2011 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2012	**1,970,840**	**15,838,999**
Purchased and withheld (Note 19)	**651,901**	**–**
Allotted	**4,378,400**	**–**
Granted (Note)	**(7,569,380)**	**7,569,380**
Lapsed	**973,469**	**(973,469)**
Vested and exercised	**–**	**(3,490,468)**
At 31 December 2012	**405,230**	**18,944,442**
Exercisable as at 31 December 2012		**5**
At 1 January 2011	80	13,562,734
Purchased and withheld	2,773,810	–
Allotted	4,045,360	–
Granted	(5,995,410)	5,995,410
Lapsed	1,147,000	(1,147,000)
Vested and exercised	–	(2,572,145)
At 31 December 2011	1,970,840	15,838,999
Exercisable as at 31 December 2011		14,406

Note:

During the year ended 31 December 2012, no awarded share (2011: 35,000 awarded shares) was granted to any directors of the Company.

21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2012 was HKD245.95 per share (equivalent to approximately RMB200.81 per share) (2011: HKD193.14 per share (equivalent to approximately RMB159.67 per share)).

The outstanding awarded shares as of 31 December 2012 were divided into two to five tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after a specified period ranging from six months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

In 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to a shareholders' resolution passed at the 2011 annual general meeting of the Company held on 11 May 2011. The Board may, at its absolute discretion, select any employees of the Group to participate in the EIS by subscribing for partnership interest at cash consideration. The total cash contribution by selected employees is limited to approximately RMB80,000,000. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS, ranging from 4 to 7 years. A wholly-owned subsidiary of the Company which acts as a general partner of the EIS manages and in essence, controls it. The EIS is therefore consolidated by the Company. In addition, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expenses of which for the years ended 31 December 2012 and 2011 were considered not material to the Group by the directors of the Company.

21 SHARE-BASED PAYMENTS (Cont'd)

(d) Share options and restricted share award scheme adopted by non-wholly owned subsidiaries

Other than the above, certain non-wholly owned subsidiaries of the Company operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches.

The directors of the Company considered that the fair value of share options/restricted shares granted under the share-based compensation plans of the non-wholly owned subsidiaries, and the relevant share-based compensation expense charged into the consolidated income statement of the Group for the year ended 31 December 2012, are not significant to the Group.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2012, the Expected Retention Rate was assessed to be 91% (31 December 2011: 91%).

22 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
0 - 30 days	**3,573,610**	1,514,155
31 - 60 days	**430,408**	351,587
61 - 90 days	**176,116**	108,337
Over 90 days	**31,599**	270,035
	4,211,733	2,244,114

23 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Staff costs and welfare accruals	**2,221,853**	1,478,391
Marketing and administrative expense accruals	**872,886**	731,571
Prepayments received from customers and e-Commerce business (Note)	**2,486,804**	1,840,947
Running royalty fee for online games	**43,999**	315,045
Purchase consideration payables for business combinations	**40,345**	252,952
Others	**635,562**	395,375
	6,301,449	5,014,281

Note:

Prepayments received from e-Commerce business were recorded as restricted cash.

24 LONG-TERM PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Running royalty fee for online games	**96,993**	945,135
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary	**1,028,603**	670,985
Purchase consideration payables for business combinations	**103,885**	131,180
Others	**279,097**	112,508
	1,508,578	1,859,808

25 BORROWINGS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	**2,105,643**	–
Included in current liabilities:		
RMB bank borrowings		
– Secured	**15,000**	2,958,720
– Unsecured	**25,000**	–
USD bank borrowings		
– Unsecured (Note (b))	**942,825**	4,410,630
USD Bonds		
– Unsecured	**–**	630,090
Current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	**94,283**	–
	1,077,108	7,999,440
	3,182,751	7,999,440

25 BORROWINGS (Cont'd)

Note:

(a) Unsecured long-term bank borrowings of carrying amount of RMB2,199,926,000 as at 31 December 2012 were denominated in USD. The aggregate principal amount was USD350,000,000 with interest rates of LIBOR plus 2.10% to 2.44% per annum.

The unsecured long-term bank borrowings were repayable as follows:

	As at 31 December 2012 RMB'000
Within 1 year	**94,283**
Between 1 and 2 years	**188,565**
Between 2 and 5 years	**1,917,078**
	2,199,926

(b) Unsecured short-term bank borrowings of carrying amount of RMB942,825,000 as at 31 December 2012 were denominated in USD. The aggregate principal amount was USD150,000,000 with interest rates of LIBOR plus 1.20% to 1.75% per annum.

The fair value of the borrowings approximated to their carrying amounts as at 31 December 2012.

26 LONG-TERM NOTES PAYABLE

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

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

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

The fair value of the long-term notes payable at 31 December 2012 amounted to RMB7,950,353,000. The fair value is calculated using the market price of the senior notes on the balance sheet date.

27 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain IVAS and MVAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2012. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

28 DEFERRED INCOME TAXES

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

There was no offsetting of deferred income tax assets and liabilities in 2012 and 2011.

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	**121,494**	150,211
– to be recovered within 12 months	**47,412**	47,847
	168,906	198,058
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(1,043,639)**	(50,461)
– to be recovered within 12 months	**(267,923)**	(889,073)
	(1,311,562)	(939,534)

The movements of the deferred income tax assets/liabilities account were as follows:

	2012	2011
	RMB'000	RMB'000
At beginning of the year	**(741,476)**	(748,192)
Business combinations	**(72,287)**	(326,434)
Charge to income statement relating to origination and reversal of temporary differences (Note 37)	**(519,359)**	(10,299)
Withholding tax paid in related to the remittance of dividends	**186,894**	339,946
Credit to other comprehensive income	**5,620**	1,048
Exchange difference	**(2,048)**	2,455
At end of the year	**(1,142,656)**	(741,476)

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales RMB'000 (Note)	Deferred tax assets arising from change in fair value of available-for-sale financial assets RMB'000	Total RMB'000
At 1 January 2012	**197,010**	**1,048**	**198,058**
Charge to income statement relating to reversal of temporary differences	**(35,421)**	**–**	**(35,421)**
Credit to other comprehensive income	**–**	**6,269**	**6,269**
At 31 December 2012	**161,589**	**7,317**	**168,906**
At 1 January 2011	219,019	–	219,019
Credit to income statement relating to origination of temporary differences	32,832	–	32,832
Charge to income statement relating to reversal of temporary differences	(54,841)	–	(54,841)
Credit to other comprehensive income	–	1,048	1,048
At 31 December 2011	197,010	1,048	198,058

Note:

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology transfer transactions (Note 4.2). The credit to income statement represents tax impacts of originating temporary differences arising from these software and technology transfer, while the charge to income statement represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these software and technology.

As at 31 December 2012, the Group did not recognise deferred income tax assets of RMB250,929,000 (2011: RMB347,355,000) in respect of cumulative tax losses amounting to RMB909,558,000 (2011: RMB1,102,264,000). These tax losses will expire from 2013 to 2017.

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value RMB'000	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'000 (Note)	Deferred tax liabilities arising from change in fair value of available-for-sale financial assets RMB'000	Total RMB'000
At 1 January 2012	**(111,818)**	**(827,716)**	**–**	**(939,534)**
Business combinations	**(72,287)**	**–**	**–**	**(72,287)**
Credit/(charge) to income statement relating to origination and reversal of temporary differences	**68,562**	**(552,500)**	**–**	**(483,938)**
Withholding tax paid in related to the remittance of dividends	**–**	**186,894**	**–**	**186,894**
Charge to other comprehensive income	**–**	**–**	**(649)**	**(649)**
Exchange difference	**(2,048)**	**–**	**–**	**(2,048)**
At 31 December 2012	**(117,591)**	**(1,193,322)**	**(649)**	**(1,311,562)**
At 1 January 2011	(22,049)	(945,162)	–	(967,211)
Business combinations	(326,434)	–	–	(326,434)
Credit/(charge) to income statement relating to origination of temporary differences	234,210	(222,500)	–	11,710
Withholding tax paid in related to the remittance of dividends	–	339,946	–	339,946
Exchange difference	2,455	–	–	2,455
At 31 December 2011	(111,818)	(827,716)	–	(939,534)

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 37 (a)(vi)).

28 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2012, the Group recognised the relevant deferred tax liabilities of RMB1,193,322,000 (2011: RMB827,716,000) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB5,726,456,000 (2011: RMB4,264,270,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

29 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (Note 2.28(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred and cost of merchandise sold in deriving the revenues.

30 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current deposit, restricted cash, term deposits with initial term of three months or less, and term deposits with initial term of over three months.

31 OTHER (LOSSES)/GAINS, NET

	2012 **RMB'000**	2011 RMB'000
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	**(699,000)**	(243,000)
Dividend income	**407,069**	15,851
Gains on disposal/deemed disposal of associates	**7,451**	708,486
Subsidies and tax rebates	**226,148**	101,406
Losses from derivative financial instruments	**(20,767)**	(96,790)
Donation to Tencent Charity Fund	**(120,000)**	(100,000)
Others	**(84,801)**	34,850
	(283,900)	420,803

32 EXPENSES BY NATURE

	2012	2011
	RMB'000	RMB'000
Employee benefits expenses (Note)/(Note 33)	**7,724,266**	4,865,744
Content costs and agency fees	**6,586,658**	4,843,784
Cost of merchandise sold	**4,066,513**	–
Mobile and telecommunications charges and bandwidth and server custody fees	**3,408,763**	2,627,106
Promotion and advertising expenses	**1,998,274**	1,403,699
Depreciation of fixed assets (Note)/(Note 6)	**1,879,604**	1,207,732
Amortisation of intangible assets (Note 9)	**732,620**	726,221
Operating lease rentals in respect of office buildings	**614,979**	342,957
Travelling and entertainment expenses	**315,820**	224,748
Amortisation of land use rights (Note 8)	**7,542**	4,925
Auditor's remuneration		
– Audit services	**15,050**	10,760
– Non-audit services	**7,107**	7,575
Other expenses	**1,608,873**	867,064
	28,966,069	17,132,315

Note:

Research and development expenses for the year ended 31 December 2012 were RMB4,175,973,000 (2011: RMB2,684,821,000) which included employee benefit expenses of RMB3,358,077,000 (2011: RMB2,243,793,000) and depreciation of fixed assets of RMB449,642,000 (2011: RMB287,968,000). No research and development expenses had been capitalised for the years ended 31 December 2012 and 2011.

33 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2012	2011
	RMB'000	RMB'000
Wages, salaries and bonuses	**5,577,316**	3,450,307
Welfare, medical and other expenses (Note)	**504,404**	247,109
Share-based compensation expenses	**1,012,392**	814,771
Contributions to pension plans (Note)	**593,421**	321,801
Training expenses	**36,733**	31,756
	7,724,266	4,865,744

Note:

All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

	Percentage
Pension insurance	10 - 22%
Medical insurance	6 - 12%
Unemployment insurance	0 - 2%
Housing fund	10 - 12%

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors and the chief executive officer ("CEO") of the Company for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	RMB'000
Fees – directors	**2,600**	2,053
Salaries, bonuses, allowances and benefits in kind	**45,534**	44,622
Contributions to pension plans	**122**	108
Share-based compensation expenses charged to income statement	**18,021**	20,474
	66,277	67,257
Number of directors		
– With emoluments	**6**	6
– Without emoluments	**3**	2
Number of directors	**9**	8

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng (CEO)	–	20,617	61	–	20,678
Zhang Zhidong	–	14,741	61	–	14,802
Lau Chi Ping Martin	1,136	10,176	–	16,153	27,465
Iain Ferguson Bruce	651	–	–	1,001	1,652
Ian Charles Stone	447	–	–	774	1,221
Li Dong Sheng	366	–	–	93	459
Antonie Andries Roux (Note)	–	–	–	–	–
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,600	45,534	122	18,021	66,277

Note:

Mr Antonie Andries Roux passed away on 24 June 2012 and ceased to be a non-executive director of the Company on the same date.

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2011 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng (CEO)	–	20,615	54	–	20,669
Zhang Zhidong	–	14,741	54	–	14,795
Lau Chi Ping Martin	756	9,266	–	18,564	28,586
Iain Ferguson Bruce	567	–	–	1,059	1,626
Ian Charles Stone	365	–	–	806	1,171
Li Dong Sheng	365	–	–	45	410
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,053	44,622	108	20,474	67,257

During the year ended 31 December 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company (2011: 35,000 share options were granted to independent non-executive directors).

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2012 and 2011.

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Senior management's emoluments

Senior management includes directors, CEO, president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO whose details have been reflected in Note 34(a) is as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**116,931**	100,298
Contributions to pension plans	**706**	567
Share-based compensation expenses charged to income statement	**107,495**	61,565
	225,132	162,430

The emoluments of the senior management fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HKD7,000,001 - HKD16,000,000	**7**	12
HKD16,000,001 - HKD25,000,000	**6**	2
HKD25,000,001 - HKD34,000,000	**1**	1
HKD43,000,001 - HKD52,000,000	**1**	–

35 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included two (2011: two) directors whose details have been reflected in the analysis presented Note 34. The emoluments paid/payable to the remaining three (2011: three) individuals during the year were as follows:

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	27,017	33,661
Contributions to pension plans	140	160
Share-based compensation expenses charged to income statement	55,251	21,378
	82,408	55,199

The emoluments of the above three individuals (2011: three) fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HKD18,500,001 - HKD19,000,000	–	1
HKD22,000,001 - HKD22,500,000	–	1
HKD23,500,001 - HKD24,000,000	1	–
HKD25,000,001 - HKD25,500,000	–	1
HKD26,500,001 - HKD27,000,000	1	–
HKD50,500,001 - HKD51,000,000	1	–

36 FINANCE (COSTS)/INCOME, NET

	2012 RMB'000	2011 RMB'000
Exchange (losses)/gains	(20,956)	108,042
Interest and related expenses	(326,562)	(72,537)
	(347,518)	35,505

Interest expenses mainly arose from the borrowings and long-term notes mentioned in Note 25 and Note 26, respectively.

37 TAX EXPENSE

(a) Income tax

(i) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in these jurisdictions for the years ended 31 December 2012 and 2011.

(ii) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the year ended 31 December 2012. No such provision was made for the year ended 31 December 2011.

(iii) PRC Corporate Income Tax ("CIT")

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

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

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the CIT Law and which were entitled to preferential CIT 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 CIT rates shall be based on the above transitional CIT rates for the respective years.

In 2011, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in 2011 and 2012 were further reduced to 10%.

37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Corporate Income Tax ("CIT") (Cont'd)

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

(iv) United States corporate income tax

United States corporate income tax provision was provided during the year ended 31 December 2012 for the entities within the Group which were incorporated in the United States with estimated assessable profits, at applicable tax rate of 36%. No such provision was provided for the year ended 31 December 2011.

(v) Corporate income tax in other countries

Corporate income tax provision has been provided for the year ended 31 December 2012 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%. No such provision was made for the year ended 31 December 2011.

(vi) 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 Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The income tax expense of the Group for the years ended 31 December 2012 and 2011 are analysed as follows:

	2012 RMB'000	2011 RMB'000
Current tax	**1,746,804**	1,863,939
Deferred income tax (Note 28)	**519,359**	10,299
	2,266,163	1,874,238

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 year ended 31 December 2012 (2011: 24%), being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	2012 RMB'000	2011 RMB'000
Profit before income tax	**15,051,015**	12,099,069
Add: Share of losses of associates and jointly controlled entities	**80,880**	189,986
	15,131,895	12,289,055
Tax calculated at a tax rate of 25% (2011: 24%)	**3,782,974**	2,949,373
Effects of different tax rates applicable to different subsidiaries of the Group	**(2,027,510)**	(1,087,518)
Effects of tax holiday on assessable profits of subsidiaries	**(308,014)**	(464,371)
Income not subject to tax	**(110,096)**	(13,752)
Expenses not deductible for tax purposes	**275,440**	186,196
Withholding tax on earnings expected to be remitted by PRC subsidiaries (Note 28)	**552,500**	222,500
Utilisation of previously unrecognised tax losses	**(75,527)**	(23,276)
Unrecognised deferred income tax assets	**162,693**	167,330
Others	**13,703**	(62,244)
Income tax expense	**2,266,163**	1,874,238

37 TAX EXPENSE (Cont'd)

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

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

Category	Tax rate	Basis of levy
Value-added tax ("VAT") (Note)	6-17%	Sales value of goods sold and services fee income, offsetting by VAT on purchases
	3%	Sales value of goods sold and services fee income
Business tax ("BT")	3-5%	Services fee income
City construction tax	7%	Net VAT and BT payable amount
Construction fee for cultural undertakings	3%	Advertising income
Educational surcharge	5%	Net VAT and BT payable amount

Note:

Pursuant to the circulars issued by the Ministry of Finance and the State Administration of Taxation, the VAT pilot programme was introduced in January 2012, replacing BT regime with VAT system for certain business sectors in some cities in China. In this regard, some subsidiaries of the Group have been transformed from BT payers to VAT payers in 2012, and the applicable tax rate is 3-6%.

38 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2012 is dealt with in the financial statements of the Company to the extent of RMB3,263,692,000 (2011: RMB1,279,795,000).

39 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.

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**12,731,871**	10,203,083
Weighted average number of ordinary shares in issue (thousand shares)	**1,827,886**	1,818,966
Basic EPS (RMB per share)	**6.965**	5.609

39 EARNINGS PER SHARE (Cont'd)

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. 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 year ended 31 December 2012, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**12,731,871**	10,203,083
Weighted average number of ordinary shares in issue (thousand shares)	**1,827,886**	1,818,966
Adjustments for share options (thousand shares)	**23,441**	28,897
Adjustments for awarded shares (thousand shares)	**11,963**	10,683
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,863,290**	1,858,546
Diluted EPS (RMB per share)	**6.833**	5.490

40 DIVIDENDS

The dividends paid in 2012 amounted to RMB1,107,889,000 (2011: RMB838,290,000), which excluded the dividends of RMB10,684,000 (2011: RMB6,720,000) related to the shares held by the Share Scheme Trust for the purposes of the Share Award Scheme.

A final dividend in respect of the year ended 31 December 2012 of HKD1.00 per share (2011: HKD0.75 per share) was proposed pursuant to a resolution passed by the Board on 20 March 2013 and subject to the approval of the shareholders at the annual general meeting to be held on 15 May 2013. The consolidated financial statements do not reflect this dividends payable.

41 BUSINESS COMBINATIONS

(a) The Level Up! Acquisition

Pursuant to an agreement dated 19 January 2012, in July 2012, the Group acquired 49% equity interest in Level Up! International Holdings Pte. Ltd. ("Level Up!"), a publisher and operator of online games, from MIH LatAm Holdings B.V. (the "Vendor") at a consideration of USD26,950,000 (equivalent to approximately RMB170,456,000) (the "Level Up! Acquisition"). The Level Up! Acquisition aligns well with the Company's long term strategy to cooperate with leading local Internet companies in emerging markets through strategic investment and partnership. According to the terms of the Level Up! Acquisition, the Group also has a currently exercisable call option to acquire additional 18% equity interest (total 67% equity interest together with the aforesaid 49% interest) in Level Up! at a consideration of USD9,900,000 (equivalent to approximately RMB62,615,000) and its relevant interest accrued from the closing date of Level Up! Acquisition to the date of the exercise of the option. Upon completion of the Level Up! Acquisition, Level Up! was accounted for as a subsidiary of the Group. The Vendor is an indirect wholly-owned subsidiary of Naspers Limited, which is the ultimate substantial shareholder of the Company. Therefore, the Level Up! Acquisition was a related parties transaction. In addition, the Level Up! Acquisition was also a connected transaction under the Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Goodwill of RMB133,928,000 was recognised as a result of the Level Up! Acquisition based on the finalisation of its fair value assessment. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining operations of the Group and Level Up!. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interests in Level Up! at fair value on the closing date of Level Up! Acquisition, which was estimated by making reference to the purchase price paid for the acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the closing date of the transaction.

	RMB'000
Cash consideration paid	**170,456**
Fair value of the non-controlling interests	**177,612**
	348,068
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	**86,897**
Fixed assets	**18,887**
Intangible assets acquired	**224,649**
Current liabilities	**(58,416)**
Deferred income tax liabilities	**(57,877)**
Total identifiable net assets	**214,140**
Goodwill	**133,928**
	348,068
Acquisition-related costs (Note)	**1,018**

41 BUSINESS COMBINATIONS (Cont'd)

(a) The Level Up! Acquisition (Cont'd)

Note:

The acquisition-related costs were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2012.

The revenues and net profit contributed by Level Up! from 1 January 2012 or its acquisition date to 31 December 2012 were not material to the Group.

(b) Acquisitions of equity interests in five companies

During the year ended 31 December 2012, the Group acquired the entire equity interests in two companies. One of them is engaged in providing massively multi-players online game information and the other is engaged in developing utility programs on mobile device. In addition, the Group acquired 51% equity interest in a company engaged in book publication and online reading services.

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

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

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

The revenues and net profit contributed by these subsidiaries from 1 January 2012 or their respective acquisition dates to 31 December 2012 were not material to the Group.

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

42 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2012 RMB'000	2011 RMB'000
Profit for the year	**12,784,852**	10,224,831
Adjustments for:		
Income tax expense	**2,266,163**	1,874,238
Gains on disposal/deemed disposal of associates	**(7,451)**	(708,486)
Dividend income	**(407,069)**	–
Depreciation of fixed assets and investment properties	**1,880,078**	1,208,261
Amortisation of intangible assets	**732,620**	726,221
Amortisation of land use rights	**7,542**	4,925
(Gains)/losses on disposals of fixed assets	**(1,200)**	1,694
Losses from derivative financial instruments	**20,767**	96,790
Interest income	**(835,671)**	(468,990)
Equity-settled share-based compensation expenses	**904,792**	732,691
Share of losses of associates	**54,386**	24,255
Share of losses of jointly controlled entities	**26,494**	165,731
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	**699,000**	243,000
Exchange losses/(gains)	**20,956**	(108,042)
Changes in working capital:		
Accounts receivable	**(266,551)**	(250,693)
Inventories	**(300,896)**	–
Prepayments, deposits and other receivables	**(2,254,540)**	(2,630,368)
Accounts payable	**1,689,096**	827,573
Other payables and accruals	**1,786,118**	2,873,982
Other tax liabilities	**396,518**	(45,689)
Restricted cash	**(640,213)**	(1,850,652)
Deferred revenue	**3,098,443**	2,253,098
Net Cash generated from operating activities	**21,654,234**	15,194,370

42 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to net cash inflow from operating activities: (Cont'd)

In the Consolidated Statement of Cash Flows, proceeds from disposals of fixed assets comprise:

	2012	2011
	RMB'000	RMB'000
Net book amount	**2,900**	2,293
Gains/(losses) on disposals of fixed assets	**1,200**	(1,694)
Proceeds from disposals of fixed assets	**4,100**	599

(b) Major non-cash transactions

There were no material non-cash transactions for the year ended 31 December 2012.

43 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2012.

44 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2012 and 2011 are analysed as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Construction/purchase of building and purchase of land use rights	**446,869**	463,046
Purchase of other fixed assets	**142,226**	132,260
Capital investment in investees	**868,377**	816,910
	1,457,472	1,412,216
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	**1,109,244**	1,186,867
Capital investment in investees	**450,400**	651,927
	1,559,644	1,838,794
	3,017,116	3,251,010

(b) Operating lease commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Not later than one year	**533,308**	520,396
Later than one year and not later than five years	**1,359,686**	1,462,788
Later than five years	**288,003**	286,135
	2,180,997	2,269,319

44 COMMITMENTS (Cont'd)

(c) Other commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Not later than one year	**1,051,632**	596,031
Later than one year and not later than five years	**1,299,057**	768,291
	2,350,689	1,364,322

45 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 11 (loans to associates and transactions with associates), Note 16 (loan to a jointly controlled entity), Note 21 (Share options and share award scheme), Note 34 (Directors' and senior management's emoluments) and Note 41 (Business combination) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2012, and no other material related parties' balances as at 31 December 2012.

46 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2012 to the approval date of the consolidated financial statements by the Board on 20 March 2013.

Definition

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

Term	Definition
"AGM"	the annual general meeting of the Company to be held on 15 May 2013 or any adjournment thereof
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Awarded Person"	a person who is eligible to participate in the Share Award Scheme
"Awarded Shares"	the shares of the Company awarded under the Share Award Scheme
"B2C"	business to consumer
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Emark"	Beijing Emark Information and Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Board"	the board of directors of the Company
"CEO"	chief executive officer
"CG Code"	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
"CIT"	corporate income tax

Term	Definition
"Company" or "Tencent"	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
"Company Website"	the website of the Company at www.tencent.com
"Corporate Governance Committee"	the corporate governance committee of the Company
"COSO Framework"	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations
"Cyber Shenzhen"	Tencent Cyber (Shenzhen) Company Limited
"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited
"DAU"	daily active user accounts
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Epic Games"	Epic Games,Inc.
"EPS"	earnings per share
"GAAP"	Generally Accepted Accounting Principles
"Gamegoo"	Gamegoo Group Limited

Term	Definition
"Gamegoo Acquisition"	the acquisition of additional equity interest in Gamegoo, which constituted a step-up business combination
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries
"Guangzhou Yunxun"	Guangzhou Yunxun Technology Company Limited
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, PRC
"IA"	internal audit department of the Company
"IC"	internal control department of the Company
"IFRS"	International Financial Reporting Standards
"IM"	instant messaging
"Investment Committee"	the investment committee of the Company
"IPO"	initial public offering
"IVAS"	Internet value-added services
"Kakao"	Kakao Corp.
"Korea"	the Republic of Korea

Term	Definition
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LIBOR"	London Interbank Offered Rate
"LoL"	League of Legends
"Mail.ru"	Mail.ru Group Limited
"MAU"	monthly active user accounts
"MIH TC"	MIH TC Holdings Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"MVAS"	mobile and telecommunications value-added services
"New OPCOs"	Beijing Emark, Wang Dian, Beijing BIZCOM, Beijing Starsinhand, Shenzhen Shijitianyou Technology Company Limited, Guangzhou Yunxun, Shenzhen Dadi Tongtu Information Technology Limited, Shenzhen Shiji Huixiang Technology Company Limited, Shenzhen Shiji Tongxiang Technology Company Limited, Shenzhen Xinghuo Chuangxin Technology Company Limited and Shenzhen Xingguang Tongchuang Technology Company Limited, Shenzhen Tencent E-Commerce Information Technology Company Limited
"Nomination Committee"	the nomination committee of the Company
"PC"	personal computer
"PCU"	peak concurrent user accounts

Term	Definition
"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
"Remuneration Committee"	the remuneration committee of the Company
"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
"SFO"	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share Award Scheme"	the share award scheme adopted by the Company on 13 December 2007
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Company Limited
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan

Term	Definition
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"SMS"	short message service
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCS CFC"	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
"TCS Co-operation Committee"	the co-operation committee established under the TCS CFC
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited
"Tencent Charity Fund"	a charity fund established by the Group
"Tencent Chengdu"	Tencent Technology (Chengdu) Company Limited
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Scheme
"United States" or "US"	the United States of America

Term	Definition
"USD"	the lawful currency of United States
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Cyber Shenzhen, Tencent Chengdu and Tencent Shanghai, Tencent Wuhan, G-I Growth (Shenzhen) Technology Limited, Tencent Cyber (Shenzhen-Shantou Special Cooperation Zone) Company Limited, Tencent E-Commerce Technology (Shenzhen) Limited

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