

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2008

The Board of Directors (the “Board”) of Tencent Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three and six months ended 30 June 2008. These interim results have been reviewed by PricewaterhouseCoopers, the auditors of the Company (the “Auditors”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee of the Company.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2008

	Unaudited	Audited
	30 June	31 December
	2008	2007
<i>Note</i>	RMB'000	RMB'000
ASSETS		
Non-current assets		
Fixed assets	1,010,180	839,256
Construction in progress	200,452	112,232
Investment property	65,698	66,414
Leasehold land and land use rights	36,421	36,796
Intangible assets	452,008	451,554
Investment in a jointly controlled entity	2,500	179
Investment in associates	332,416	—
Deferred income tax assets	352,133	287,652
Held-to-maturity investments	—	73,046
Available-for-sale financial assets	66,455	63,605
Other long-term assets	92,648	219,138
Prepayment, deposits and other receivables	201,167	—
	<u>2,812,078</u>	<u>2,149,872</u>
Current assets		
Inventories	1,261	1,701
Accounts receivable	899,007	535,528
Prepayments, deposits and other receivables	279,366	130,406
Financial assets held for trading	409,443	266,495
Held-to-maturity investments	68,591	—
Derivative financial instruments	44,133	47,759
Term deposits with initial term of over three months	1,127,551	604,486
Restricted cash	300,000	300,000
Cash and cash equivalents	2,263,418	2,948,757
	<u>5,392,770</u>	<u>4,835,132</u>
Total assets	<u>8,204,848</u>	<u>6,985,004</u>

	Unaudited	Audited
	30 June	31 December
	2008	2007
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	195	194
Share premium	1,402,286	1,455,854
Shares held for share award scheme	(10,218)	—
Share-based compensation reserve	287,971	220,230
Other reserves	93,712	93,712
Retained earnings	<u>4,334,377</u>	<u>3,413,823</u>
	6,108,323	5,183,813
Minority interests in equity	<u>107,656</u>	<u>91,630</u>
Total equity	<u>6,215,979</u>	<u>5,275,443</u>
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	<u>50,864</u>	<u>59,944</u>
Current liabilities		
Accounts payable	5 255,446	117,062
Other payables and accruals	603,737	669,194
Short-term bank borrowing	292,184	292,184
Derivative financial instruments	26,434	30,060
Current income tax liabilities	170,833	71,133
Other tax liabilities	179,924	134,746
Deferred revenue	<u>409,447</u>	<u>335,238</u>
	<u>1,938,005</u>	<u>1,649,617</u>
Total liabilities	<u>1,988,869</u>	<u>1,709,561</u>
Total equity and liabilities	<u>8,204,848</u>	<u>6,985,004</u>
Net current assets	<u>3,454,765</u>	<u>3,185,515</u>
Total assets less current liabilities	<u>6,266,843</u>	<u>5,335,387</u>

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2008**

		Unaudited Three months ended 30 June 2008		Unaudited Six months ended 30 June 2007	
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
Internet value-added services		1,037,042	546,235	2,035,775	1,048,022
Mobile and telecommunications value-added services		338,311	206,036	626,602	402,580
Online advertising		222,790	114,599	367,370	188,667
Others		<u>1,635</u>	<u>1,146</u>	<u>2,942</u>	<u>1,808</u>
		1,599,778	868,016	3,032,689	1,641,077
Cost of revenues	7	<u>(453,069)</u>	<u>(266,041)</u>	<u>(841,534)</u>	<u>(503,560)</u>
Gross profit	2	1,146,709	601,975	2,191,155	1,137,517
Other gains, net	6	25,855	23,315	73,303	57,328
Selling and marketing expenses	7	(100,212)	(70,870)	(186,146)	(141,080)
General and administrative expenses	7	<u>(307,059)</u>	<u>(192,017)</u>	<u>(575,701)</u>	<u>(363,994)</u>
Operating profit	*	765,293	362,403	1,502,611	689,771
Finance costs	**	(40,918)	(16,690)	(135,384)	(29,195)
Share of losses of associates		<u>(1,558)</u>	<u>—</u>	<u>(1,558)</u>	<u>—</u>
Profit before income tax		722,817	345,713	1,365,669	660,576
Income tax expense	8	<u>(70,618)</u>	<u>(11,227)</u>	<u>(171,458)</u>	<u>(35,921)</u>
Profit for the period		<u>652,199</u>	<u>334,486</u>	<u>1,194,211</u>	<u>624,655</u>

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2008	2007	2008	2007
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Attributable to:					
Equity holders of the Company		643,979	334,486	1,178,357	624,655
Minority interests		<u>8,220</u>	<u>—</u>	<u>15,854</u>	<u>—</u>
		<u>652,199</u>	<u>334,486</u>	<u>1,194,211</u>	<u>624,655</u>
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)					
- basic	9	<u>0.359</u>	<u>0.188</u>	<u>0.657</u>	<u>0.352</u>
- diluted	9	<u>0.349</u>	<u>0.183</u>	<u>0.639</u>	<u>0.341</u>

* After deduction of share-based compensation charge amounting to RMB32,061,000 for the three months ended 30 June 2008 (for the three months ended 30 June 2007: RMB21,622,000) and RMB67,493,000 for the six months ended 30 June 2008 (for the six months ended 30 June 2007: RMB40,409,000).

** Included foreign exchange losses of RMB40,918,000 for the three months ended 30 June 2008 (for the three months ended 30 June 2007: RMB16,160,000) and RMB135,384,000 for the six months ended 30 June 2008 (for the six months ended 30 June 2007: RMB28,136,000).

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

Unaudited									
Attributable to equity holders of the Company									
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Minority interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at									
1 January 2008	194	1,455,854	—	220,230	93,712	3,413,823	5,183,813	91,630	5,275,443
Profit for the period	—	—	—	—	—	1,178,357	1,178,357	15,854	1,194,211
Employee share option schemes:									
- value of employee services	—	—	—	67,741	—	—	67,741	—	67,741
- proceeds from shares issued	1	51,558	—	—	—	—	51,559	—	51,559
Repurchase and cancellation of shares	—	(105,126)	—	—	—	—	(105,126)	—	(105,126)
Shares purchased for share award scheme	—	—	(10,218)	—	—	—	(10,218)	—	(10,218)
Dividend relating to 2007	—	—	—	—	—	(257,803)	(257,803)	—	(257,803)
Other movements	—	—	—	—	—	—	—	172	172
Balance at									
30 June 2008	<u>195</u>	<u>1,402,286</u>	<u>(10,218)</u>	<u>287,971</u>	<u>93,712</u>	<u>4,334,377</u>	<u>6,108,323</u>	<u>107,656</u>	<u>6,215,979</u>

Unaudited									
Attributable to equity holders of the Company									
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Minority interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at									
1 January 2007	192	1,459,020	—	118,078	80,925	2,059,541	3,717,756	—	3,717,756
Profit for the period	—	—	—	—	—	624,655	624,655	—	624,655
Employee share option schemes:									
- value of employee services	—	—	—	40,814	—	—	40,814	—	40,814
- proceeds from shares issued	2	50,886	—	—	—	—	50,888	—	50,888
Profit appropriations to statutory reserves	—	—	—	—	5,544	(5,544)	—	—	—
Dividend relating to 2006	—	—	—	—	—	(210,211)	(210,211)	—	(210,211)
Balance at									
30 June 2007	<u>194</u>	<u>1,509,906</u>	<u>—</u>	<u>158,892</u>	<u>86,469</u>	<u>2,468,441</u>	<u>4,223,902</u>	<u>—</u>	<u>4,223,902</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Unaudited	
	Six months ended	
	30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	1,045,053	507,239
Net cash flows used in investing activities	(1,333,843)	(340,014)
Net cash flows used in financing activities	<u>(321,588)</u>	<u>(159,323)</u>
Net (decrease) / increase in cash and cash equivalents	(610,378)	7,902
Cash and cash equivalents at beginning of period	2,948,757	1,844,320
Exchange losses on cash and cash equivalents	<u>(74,961)</u>	<u>(12,447)</u>
Cash and cash equivalents at end of period	<u>2,263,418</u>	<u>1,839,775</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	1,331,143	978,389
Short-term highly liquid investments with initial term of three months or less	<u>932,275</u>	<u>861,386</u>
	<u>2,263,418</u>	<u>1,839,775</u>

Note:

1 **General information, basis of preparation and presentation**

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

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

The condensed consolidated balance sheet as at 30 June 2008 and the related condensed consolidated income statement for the three and six months ended 30 June 2008, and condensed consolidated statements of changes in shareholders’ equity and cash flow for the six months ended 30 June 2008 (collectively defined as the “Interim Financial Information”) of the Group are prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2007 (the “2007 Financial Statements”) as set out in the 2007 annual report of the Company dated 19 March 2008.

The accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2007 Financial Statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets held for trading and derivative financial instruments.

Assessment and adoption of new interpretations

The following new interpretations to existing standards have been published and are mandatory for the financial year ending 31 December 2008.

IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Management has assessed the relevance of these new interpretations with respect to the Group’s operations and their impact on the Group’s accounting policies. In summary:

- 1) IFRIC 11 and IFRIC 14 do not have a significant impact on the Group’s financial statements; and
- 2) IFRIC 12 is not relevant to the Group’s operations because none of the Group’s companies provide public sector services.

2 Segment information

Business segment is the Group's primary basis of segment reporting. The business segment information of the Group for the three and six months ended 30 June 2008 and 2007 is presented as follows:

	Unaudited Three months ended 30 June 2008				Total RMB'000
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	
Revenues	<u>1,037,042</u>	<u>338,311</u>	<u>222,790</u>	<u>1,635</u>	<u>1,599,778</u>
Segment result (gross profit/(loss))	<u>767,798</u>	<u>220,550</u>	<u>169,134</u>	<u>(10,773)</u>	1,146,709
Other gains, net					25,855
Selling and marketing expenses					(100,212)
General and administrative expenses					<u>(307,059)</u>
Operating profit					765,293
Finance costs					(40,918)
Share of losses of associates					<u>(1,558)</u>
Profit before income tax					722,817
Income tax expense					<u>(70,618)</u>
Profit for the period					<u>652,199</u>
	Unaudited Three months ended 30 June 2007				
	Internet value-added services RMB'000	Mobile and telecommunications value-added services RMB'000	Online advertising RMB'000	Others RMB'000	Total RMB'000
Revenues	<u>546,235</u>	<u>206,036</u>	<u>114,599</u>	<u>1,146</u>	<u>868,016</u>
Segment result (gross profit/(loss))	<u>400,480</u>	<u>129,766</u>	<u>78,829</u>	<u>(7,100)</u>	601,975
Other gains, net					23,315
Selling and marketing expenses					(70,870)
General and administrative expenses					<u>(192,017)</u>
Operating profit					362,403
Finance costs					<u>(16,690)</u>
Profit before income tax					345,713
Income tax expense					<u>(11,227)</u>
Profit for the period					<u>334,486</u>

	Unaudited				
	Six months ended 30 June 2008				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenues	<u>2,035,775</u>	<u>626,602</u>	<u>367,370</u>	<u>2,942</u>	<u>3,032,689</u>
Segment result (gross profit/(loss))	<u>1,531,989</u>	<u>404,882</u>	<u>274,223</u>	<u>(19,939)</u>	2,191,155
Other gains, net					73,303
Selling and marketing expenses					(186,146)
General and administrative expenses					<u>(575,701)</u>
Operating profit					1,502,611
Finance costs					(135,384)
Share of losses of associates					<u>(1,558)</u>
Profit before income tax					1,365,669
Income tax expense					<u>(171,458)</u>
Profit for the period					<u>1,194,211</u>

	Unaudited				
	Six months ended 30 June 2007				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenues	<u>1,048,022</u>	<u>402,580</u>	<u>188,667</u>	<u>1,808</u>	<u>1,641,077</u>
Segment result (gross profit/(loss))	<u>779,242</u>	<u>248,817</u>	<u>123,016</u>	<u>(13,558)</u>	1,137,517
Other gains, net					57,328
Selling and marketing expenses					(141,080)
General and administrative expenses					<u>(363,994)</u>
Operating profit					689,771
Finance costs					<u>(29,195)</u>
Profit before income tax					660,576
Income tax expense					<u>(35,921)</u>
Profit for the period					<u>624,655</u>

3 Accounts receivable

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
0 - 30 days	559,014	266,553
31 days - 60 days	35,320	103,600
61 days - 90 days	86,680	51,362
Over 90 days but less than a year	<u>217,993</u>	<u>114,013</u>
	<u>899,007</u>	<u>535,528</u>

The receivable balances as at 30 June 2008 mainly represented the amounts due from China Mobile Communications Corporation, China United Telecommunications Corporation, China Telecommunications Corporation and their branches, subsidiaries and affiliates (“Mobile and Telecom Operators”), and advertising customers located in the PRC. The Group has no formal credit periods communicated to Mobile and Telecom Operators. These customers usually settle the amounts due to it within a period of 30 to 120 days. Advertising customers usually have a credit period of 30 to 90 days.

4 Share option and share award schemes

(a) Share option schemes

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

(i) *Pre-IPO Share Option Scheme (the “Pre-IPO Option Scheme”)*

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

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

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I. The Post-IPO Option Scheme I was terminated upon the adoption of a new post-IPO share option scheme mentioned below.

(iii) *Post-IPO Share Option Scheme II (the “Post-IPO Option Scheme II”)*

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

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

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 of the Company (including the Pre-IPO Option Scheme and the Post-IPO Option Scheme I) must not in aggregate exceed 30% of issued shares of the Company from time to time.

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

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2007	USD0.1010	19,006,964	HKD8.4787	62,362,775	–	–	81,369,739
Granted	–	–	HKD25.2600	3,110,000	HKD31.7954	10,686,640	13,796,640
Exercised	USD0.1044	(6,790,610)	HKD6.4884	(7,048,115)	–	–	(13,838,725)
Lapsed	USD0.1967	<u>(274,424)</u>	HKD7.6101	<u>(692,999)</u>	–	–	<u>(967,423)</u>
At 30 June 2007	USD0.0968	<u>11,941,930</u>	HKD9.6361	<u>57,731,661</u>	HKD31.7954	<u>10,686,640</u>	<u>80,360,231</u>
At 1 January 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD48.2972	7,288,977	7,288,977
Exercised	USD0.1046	(4,027,362)	HKD7.4123	(6,838,989)	HKD31.7500	(81,840)	(10,948,191)
Lapsed	–	–	HKD7.9551	<u>(724,312)</u>	HKD48.8305	<u>(1,811,492)</u>	<u>(2,535,804)</u>
At 30 June 2008	USD0.1033	<u>4,721,500</u>	HKD10.2298	<u>42,632,781</u>	HKD36.2249	<u>22,831,321</u>	<u>70,185,602</u>

During the six months ended 30 June 2008, no share options were granted to any director of the Company.

Out of the 70,185,602 share options outstanding as at 30 June 2008 (30 June 2007: 80,360,231 share options), 16,095,886 share options (30 June 2007: 17,604,048 share options) were exercisable as at 30 June 2008.

Share options exercised during the six months ended 30 June 2008 resulted in 10,948,191 ordinary shares issued. The weighted average price of the shares at the time these share options were exercised was HKD53.90 (equivalent to approximately RMB48.82) per share.

(b) **Share award scheme**

On 13 December 2007 (the “Adoption Date”), the Company adopted a share award scheme (the “Share Scheme”). The Board may, at its absolute discretion, select any eligible persons (the “Awarded Persons”) to participate in the Share Scheme.

Pursuant to the Share Scheme, ordinary shares of the Company will be acquired by an independent trustee (the “Trustee”) at the cost of the Company or shares will be allotted to the Trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares will be held in trust for the Awarded Persons by the Trustee until the end of each vesting period. Vested shares will be transferred at no cost to the Awarded Persons.

Unless early terminated by the Board, the Share Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date.

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

For the six months ended 30 June 2008, 195,760 shares were granted under the Share Scheme.

5 **Accounts payable**

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
0 - 30 days	218,307	63,811
31 days - 60 days	663	11,964
61 days - 90 days	9,634	14,495
Over 90 days but less than a year	<u>26,842</u>	<u>26,792</u>
	<u>255,446</u>	<u>117,062</u>

6 **Other gains, net**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Interest income	22,066	22,070	47,300	42,052
Fair value (losses)/gains on financial assets held for trading	(942)	(1,308)	4,641	730
Government subsidies	25,680	1,782	39,780	13,258
Donation to a charity fund established by the Group	(20,000)	—	(20,000)	—
Others	(949)	771	1,582	1,288
	<u>25,855</u>	<u>23,315</u>	<u>73,303</u>	<u>57,328</u>

7 **Expenses by nature**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Employee benefit expenses (Note)	326,228	163,881	591,204	319,114
Mobile and telecom charges and bandwidth and server custody fees	252,057	154,421	478,736	257,956
Promotion and advertising expenses	43,147	38,438	75,288	75,688
Depreciation of fixed assets (Note)	59,996	34,352	113,268	65,550
Travelling and entertainment expenses	16,106	19,877	35,886	38,843
Operating lease rentals in respect of office buildings	21,441	19,732	43,921	34,338
Amortisation of intangible assets	18,267	11,204	29,972	18,201
Value-added tax paid upon transfer of software within the Group	2,100	2,250	2,100	2,250
Other expenses	<u>120,998</u>	<u>84,773</u>	<u>233,006</u>	<u>196,694</u>
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<u>860,340</u>	<u>528,928</u>	<u>1,603,381</u>	<u>1,008,634</u>

Note:

Research and development expenses were RMB164,183,000 and RMB297,371,000 for the three and six months ended 30 June 2008 (for the three and six months ended 30 June 2007: RMB82,971,000 and RMB163,100,000, respectively). The expenses included employee benefit expenses of RMB127,474,000 and depreciation of fixed assets of RMB33,160,000 for the three months ended 30 June 2008 (for the three months ended 30 June 2007: RMB68,402,000 and RMB13,328,000, respectively) and employee benefit expenses of RMB230,335,000 and depreciation of fixed assets of RMB61,182,000 for the six months ended 30 June 2008 (for the six months ended 30 June 2007: RMB134,902,000 and RMB25,202,000, respectively).

The Group did not capitalise any research and development expenses for the three and six months ended 30 June 2008 (for the three and six months ended 30 June 2007: Nil).

8 **Income tax expense**

(i) **Cayman Islands and British Virgin Islands Profits Tax**

The Group has not been subject to any taxation in these jurisdictions for the three and six months ended 30 June 2008 and 2007.

(ii) **Hong Kong Profits Tax**

No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the three and six months ended 30 June 2008 and 2007.

(iii) **PRC Enterprise Income Tax (“EIT”)**

EIT is provided on the assessable income of entities within the Group incorporated in the PRC for the three and six months ended 30 June 2008 and 2007, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People’s Congress on 16 March 2007, the new enterprise income tax for domestic and foreign enterprises is unified at 25%, effective 1 January 2008. In addition, the PRC Enterprise Income Tax Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations.

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

The taxation charges of the Group for the three and six months ended 30 June 2008 and 2007 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	115,097	29,878	245,334	42,591
Deferred tax	(44,479)	(18,651)	(73,876)	(6,670)
	<u>70,618</u>	<u>11,227</u>	<u>171,458</u>	<u>35,921</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 18% for the three and six months ended 30 June 2008 (for the three and six months ended 30 June 2007: 15%), the tax rate applicable in Shenzhen and the Beijing High Technology Zone of the PRC for 2008, where the principal activities of the Group are conducted. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	722,817	345,713	1,365,669	660,576
Add: Share of losses of associates	1,558	—	1,558	—
	<u>724,375</u>	<u>345,713</u>	<u>1,367,227</u>	<u>660,576</u>
Tax calculated at a tax rate of 18% (for the three and six months ended 30 June 2007: 15%)	130,388	51,857	246,101	99,086
Income not subject to tax	(3,097)	—	(3,097)	—
Effects of different tax rates available to different companies of the Group	1,105	2,837	5,255	4,522
Effects of tax holiday on assessable profit of subsidiaries	(61,456)	(38,367)	(83,645)	(74,836)
Expenses not deductible for tax purposes	3,852	2,295	14,739	8,553
(Utilisation of previously unrecognised deferred tax assets)/unrecognised deferred tax assets	(174)	(7,395)	(7,895)	(1,404)
Tax charge	<u>70,618</u>	<u>11,227</u>	<u>171,458</u>	<u>35,921</u>

9 Earnings per share

Basic

Basic earnings per share (“EPS”) are calculated by dividing the profit attributable to equity holders of the Company for the periods by the weighted average number of ordinary shares in issue during each period.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2008	2007	2008	2007
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>643,979</u>	<u>334,486</u>	<u>1,178,357</u>	<u>624,655</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,794,673</u>	<u>1,779,162</u>	<u>1,794,163</u>	<u>1,775,764</u>
Basic EPS (RMB per share)	<u><u>0.359</u></u>	<u><u>0.188</u></u>	<u><u>0.657</u></u>	<u><u>0.352</u></u>

Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and shares granted by the Company (collectively forming the denominator for computing the diluted EPS). A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company’s shares during the periods) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares so calculated is compared against the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>643,979</u>	<u>334,486</u>	<u>1,178,357</u>	<u>624,655</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,794,673	1,779,162	1,794,163	1,775,764
Adjustments for share options (thousand shares)	50,490	53,536	51,224	56,064
Adjustments for awarded shares (thousand shares)	<u>95</u>	<u>—</u>	<u>47</u>	<u>—</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,845,258</u>	<u>1,832,698</u>	<u>1,845,434</u>	<u>1,831,828</u>
Diluted EPS (RMB per share)	<u><u>0.349</u></u>	<u><u>0.183</u></u>	<u><u>0.639</u></u>	<u><u>0.341</u></u>

10 Dividends

A final dividend for 2007 of HKD0.16 per share, totalling approximately HKD286,990,000 (equivalent to RMB257,803,000) (final dividend for 2006: HKD213,369,000 (equivalent to approximately RMB210,211,000)) was proposed pursuant to a resolution passed by the Board on 19 March 2008 and was approved by the shareholders in the annual general meeting held on 14 May 2008. Such dividends had been paid as at 30 June 2008.

11 Comparatives

For the purpose of better representation of the Group's activities, royalty fee of approximately RMB219,138,000, which had previously been captured under intangible assets in the 2007 Financial Statements, was reclassified to "other long-term assets".

OPERATING INFORMATION

The following table sets forth certain operating statistics relating to our IM community and value-added services as of the dates and for the periods presented:

	For the 15-day period ended 30 June 2008	For the 16-day period ended 31 March 2008 <i>(in millions)</i>	Percentage Change
Registered IM user accounts (at end of period)	822.2	783.4	4.95%
Active user accounts (at end of period)	341.9	317.9	7.55%
Peak simultaneous online user accounts (for the quarter)	42.0	40.3	4.22%
Average daily user hours	627.0	545.4	14.96%
Average daily messages ⁽¹⁾	4,684.8	4,056.3	15.49%
Fee-based Internet value-added services registered subscriptions (at end of period)	26.1	22.4	16.52%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period) ⁽²⁾	13.4	12.6	6.35%

(1) Average daily messages include messages exchanged between PCs only and exclude messages exchanged with mobile handsets.

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

Our IM platform continued to grow in the second quarter of 2008. Registered IM user accounts, active user accounts, peak simultaneous online user accounts, average daily user hours and average daily messages increased in the second quarter of 2008 mainly reflecting the continuing growth of the Internet market in China. The increase in average daily user hours and average daily messages also reflected the impact of school holidays commencing in June 2008 for many students in China and the resulting increase in online activities by those students.

The increase in registered subscriptions for our fee-based Internet value-added services was mainly driven by an increase in subscriptions to QQ Membership, Qzone, QQ Show, and QQ Games due to increased promotional activities, enhancement of functions and user experience. Registered subscriptions for QQ Show also increased as we shifted our focus to promote monthly subscriptions rather than item-based fees starting in the first quarter of 2008. The increase in registered subscriptions for our mobile and telecommunications value-added services was mainly driven by organic growth and an increase in subscriptions to bundled SMS packages.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Half of 2008

The following table sets forth the figures for the first half of 2008 and the first half of 2007:

	Unaudited	
	Sixth months ended	
	30 June	30 June
	2008	2007
	<i>(RMB in thousands)</i>	
Revenues	3,032,689	1,641,077
Cost of revenues	<u>(841,534)</u>	<u>(503,560)</u>
Gross profit	2,191,155	1,137,517
Other gains, net	73,303	57,328
Selling and marketing expenses	(186,146)	(141,080)
General and administrative expenses	<u>(575,701)</u>	<u>(363,994)</u>
Operating profit	1,502,611	689,771
Finance costs	(135,384)	(29,195)
Share of losses of associates	<u>(1,558)</u>	<u>—</u>
Profit before income tax	1,365,669	660,576
Income tax expense	<u>(171,458)</u>	<u>(35,921)</u>
Profit for the period	<u>1,194,211</u>	<u>624,655</u>
Attributable to:		
Equity holders of the Company	1,178,357	624,655
Minority interest	<u>15,854</u>	<u>—</u>

Revenues. Revenues increased by 84.8% to RMB3,032.7 million for the first half of 2008 from RMB1,641.1 million for the first half of 2007.

	Six months ended			
	30 June 2008		30 June 2007	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	2,035,775	67.1%	1,048,022	63.9%
Mobile and telecommunications value-added services	626,602	20.7%	402,580	24.5%
Online advertising	367,370	12.1%	188,667	11.5%
Others	2,942	0.1%	1,808	0.1%
Total revenues	<u>3,032,689</u>	<u>100.0%</u>	<u>1,641,077</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 67.1% to RMB841.5 million for the first half of 2008 from RMB503.6 million for the first half of 2007.

	Sixth months ended			
	30 June 2008		30 June 2007	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	503,786	24.7%	268,780	25.6%
Mobile and telecommunications value-added services	221,720	35.4%	153,763	38.2%
Online advertising	93,147	25.4%	65,651	34.8%
Others	22,881	777.7%	15,366	849.9%
Total cost of revenues	<u>841,534</u>		<u>503,560</u>	

Second Quarter of 2008

Our unaudited consolidated revenues for the second quarter of 2008 were RMB1,599.8 million, an increase of 84.3% over the same period in 2007 and an increase of 11.6% from the first quarter of 2008.

Revenues from our Internet value-added services for the second quarter of 2008 were RMB1,037.0 million, an increase of 89.9% over the same period in 2007 and an increase of 3.8% from the first quarter of 2008.

Revenues from our mobile and telecommunications value-added services for the second quarter of 2008 were RMB338.3 million, an increase of 64.2% over the same period in 2007 and an increase of 17.4% from the first quarter of 2008.

Revenues from online advertising for the second quarter of 2008 were RMB222.8 million, an increase of 94.4% over the same period in 2007 and an increase of 54.1% from the first quarter of 2008.

Cost of revenues for the second quarter of 2008 were RMB453.1 million, an increase of 70.3% over the same period in 2007 and an increase of 16.6% from the first quarter of 2008.

Other gains, net for the second quarter of 2008 were RMB25.9 million, an increase of 10.9% over the same period in 2007 and a decrease of 45.5% from the first quarter of 2008.

Selling and marketing expenses for the second quarter of 2008 were RMB100.2 million, an increase of 41.4% over the same period in 2007 and an increase of 16.6% from the first quarter of 2008.

General and administrative expenses for the second quarter of 2008 were RMB307.1 million, an increase of 59.9% over the same period in 2007 and an increase of 14.3% from the first quarter of 2008.

Operating profit for the second quarter of 2008 was RMB765.3 million, representing an increase of 111.2% over the same period in 2007 and an increase of 3.8% from the first quarter of 2008. As a percentage of revenues, operating profit accounted for 47.8% of total revenues for the second quarter of 2008, compared to 41.8% for the same period of 2007 and 51.5% for the first quarter of 2008.

Profit for the second quarter of 2008 was RMB652.2 million, representing an increase of 95.0% from the same period in 2007 and an increase of 20.3% from the first quarter of 2008. As a percentage of revenues, profit for the period accounted for 40.8% of total revenues for the second quarter of 2008, compared to 38.5% for the same period of 2007 and 37.8% for the first quarter of 2008.

Profit attributable to equity holders of the Company for the second quarter of 2008 was RMB644.0 million, an increase of 92.5% over the same period in 2007 and an increase of 20.5% from the first quarter of 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2008 Compared to First Quarter of 2008

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

	Unaudited	
	Three months ended	31 March
	30 June	2008
	2008	2008
	<i>(RMB in thousands)</i>	
Revenues	1,599,778	1,432,911
Cost of revenues	<u>(453,069)</u>	<u>(388,465)</u>
Gross profit	1,146,709	1,044,446
Other gains, net	25,855	47,448
Selling and marketing expenses	(100,212)	(85,934)
General and administrative expenses	<u>(307,059)</u>	<u>(268,642)</u>
Operating profit	765,293	737,318
Finance costs	(40,918)	(94,466)
Share of losses of associates	<u>(1,558)</u>	<u>—</u>
Profit before income tax	722,817	642,852
Income tax expense	<u>(70,618)</u>	<u>(100,840)</u>
Profit for the period	<u>652,199</u>	<u>542,012</u>
Attributable to:		
Equity holders of the Company	643,979	534,378
Minority interest	<u>8,220</u>	<u>7,634</u>

Revenues. Revenues increased by 11.6% to RMB1,599.8 million for the second quarter of 2008 from RMB1,432.9 million for the first quarter of 2008. The following table sets forth our revenues by line of business for the second quarter of 2008 and the first quarter of 2008:

	Three months ended			
	30 June 2008		31 March 2008	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,037,042	64.8%	998,733	69.7%
Mobile and telecommunications value-added services	338,311	21.2%	288,291	20.1%
Online advertising	222,790	13.9%	144,580	10.1%
Others	1,635	0.1%	1,307	0.1%
Total revenues	<u>1,599,778</u>	<u>100.0%</u>	<u>1,432,911</u>	<u>100.0%</u>

Revenues from our Internet value-added services increased by 3.8% to RMB1,037.0 million for the second quarter of 2008 from RMB998.7 million for the first quarter of 2008, despite the fact that the second quarter is generally a slow season for Internet value-added services as there was a lack of long holidays, and as students were busy preparing for their examinations. The increase was mainly due to the growth in revenues from online gaming, including QQ Games, QQ Fantasy and QQ Huaxia. The increase also reflected an increase in revenues from the introduction of new games in the second quarter of 2008, including Dungeon and Fighter (“DNF”), QQ Dancer and Cross Fire. In addition, our revenues increased following the introduction in April of a new expansion pack for QQ Fantasy which extended the number of levels from 60 to 80. The increase was slightly affected by a temporary suspension of our online gaming services for a period of three days due to a major earthquake in the Sichuan province of China in May 2008. On the other hand, non-game Internet value-added services such as QQ Membership, and online identity and community were negatively impacted by the adverse seasonality.

Revenues from our mobile and telecommunications value-added services increased by 17.4% to RMB338.3 million for the second quarter of 2008 from RMB288.3 million for the first quarter of 2008. The increase mainly reflected an increase in revenues from our 2.5G business, in particular, from our WAP service due to better than expected revenue collectibility, improvements to the user experience and our increased promotion efforts, and from our mobile gaming service due to enhanced mobile game content, including the launch of additional higher-quality games and

more promotion of mobile game offerings. In addition, revenues in our mobile voice VAS increased, primarily as a result of an increase in revenues from our mobile IVR service as we increased our promotion efforts. Our classification as a “Category A service provider” also contributed to the growth of our business, particularly for SMS, WAP and IVR.

Revenues from online advertising increased by 54.1% to RMB222.8 million for the second quarter of 2008 from RMB144.6 million for the first quarter of 2008, mainly reflecting the seasonal impact of the second quarter of each year having stronger sales compared to the first quarter of each year. The improved brand recognition by our customers as an effective advertising platform also contributed to increased revenues.

Cost of revenues. Telecommunications operators’ revenue share and imbalance fees, bandwidth and server custody fees, staff costs and content subscription and sharing costs generally account for a significant portion of our cost of revenues. Cost of revenues increased by 16.6% to RMB453.1 million for the second quarter of 2008 from RMB388.5 million for the first quarter of 2008. As a percentage of revenues, cost of revenues increased to 28.3% for the second quarter of 2008 from 27.1% for the first quarter of 2008. The following table sets forth our cost of revenues by line of business for the second quarter of 2008 and the first quarter of 2008:

	Three months ended			
	30 June 2008		31 March 2008	
	Amount	% of	Amount	% of
	revenues	segment	revenues	segment
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	269,244	26.0%	234,542	23.5%
Mobile and telecommunications value-added services	117,761	34.8%	103,959	36.1%
Online advertising	53,656	24.1%	39,491	27.3%
Others	<u>12,408</u>	758.9%	<u>10,473</u>	801.3%
Total cost of revenues	<u>453,069</u>		<u>388,465</u>	

Cost of revenues for our Internet value-added services increased by 14.8% to RMB269.2 million for the second quarter of 2008 from RMB234.5 million for the first quarter of 2008. The increase reflected higher costs associated with our online gaming services due to the introduction of new games such as DNF, Cross Fire and QQ Dancer, which require significant bandwidth and server capacity and, in the case of DNF and Cross Fire, also have higher license fees associated with the games. The increase also reflected a company-wide salary increase that we implemented in the second quarter of 2008 to account for the effects of inflation in China and ensure the recruitment and retention of talent for our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 13.3% to RMB117.8 million for the second quarter of 2008 from RMB104.0 million for the first quarter of 2008. The increase mainly reflected higher amounts of telecommunications operators' revenue share due to the expansion of our business volume. The increase also reflected a company-wide salary increase in the second quarter of 2008.

Cost of revenues for our online advertising increased by 35.9% to RMB53.7 million for the second quarter of 2008 from RMB39.5 million for the first quarter of 2008. The increase mainly reflected higher sharing costs corresponding to the increased business volume, as well as a company-wide salary increase in the second quarter of 2008.

Other gains, net. Other gains generally reflect the interest income generated from bank deposits and other interest-earning financial assets, fair value gains on financial instruments and government subsidies received. Other gains decreased by 45.5% to RMB25.9 million for the second quarter of 2008 from RMB47.4 million for the first quarter of 2008. The decrease in the second quarter of 2008 primarily reflected a contribution of RMB20.0 million to the Tencent Charity Fund, which donated RMB20.0 million to the relief of the Sichuan earthquake during the second quarter. The decrease also reflected a decrease in fair value gains on financial instruments in the second quarter of 2008, and a decrease in interest income due to a general decrease in US dollar-related interest rates. The decrease was offset by an increase in government subsidies received.

Selling and marketing expenses. Selling and marketing expenses increased by 16.6% to RMB100.2 million for the second quarter of 2008 from RMB85.9 million for the first quarter of 2008. The increase was mainly attributable to the promotion of our newly launched games and increased advertising and promotion to enhance our brand image. The increase also reflected higher staff costs related to a company-wide salary increase in the second quarter of 2008. As a percentage of revenues, selling and marketing expenses increased to 6.3% in the second quarter of 2008 from 6.0% in the first quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 14.3% to RMB307.1 million for the second quarter of 2008 from RMB268.6 million for the first quarter of 2008. The increase mainly reflected an increase in research and development related costs as we continued to invest in technology enhancements and product improvement to support our growing business platform. The company-wide salary increase also affected both research and development related costs and general administrative staff costs. As a percentage of revenues, general and administrative expenses increased to 19.2% in the second quarter of 2008 from 18.7% in the first quarter of 2008.

Finance costs. Finance costs mainly represent foreign exchange losses. Finance costs decreased by 56.7% to RMB40.9 million for the second quarter of 2008 from RMB94.5 million for the first quarter of 2008. The decrease in finance costs recorded was mainly due to a decrease in foreign exchange losses attributable to our US dollar-denominated cash and investments. A significant amount of our cash and investments is subject to foreign exchange risk because we hold a large amount of US dollar-denominated instruments, and if Renminbi continues to appreciate against the US dollar as it has in recent periods, we expect to report additional exchange losses in future periods.

Income tax expense. Income tax expense decreased by 30.0% to RMB70.6 million for the second quarter of 2008 from RMB100.8 million for the first quarter of 2008. Income tax expense decreased in the second quarter of 2008 despite our recording of higher operating profit as one of our subsidiaries obtained approval to be exempt from income tax. In addition, we recorded deferred tax assets of RMB53.7 million in the second quarter of 2008 relating to increased intra-group sales of technology and software, while we recognized deferred tax assets of RMB44.7 million in the first quarter of 2008.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 20.3% to RMB652.2 million for the second quarter of 2008 from RMB542.0 million for the first quarter of 2008. Profit margin improved to 40.8% for the second quarter of 2008 compared to 37.8% for the first quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 20.5% to RMB644.0 million for the second quarter of 2008 from RMB534.4 million for the first quarter of 2008.

Second Quarter of 2008 Compared to Second Quarter of 2007

The following table sets forth the comparative figures for the second quarter of 2008 and the second quarter of 2007:

	Unaudited	
	Three months ended	
	30 June	30 June
	2008	2007
	<i>(RMB in thousands)</i>	
Revenues	1,599,778	868,016
Cost of revenues	<u>(453,069)</u>	<u>(266,041)</u>
Gross profit	1,146,709	601,975
Other gains, net	25,855	23,315
Selling and marketing expenses	(100,212)	(70,870)
General and administrative expenses	<u>(307,059)</u>	<u>(192,017)</u>
Operating profit	765,293	362,403
Finance costs	(40,918)	(16,690)
Share of losses of associates	<u>(1,558)</u>	<u>—</u>
Profit before income tax	722,817	345,713
Income tax expense	<u>(70,618)</u>	<u>(11,227)</u>
Profit for the period	<u>652,199</u>	<u>334,486</u>
Attributable to:		
Equity holders of the Company	643,979	334,486
Minority interest	<u>8,220</u>	<u>—</u>

Revenues. Revenues increased by 84.3% to RMB1,599.8 million for the second quarter of 2008 from RMB868.0 million for the second quarter of 2007. The following table sets forth our revenues by line of business for the second quarter of 2008 and the second quarter of 2007:

	Three months ended			
	30 June 2008		30 June 2007	
	Amount	% of total	Amount	% of total
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,037,042	64.8%	546,235	62.9%
Mobile and telecommunications value-added services	338,311	21.2%	206,036	23.8%
Online advertising	222,790	13.9%	114,599	13.2%
Others	1,635	0.1%	1,146	0.1%
Total revenues	<u>1,599,778</u>	<u>100.0%</u>	<u>868,016</u>	<u>100.0%</u>

Revenues from our Internet value-added services increased by 89.9% to RMB1,037.0 million for the second quarter of 2008 from RMB546.2 million for the second quarter of 2007. The increase reflected growth in revenues from online gaming, online identity and community services such as Qzone, and our QQ Membership business. We continued to grow our online gaming services, such as our QQ Games portal, and build on the success of relatively new products, such as QQ Sanguo and the free-to-play, itemized-charge version of QQ Fantasy. We also introduced new games such as QQ Speed, DNF and QQ Dancer. In addition, in November 2007, we exercised our pre-negotiated right to acquire a majority stake in an investee company that co-launched QQ Huaxia with us and began to recognize 100% of the revenues from QQ Huaxia as well as other revenues attributable to the investee company in our consolidated financial results. As QQ Membership continued to offer enhanced value-added service and privileged access across various platforms, user loyalty and stickiness increased. Traffic and active users of Qzone also increased as a result of our offering of enhanced functionalities and improved user experience.

Revenues from our mobile and telecommunications value-added services increased by 64.2% to RMB338.3 million for the second quarter of 2008 from RMB206.0 million for the second quarter of 2007. This increase mainly reflected an increase in revenues from bundled SMS services as we enhanced the functionalities of our products and services. The increase also reflected an increase in revenues from our WAP service due to improvements to the user experience and increased promotion.

The increase also reflected increases in revenues from our mobile gaming service due to enhanced mobile game contents, and from our mobile IVR service due to increased promotion.

Revenues from online advertising increased by 94.4% to RMB222.8 million for the second quarter of 2008 from RMB114.6 million for the second quarter of 2007. The increase mainly reflected the growth in reach and traffic on our primary advertising platforms, QQ IM, QQ.com and QQ Games portal, our increased brand awareness as a result of advertising activities associated with our QQ.com branding, and our growing customer base. In addition, the growth of advertising revenues relating to our search functions and other value-added advertising, such as in-game advertising, also contributed to the increase in revenues.

Cost of revenues. Cost of revenues increased by 70.3% to RMB453.1 million for the second quarter of 2008 from RMB266.0 million for the second quarter of 2007. As a percentage of revenues, cost of revenues decreased to 28.3% in the second quarter of 2008 from 30.6% in the second quarter of 2007. The following table sets forth our cost of revenues by line of business for the second quarter of 2008 and the second quarter of 2007:

	Three months ended			
	30 June 2008		30 June 2007	
	Amount	% of	Amount	% of
	(RMB in thousands,	segment	(RMB in thousands,	segment
	except percentages)	revenues	except percentages)	revenues
Internet value-added services	269,244	26.0%	145,755	26.7%
Mobile and telecommunications value-added services	117,761	34.8%	76,270	37.0%
Online advertising	53,656	24.1%	35,770	31.2%
Others	12,408	758.9%	<u>8,246</u>	719.5%
Total cost of revenues	<u>453,069</u>		<u>266,041</u>	

Cost of revenues for our Internet value-added services increased by 84.7% to RMB269.2 million for the second quarter of 2008 from RMB145.8 million for the second quarter of 2007. The increase mainly reflected higher expenses associated with our bandwidth and server capacity, increased telecommunications operators' revenue share, and higher staff costs, as a result of the increase in our overall business volume and the particular growth of our bandwidth and storage intensive services, such as Qzone and online games. In addition, increased sharing and

subscription costs also contributed to the increase in cost of revenues for our Internet value-added services. The increase also reflected salary increases that we implemented in 2007 and 2008 to account for the effects of inflation in China and ensure the recruitment and retention of talents for our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 54.4% to RMB117.8 million for the second quarter of 2008 from RMB76.3 million for the second quarter of 2007. The increase was mainly due to increased amounts of telecommunications operators' revenue share as our business volume grew. The increase also reflected salary increases in 2007 and 2008.

Cost of revenues for our online advertising increased by 50.0% to RMB53.7 million for the second quarter of 2008 from RMB35.8 million for the second quarter of 2007. The increase mainly reflected increased sales commissions paid to agencies as the volume of our advertising contracts increased. In addition, we continued to increase the number of our online advertising staff due to increased business volume and as a result, incurred higher staff costs. We also implemented salary increases in 2007 and 2008, which contributed to the increase in staff costs.

Other gains, net. We recorded other gains of RMB25.9 million for the second quarter of 2008 compared to RMB23.3 million for the second quarter of 2007. The increase mainly reflected an increase in government subsidies received. The increase in other gains was partially offset by a contribution of RMB20.0 million in the second quarter of 2008 to the Tencent Charity Fund, which donated RMB20.0 million to the relief of the Sichuan earthquake during the second quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 41.4% to RMB100.2 million for the second quarter of 2008 from RMB70.9 million for the second quarter of 2007. The increase principally reflected an increase in staff costs, as well as increases in promotion and advertising expenses and outsourcing expenses, as we expanded our business volume. Salary increases in 2007 and 2008 also contributed to the increase in selling and marketing expenses. As a percentage of revenues, selling and marketing expenses decreased to 6.3% in the second quarter of 2008 from 8.2% in the second quarter of 2007.

General and administrative expenses. General and administrative expenses increased by 59.9% to RMB307.1 million for the second quarter of 2008 from RMB192.0 million for the second quarter of 2007. The increase primarily reflected the increase in research and development costs as a result of an increase in the number of research and development staff and technical personnel to support our growing business platform. The increase also reflected salary increases that we implemented for our

employees in 2007 and 2008. In addition, staff costs increased as a result of a higher number of staff employed to support our business expansion. As a percentage of revenues, general and administrative expenses decreased to 19.2% in the second quarter of 2008 from 22.1% in the second quarter of 2007.

Finance costs. We recorded finance costs of RMB40.9 million for the second quarter of 2008 compared to RMB16.7 million for the second quarter of 2007. The increase in finance costs recorded was due to significant foreign exchange losses attributable to our US dollar-denominated cash and investments in connection with the appreciation of Renminbi. A significant amount of our cash and investments is subject to the same risk because we hold a large amount of US dollar-denominated instruments. If the Renminbi continues to appreciate against the US dollar as it has in recent periods, we expect to report additional exchange losses in future periods.

Income tax expense. Income tax expense increased by 529.0% to RMB70.6 million for the second quarter of 2008 from RMB11.2 million for the second quarter of 2007. The increase mainly reflected the increase in our profit before tax and a higher income tax rate as a result of the new enterprise income tax law that became effective as of 1 January 2008. The increase was partially offset by an increase in the amount of deferred tax assets we recorded in the second quarter of 2008. We recorded deferred tax assets of RMB53.7 million in the second quarter of 2008 relating to intra-group sales of technology and software, while we recognized deferred tax assets of RMB28.2 million in the second quarter of 2007.

Profit for the period. Profit for the period increased by 95.0% to RMB652.2 million for the second quarter of 2008 from RMB334.5 million for the second quarter of 2007. Profit margin was 40.8% for the second quarter of 2008 compared to 38.5% for the second quarter of 2007.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 92.5% to RMB644.0 million for the second quarter of 2008 from RMB334.5 million for the second quarter of 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2008 and 31 March 2008, we had the following major financial resources in the form of cash and investments:

	Unaudited	
	30 June	31 March
	2008	2008
	<i>(RMB in thousands)</i>	
Cash and cash equivalents	2,263,418	2,360,257
Term deposits with initial term of over three months	1,127,551	903,197
Financial assets held for trading	409,443	464,787
Held-to-maturity investments	<u>68,591</u>	<u>70,190</u>
Total	<u>3,869,003</u>	<u>3,798,431</u>

Note: The above table excludes RMB300.0 million of restricted deposits pledged as part of a US\$40.0 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amounts at the maturity of the loan.

As at 30 June 2008, RMB1,335.7 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the appreciation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no other interest-bearing borrowings as of 30 June 2008.

BUSINESS OUTLOOK

In the second quarter of 2008, we achieved solid financial results leveraging on our diversified business portfolio. While our Internet value-added services experienced weaker seasonality compared to the first quarter, our online gaming revenues increased due to release of expansion packs for our MMOGs, increase in monetization of QQ Games and introduction of new games. In addition, our mobile and telecommunications business increased as we benefited from our status as a Category A service provider and as we increased promotions of our mobile and telecommunications services. Our online advertising revenue also benefited from more favorable seasonality compared to the first quarter. We expect the third quarter will present strong seasonality for our Internet value-added services, although partly

offset by the negative impact of the Olympic Games as it diverts users' attention from the consumption of online services. On the other hand, we are getting more cautious on online advertising growth in the second half due to possible slower economic growth in China post Olympics.

In our core IM platform, our user base has continued to grow as the Internet market in China expanded. According to CNNIC, China has become the largest Internet market in terms of users by the end of June with 253 million users. We continue to see positive usage trend in our IM service during the summer season.

Our QQ.com portal platform played an important role in the reporting and relief of the earthquake in Sichuan which happened in the second quarter. During the tragic event, our entire company was mobilized to provide the most comprehensive and up-to-date coverage to our users, to assist people in the affected region to communicate with their relatives and friends, and to orchestrate the largest ever online donation in China which raised more than RMB23 million from more than 300,000 users. Our portal served as the user interaction hub for all our initiatives and reinforced its leading position not only as the largest portal in China by traffic, but also as an influential and socially responsible online media. During the third quarter, China will host the Olympic Games in Beijing. Our portal will once again play a central role in the coverage of this historical event with an aim to generate significant traffic growth as well as enhancement of its recognition by consumers and advertisers. While there will be additional content and marketing costs associated with the Olympic Games, we believe they are worthy investments for the long-term.

In our non-game Internet value-added services, Qzone continued its traffic growth as a result of our focus on enhancing its basic functionalities and social networking infrastructure. QQ Membership registered stronger user stickiness despite being affected by negative seasonality. The transition of business model from item sale to monthly subscription for QQ Show continued to be a work-in-progress with more features offered within the subscription package. The longer term product and platform overhaul for QQ Pet was also underway. In contrast to the weak seasonality in the second quarter, we expect the third quarter will present stronger seasonality for Internet value-added services although the magnitude of such effect may be muted by the Olympic Games.

In our online game business, our QQ Games platform benefited from increased level of monetization despite experiencing weaker seasonality on usage. In MMOG, we launched an expansion pack for our free-to-play QQ Fantasy which increased the number of levels from 60 to 80. The expansion pack contributed to revenue increase during the quarter. Our major licensed MMOG title, DNF, was launched in mid-June. The initial response was encouraging with its PCU exceeded 500,000 by the end of

July. In advanced casual games, revenue was mainly driven by increased monetization of QQ Speed which was launched during the first quarter, and the launch of new games QQ Dancer and Cross Fire during the second quarter. Cross Fire, a first person shooting game, was particularly well received by our users and has achieved a PCU of more than 400,000 by the end of July. We believe the licensed games launched during the second quarter will contribute to incremental revenue in the third quarter, although these licensed games will carry lower margins as we have to pay licensing fees to and share revenue with the game developers.

Our mobile and telecommunications business registered strong growth in the quarter as our Category A status in SMS, WAP and IVR allowed us to engage in more active promotions of our mobile and telecommunications value-added services. During the second quarter, Chinese government announced the restructuring plan for the telecom industry. While we expect the long-term impact of the plan will be positive, we believe the restructuring may create uncertainties over the policies of operators in the short to mid term. Amid these uncertainties, we will continue to improve our products and services to increase user stickiness and position us for longer term growth.

In our online advertising business, our revenue increased as we emerged from the seasonally weak first quarter and as we benefited from advertising campaigns in anticipation of the Olympic Games. During the second quarter, we continued to promote Tencent MIND (Measurability, Interactivity, Navigation and Differentiation), as a framework for advertisers to increase the effectiveness of their online advertising campaigns. As we look into the second half of the year, we are getting more cautious on the short-term outlook of the Internet advertising market given the economy in China is slowing down and its effect may become more obvious after the Olympic Games. On the other hand, we are confident of the long-term growth potential of our advertising business, and will continue to invest in our sales organization, technology platform, branding and relationship with advertisers to improve our competitiveness.

Employee and Remuneration Policies

As at 30 June 2008, the Group had 5,168 employees (30 June 2007: 3,296), most of whom are based in the Company's head office in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

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

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the six months ended 30 June 2008 was RMB593.6 million (for the six months ended 30 June 2007: RMB321.3 million).

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

During the six months ended 30 June 2008, the Company has repurchased a total of 2,772,600 shares on the Stock Exchange, details of which are as follows:

Month of purchase during the six months ended 30 June 2008	<i>Number of shares purchased</i>	Price Per Share		<i>Aggregate consideration paid HKD (in million)</i>
		<i>Highest price paid HKD</i>	<i>Lowest price paid HKD</i>	
March	1,500,000	39.90	35.95	58.33
April	<u>1,272,600</u>	45.50	44.60	<u>57.19</u>
Total	<u>2,772,600</u>			<u>115.52</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

Audit Committee

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditors, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2008.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2007 annual report of the Company which was the position as at 31 December 2007, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the six months ended 30 June 2008, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Appreciation

Taking this opportunity, I would like to thank all of our staff for their valuable contribution, commitment and hard work. I would also like to thank all our shareholders and investors for their support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 13 August 2008

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

Executive Directors:

Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:

Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:

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

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying these forward-looking statements are a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents.